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 4 FINANCIAL INDUSTRY REGULATORY AUTHORITY

 (FINRA)

 5 DEPARTMENT OF ENFORCEMENT

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 6

 In the Matter of:

 7

 CITIGROUP SUBPRIME

 8

 Testimony of:

 9

 JAMES XANTHOS

 10

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 11

 14 Wall Street

 12 New York, New York

 13 March 24, 2009

 10:10 a.m.

 14

 15

 A P P E A R A N C E S:

 16

 For the Department of Enforcement:

 17

 JEANNE ELMADANY, ESQ.,

 18 Senior Trial Counsel

 19 MARC MINOR, ESQ.,

 Senior Counsel

 20

 For the Witness and Citi:

 21

 PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP

 22 1285 Avenue of the Americas

 New York, New York 10019

 23

 BY: SUSANNA M. BUERGEL, ESQ.

 24 - and -

 PHILIP KOPCZYNSKI, ESQ.

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 3 MS. ELMADANY: We are on the record.

 4 It is Tuesday, March 24th, 2009.

 5 It's approximately 10:10 a.m., and if the

 6 reporter would be good enough to swear the witness.

 7 J A M E S X A N T H O S,

 8 having been first duly sworn by the Notary

 9 Public, was examined and testified as

 10 follows:

 11 EXAMINATION

 12 BY MS. ELMADANY:

 13 Q Mr. Xanthos, would you please state your

 14 full name for the record.

 15 A James Xanthos.

 16 Q Thank you.

 17 My name is Jeanne Elmadany. I'm a Senior

 18 Trial Counsel with the Department of Enforcement of

 19 FINRA.

 20 Joining me later will be Mr. Marc Minor,

 21 who is also counsel with -- an attorney in the

 22 Enforcement Department of FINRA. Either one of us

 23 may ask you questions today.

 24 Mr. Xanthos, I'll note for the record

 25 that you're represented by counsel.

 3

 1 Xanthos

 2 Am I correct?

 3 A Yes.

 4 MS. ELMADANY: Would counsel enter their

 5 appearance for the record, please.

 6 MS. BUERGEL: Susanna Buergel from Paul,

 7 Weiss, Rifkind, Wharton & Garrison, 1285 Sixth

 8 Avenue, New York, New York.

 9 MR. KOPCZYNSKI: Philip Kopczynski, also

 10 from the Paul, Weiss law firm.

 11 MS. ELMADANY: The staff will note that

 12 counsel has represented other persons before FINRA

 13 in this matter, and have you discussed with your

 14 client the matter of your multiple representation?

 15 MS. BUERGEL: We have.

 16 Q Mr. Xanthos, are you prepared to continue

 17 with your testimony today with the knowledge that

 18 your counsel represents other persons or entities

 19 before FINRA in this matter?

 20 A Yes, I am.

 21 Q Ladies and gentlemen, if at any time you

 22 perceive that a conflict has arisen or may arise

 23 please inform the staff and in which case,

 24 Mr. Xanthos, you will be given the opportunity to

 25 seek alternate or additional representation as you

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 1 Xanthos

 2 wish.

 3 The purpose of this proceeding is to

 4 determine whether there have been any violations of

 5 federal securities laws or NASD or FINRA rules. At

 6 this point the staff has not made any determination

 7 as to whether there have been any such violations.

 8 (Pause.)

 9 MS. ELMADANY: We're back on the record

 10 after a brief recess during which there were no

 11 conversations of substance between Mr. Xanthos, the

 12 staff and his counsel.

 13 MS. BUERGEL: That's correct.

 14 MS. ELMADANY: However, during that brief

 15 interlude Mr. Minor did join us and Mr. Minor will

 16 now be participating in the proceeding.

 17 Q Your appearance and testimony today,

 18 Mr. Xanthos, were requested under NASD Rule 8210

 19 under the FINRA Code of Procedure. Rule 8210

 20 requires you to answer the staff's questions and

 21 answer them truthfully.

 22 Failure to answer any of our questions

 23 completely and truthfully, or failure to provide any

 24 information requested by the staff, could be viewed

 25 as inconsistent with Rule 8210 and could be the

 5

 1 Xanthos

 2 basis for the initiation of a disciplinary

 3 proceeding that could lead to the imposition of

 4 sanctions, including a bar from the industry,

 5 suspension, censure and/or fine.

 6 Do you understand that?

 7 A I do.

 8 Q Thank you.

 9 You were sent a letter that scheduled

 10 your testimony today and we will mark that as an

 11 exhibit later in the proceedings.

 12 Mr. Xanthos, you were sworn under oath

 13 today. Thus, you are to answer all questions

 14 truthfully. Giving false answers could lead to your

 15 prosecution for perjury.

 16 Do you understand?

 17 A I do.

 18 Q Are you suffering from any medical

 19 condition or using any medications or other

 20 substance that would interfere with your ability to

 21 testify truthfully and accurately?

 22 A No.

 23 Q Is there any other reason you would not

 24 be able to understand and answer our questions

 25 today?

 6

 1 Xanthos

 2 A No.

 3 Q The staff controls the record. That

 4 would be Mr. Minor and myself. The court reporter

 5 will only go off the record at our instruction.

 6 If you would like to go off the record

 7 for any reason please address your request to one of

 8 us and if appropriate we will instruct the reporter

 9 to go off the record.

 10 If at any time you wish to consult with

 11 your counsel please let us know. The court reporter

 12 will not go off the record unless the staff

 13 instructs the reporter to do so, and we don't want

 14 your private conversations to be recorded.

 15 From time to time we will go off the

 16 record. After we go back on the record one of us

 17 will ask you if you have had any discussions of

 18 substance with the staff of the Enforcement

 19 Department about the matter at hand while we were

 20 off the record. Please respond as appropriate. And

 21 we've already done that in this matter.

 22 Please answer each question with an

 23 audible response because the court reporter cannot

 24 record physical gestures. You should also say yes

 25 or no. The record will not be clear if you say

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 1 Xanthos

 2 uh-huh or uh-uh or give some other utterance that's

 3 supposed to be in the positive or the negative.

 4 Please allow us to finish the question

 5 before you start your answer even if you think you

 6 know what the question is going to be just so that

 7 the record will be clear.

 8 If you use a word or a person's name that

 9 you think has a difficult or unusual spelling and

 10 you can provide it for us we would appreciate that.

 11 If you do not understand a question

 12 please say so and we'll rephrase it or we'll discuss

 13 it with you until we come to a common understanding

 14 of the question so that when you give your answer

 15 it's recorded as an answer to a question we all

 16 understand.

 17 Do you understand that?

 18 A I do.

 19 Q Okay.

 20 You may remember additional information

 21 after answering a question that would make your

 22 earlier response more accurate. Please let us know

 23 so you could have the chance to answer fully.

 24 We may show you some exhibits during this

 25 testimony. The staff will retain all copies of the

 8

 1 Xanthos

 2 exhibits so you and counsel should not mark on the

 3 exhibits we provide for you to look at.

 4 You may review your transcript and the

 5 exhibits to the transcript at a local FINRA office.

 6 Should you wish to do so, please inform us and we

 7 will make the appropriate arrangements.

 8 You may also request that the staff

 9 permit you to purchase a copy of the transcript.

 10 Please make this request in writing and the staff

 11 will respond as appropriate.

 12 The court reporting service will not

 13 permit you to purchase a copy of your testimony

 14 unless the staff gives permission for such release.

 15 If permission is granted for you to

 16 purchase a copy of your testimony you will not be

 17 provided with copies of the exhibits to the

 18 transcript. Exhibits are maintained by the staff

 19 and may only be viewed at FINRA offices.

 20 Please inform the staff promptly and in

 21 writing if you determine that there is any

 22 inaccuracy in the transcript of your testimony.

 23 Are we good so far?

 24 A Yes.

 25 Q Have you reviewed any documents or

 9

 1 Xanthos

 2 electronic media in preparation for your testimony

 3 today?

 4 A No.

 5 Q Do you have any questions about any of

 6 the things I've said to you so far?

 7 A No.

 8 Q Have you discussed your appearance here

 9 today with anyone other than counsel?

 10 A No.

 11 MS. BUERGEL: Just so the record is

 12 clear, I think we did look at a couple of documents

 13 and I can represent those documents have been

 14 produced to the staff.

 15 Just -- I think it may have slipped your

 16 mind when you were asked if you looked at anything

 17 in preparation.

 18 MS. ELMADANY: Thank you.

 19 Q Have you discussed the subject matter of

 20 this investigation with any other regulators?

 21 A No.

 22 Q Please describe your employment history.

 23 A Can you please -- is that from a certain

 24 date --

 25 Q Post college.

 10

 1 Xanthos

 2 A I worked for the Office of Thrift

 3 Supervision as a bank examiner from January of 1990

 4 to I would say July of 1993.

 5 Then I went back to school to get my

 6 MBA. I got my MBA from Fordham University. That

 7 was in 1995. In May or June of 1995.

 8 Then I went to work for PaineWebber in

 9 their credit department from 1996 until 1999.

 10 I left PaineWebber and I was employed by

 11 Credit Suisse First Boston also in the credit group

 12 from 1999 till 2004, and I was employed by Citigroup

 13 from 2004 till August of 2008.

 14 Q What did you do between the MBA and

 15 PaineWebber?

 16 A Really looking for a job.

 17 Q What did you do at OTS?

 18 A Bank examiner for thrifts in the

 19 northeast. For the most part New York City, the

 20 five boroughs, and certain financial institutions in

 21 New Jersey.

 22 Q Did your work as a bank examiner for OTS

 23 in any way involve reviewing mortgage loans?

 24 A Yes.

 25 Q How did it involve reviewing mortgage

 11

 1 Xanthos

 2 loans?

 3 A We would do compliance exams as well as

 4 underwriting, look at -- underwriting loans based on

 5 the institutions' underwriting guidelines.

 6 The major part of being an examiner, you

 7 had to rate the institutions' macro factors, which

 8 are management, operations, risk management,

 9 capital, so you analyze the banks' performance in

 10 each one of those categories and provide a rating

 11 against it.

 12 Q When you said you did both a compliance

 13 and an underwriting review with respect to mortgage

 14 loans, what is the compliance review?

 15 A Well, it was truth in lending, Reg Z,

 16 community reinvestment act.

 17 Q What did you mean when you said that you

 18 did an underwriting review?

 19 A Again, looking at the companies'

 20 underwriting guidelines for mortgage loans and

 21 seeing how they underwrote those loans, and

 22 determining whether they fell into compliance with

 23 the guidelines that the board of directors of the

 24 institution had approved.

 25 Q So when you say the company, you mean the

 12

 1 Xanthos

 2 bank?

 3 A The bank.

 4 Q When you talk about ratings with regard

 5 to risk management, what did that mean?

 6 A It's an aggregate rating. Interest rate

 7 risk was a big component to a thrift's operation, so

 8 really how they manage their interest rate risk.

 9 Q Then you got your MBA at Fordham, and

 10 then you went to PaineWebber in credit.

 11 A Yes.

 12 Q How did you come to work at PaineWebber?

 13 A Well, again, I had pretty good background

 14 in terms of reviewing credit as well as

 15 understanding financial institutions, so that helped

 16 me get -- to get a credit job at PaineWebber.

 17 Q Did you know someone at PaineWebber?

 18 A No.

 19 Q Did you go through a headhunter?

 20 A No. Just saw an ad and applied for it.

 21 Q What were your duties in credit at

 22 PaineWebber?

 23 A It was to look, determine funding

 24 facilities as well as trading lines with the

 25 banks -- with the firms' counterparties.

 13

 1 Xanthos

 2 Q Determine funding facilities. What does

 3 that mean?

 4 A Lines of credit. So if a -- a lending,

 5 really, a lending relationship.

 6 If -- one example: If a mortgage bank

 7 wanted to obtain a warehouse line to originate

 8 mortgages, that credit would be proposed from the

 9 business unit and credit would have to determine

 10 whether or not, based upon the financial information

 11 and data that was provided, whether the account was

 12 creditworthy.

 13 Q What did you mean by determining funding

 14 with respect to trading lines?

 15 A Again, a lot of companies would trade

 16 to -- would trade in terms -- really in my purposes

 17 to trade or hedge against interest rate risk, or

 18 they would enter into currency transactions, again,

 19 to hedge their potential risk against market

 20 movements against their positions.

 21 Q Who was entering into those positions?

 22 The traders at PaineWebber?

 23 A No. It was really the counterparties.

 24 It could be a bank that wanted to hedge

 25 their interest rate risk.

 14

 1 Xanthos

 2 Q So this was -- you're evaluating the

 3 credit of outside entities to trade with

 4 PaineWebber?

 5 A Yes.

 6 Q During the time that you were at

 7 PaineWebber did your duties ever change in that

 8 three or four-year period?

 9 A No.

 10 Q Did you ever take on any additional

 11 responsibilities or duties?

 12 A Not that I recall.

 13 Q Then you went to Credit Suisse?

 14 A Yes.

 15 Q How did you come to go to Credit Suisse?

 16 A Really, a headhunter recruited me to

 17 Credit Suisse. They needed experienced credit

 18 people, and I fit their requirements.

 19 Q What were your duties at Credit Suisse?

 20 A Well, I was -- it was similar to what I

 21 had done at PaineWebber, except it was more of on a

 22 global basis, dealing with trading and funding

 23 facilities to the firm's counterparties.

 24 Q What was more global about it?

 25 A Established -- well, we approved

 15

 1 Xanthos

 2 counterparties in Europe, in Asia, Australia.

 3 Again, it was much more than just the

 4 domestic American marketplace.

 5 Q While you were at Credit Suisse did your

 6 duties and responsibilities ever change?

 7 A I don't think they really changed. Just

 8 as the market evolved, nothing really changed in any

 9 way.

 10 New products, new types of funding

 11 facilities, things like that.

 12 Q What did you mean as the market evolved?

 13 You alluded to some new products, et cetera.

 14 A Again, there are new techniques in terms

 15 of hedging, new techniques in terms of funding.

 16 Again, more efficient.

 17 It could be new products that were

 18 introduced, things like that.

 19 Q So when a new product was proposed, did

 20 you evaluate the product?

 21 A Not really. We evaluated the

 22 counterparty, and as long as the counterparty was

 23 creditworthy and was properly using the trading line

 24 or the funding line for purposes of its business,

 25 that's what we were looking for.

 16

 1 Xanthos

 2 Q What do you mean by properly using the

 3 trading line or the funding line?

 4 A Let's just use an interest rate risk

 5 product. That they were using the product to hedge

 6 a particular risk that they had on their balance

 7 sheet. That they weren't basically speculating.

 8 Q Okay.

 9 How did you -- why did you leave Credit

 10 Suisse?

 11 A Just had a better opportunity to go to

 12 Citibank.

 13 Q How did you come to work at -- there's a

 14 certain repetition to these questions. It's

 15 unavoidable.

 16 How did you come to work at Citigroup?

 17 A Again, a recruiter.

 18 Q What were your duties and

 19 responsibilities at Citi?

 20 A At Citibank I worked in the principal

 21 finance group and I also worked in the mortgage

 22 finance group.

 23 Q Which came first?

 24 A The principal finance group for the first

 25 two years and then the last two years the mortgage

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 1 Xanthos

 2 finance group.

 3 Q Tell me about your work in the principal

 4 finance group. What were your duties?

 5 A For the most part we had established --

 6 we were establishing a middle market program, and we

 7 also were -- we also negotiated lines of credit with

 8 potential counterparties with Citigroup.

 9 Q Let me take the first part of that

 10 first. What does establishing a middle market

 11 program mean?

 12 A There are -- there are middle market

 13 companies, and I'll explain that to you, revenues

 14 between 50 million and 500 million dollars on a

 15 yearly basis, and there were a -- a lot of these

 16 companies need financing and they also have debt

 17 that they have issued, so our group, we started from

 18 scratch. We had developed a program in which we

 19 would both provide funding as well as buying debt

 20 that was issued by these companies.

 21 Q What happened to the debt you bought?

 22 A Investment.

 23 Q It was a Citigroup investment?

 24 A It was an investment that our group made.

 25 Q The principal funding group?

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 1 Xanthos

 2 A Exactly, with that entity.

 3 Q So once the principal funding group

 4 bought the debt, then it just held it?

 5 A For the most part, yes.

 6 Q When it didn't just hold it then it did

 7 what with it?

 8 A It would sell it.

 9 Q Did it sell it in the same form that it

 10 bought it or did it sell it in some metamorphosized

 11 form?

 12 A For the most part we would either sell

 13 the loan or the debt instrument, or we would issue a

 14 securitization against the middle market loans as

 15 well.

 16 Q Then the second thing you said that the

 17 principal funding group --

 18 A Principal finance group.

 19 Q -- principal finance group did was

 20 negotiate lines of credit with potential

 21 counterparties with Citigroup. What did you mean by

 22 that?

 23 A Well, you would have middle market

 24 companies that needed lines of credit to go out and

 25 basically originate their own loans, so we would

 19

 1 Xanthos

 2 provide them with lines of credit in order for them

 3 to be able to do that.

 4 Q And was there a particular industry or

 5 sector that these middle market companies were in?

 6 A No. Again, it depended on the company's

 7 focus and their own business plan, but it ran the

 8 gamut of industry in the United States.

 9 Q Just so I understand it, I guess in my

 10 mind I wanted to segregate mortgages somehow in my

 11 mind, so I'm trying to understand whether or not the

 12 principal finance group was buying mortgages of any

 13 kind or the debt of companies that made mortgages?

 14 A I don't recall specifically if, you know,

 15 there were scenarios where they purchased

 16 mortgages. I don't think that was the norm, but I

 17 can't say for sure that they didn't buy any mortgage

 18 product.

 19 Q Okay.

 20 A Again, it was really, it was purchasing

 21 debt from middle market companies.

 22 Q Regardless of what they did?

 23 A Well, you would look at the -- you would

 24 have to make a determination of whether the debt fit

 25 your profile as to the program.

 20

 1 Xanthos

 2 Q So in my mind I can say comfortably it

 3 wasn't specifically mortgages or primarily

 4 mortgages?

 5 A That's correct.

 6 Q When you were -- when the principal

 7 finance group was making a determination to purchase

 8 the debt of a particular middle market company, how

 9 did you go about doing -- making that

 10 determination?

 11 How was that done?

 12 A You would do a credit analysis of the

 13 company and its place within its industry, and you

 14 would look at the financial statements, balance

 15 sheet, income statement, cash flow statements, as

 16 well as meet with the company, meet with their

 17 management teams, and determine, you know, determine

 18 if they were creditworthy or investment worthy.

 19 Q Was there a review that was done or was

 20 there a process of making the determination also

 21 whether to provide lines of credit to a middle

 22 market company?

 23 A Yes.

 24 Q How was that done?

 25 A That was done by the credit department

 21

 1 Xanthos

 2 that we had within Citigroup.

 3 Q So it was not the principal finance group

 4 that determined whether or not to provide a

 5 potential counterparty with a line of credit?

 6 A Well, normally the process is that you

 7 have a credit department that is there to do their

 8 own analysis. Now, the business unit would have to

 9 know their client and would basically have to

 10 propose that that -- the counterparty was -- that

 11 they were -- why they wanted to do business with

 12 that counterparty, so -- but in terms of the

 13 analysis of whether to do and the approval as to

 14 whether to approve or deny credit would be with the

 15 credit department.

 16 Q So the principal finance group was a

 17 business group, it wasn't the credit group or

 18 something like it that you had been in previously?

 19 A That's correct.

 20 Q So principal finance proposed a

 21 counterparty to credit and credit did the analysis?

 22 A Exactly.

 23 Q With respect to the investments by the

 24 principal finance group, though, that analysis was

 25 done in principal finance?

 22

 1 Xanthos

 2 A It was, and then basically it would go to

 3 a committee and it would be voted on.

 4 Again, all in conjunction with the

 5 established program guidelines that were initially

 6 set up.

 7 Q I think I'm getting this.

 8 So in the principal finance group, what

 9 was your position?

 10 A I was a vice president.

 11 Q To whom did you report?

 12 A Jamie Visconti.

 13 Q Was that when you started there?

 14 A Yes.

 15 Q And throughout your time there or did the

 16 person you reported to change at some time?

 17 A It changed after the first two years when

 18 I moved into the mortgage finance group.

 19 Q While you were in the principal finance

 20 group did you have anyone that you supervised or who

 21 worked for you?

 22 A Not in terms of formal, say,

 23 organizational chart.

 24 Q When you worked with a potential middle

 25 market company, were you the only person from the

 23

 1 Xanthos

 2 principal finance group who had contact with that

 3 company or did others in principal finance have

 4 contact as well?

 5 A Others as well.

 6 Q What would determine who else would have

 7 contact with a company you were working with?

 8 A It depended on, really, who was assigned

 9 to that company. Based upon their work load at the

 10 time.

 11 Q So am I correct in understanding that the

 12 groups of people you worked with changed from

 13 assignment to assignment?

 14 A That's correct.

 15 Q Was there -- I'm just trying to get an

 16 organizational understanding.

 17 Was there a particular group of middle

 18 market companies that you worked with as opposed to

 19 someone else working with a group?

 20 A I would say yes.

 21 Q How was that divided or arranged?

 22 A It comes back to just your work load at

 23 that point in time, and if you had come to -- if you

 24 had gained knowledge with that particular

 25 counterparty.

 24

 1 Xanthos

 2 Normally the process would be that you

 3 would stay with that account but it doesn't have to

 4 be.

 5 Q So the first day you got there you didn't

 6 have any relationships with these counterparties; am

 7 I correct?

 8 A That's correct.

 9 Q So how did you -- how did you get an

 10 assignment? Was it through Mr. Visconti?

 11 A It could be through Mr. Visconti or other

 12 people, yes.

 13 Q Who else besides Mr. Visconti assigned

 14 work to you?

 15 A It could be an investment banker who had

 16 known the account that the account was looking for

 17 let's say funding which would come to me.

 18 Q So if an investment banker said I know

 19 this account and they are looking for funding, what

 20 would happen then?

 21 A Basically a lot of the things that we

 22 talked about before.

 23 You would basically talk with the

 24 potential counterparty. If they were a public

 25 company you would access their financial statements

 25

 1 Xanthos

 2 for the past couple of years.

 3 You would look at them to try to get an

 4 understanding of what they did, how they did it and

 5 their standing within the financial community and

 6 the industry as a whole.

 7 From there you would look at the proposed

 8 terms let's say for the financing, and you would

 9 determine whether you would -- it was an account

 10 that you would be willing to further engage in.

 11 Q Two things about that: Was there

 12 somebody you reported to who you told what you were

 13 working on at any given time?

 14 A Sure. It was -- we would have weekly

 15 group -- well, it would be Jamie Visconti and other

 16 people on our team, and that could be a daily basis

 17 and definitely on a weekly basis because we would

 18 have weekly meetings where we would discuss who we

 19 were doing business with or potentially doing

 20 business with, things such as that.

 21 Q Were there other people who performed the

 22 same functions that you did regardless of their

 23 title in the principal finance group?

 24 A Yes.

 25 Q How many? How big of a group of people

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 1 Xanthos

 2 are we talking about?

 3 A The group from what I recall, I would say

 4 probably about eight to nine people in the group.

 5 Q Was that people at your level, people

 6 beneath you, above you?

 7 A Both.

 8 Q That's the whole ball of wax, eight or

 9 nine people?

 10 A From what I recall, yes.

 11 Q You said one of the things you did was

 12 you -- I'm paraphrasing here, I'm not going to get

 13 the words exactly right -- but you reviewed the

 14 proposed financing terms. How did you learn what

 15 the proposed financing terms were?

 16 A Normally there would be a term sheet

 17 which would spell out. Normally it would be the

 18 investment banker or the person that had known what

 19 the company was -- the initial introduction.

 20 Q So if it was introduced or the idea was

 21 brought to you by an investment banker they would

 22 have prepared a term sheet?

 23 A Normally that was the process, yes.

 24 Q What's a term sheet in this context?

 25 A As you said, it basically outlines the

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 1 Xanthos

 2 financing proposal.

 3 Q Did your work or the type of duties you

 4 had in the principal finance group change at any

 5 time during the two years that you were there?

 6 A Not that I recall.

 7 Q Once the principal finance group had made

 8 an investment, once it had bought the debt of one of

 9 these middle market companies, how was it determined

 10 whether that was something that would be held or

 11 sold as -- in the form it had been bought or

 12 securitized?

 13 How did that occur?

 14 A Really by committee.

 15 Q Who was this -- who comprised this

 16 committee?

 17 A There were about I would say five to six

 18 people on this committee.

 19 Q Who were they? If not -- names if you

 20 know but their functions or titles if you don't know

 21 their names.

 22 A There was -- it's a couple of years back.

 23 Q Names might be easier at this point.

 24 A Let me see. Let me try to remember.

 25 Myself. I was on this committee.

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 1 Xanthos

 2 A person by the name of Ted Yarlborough

 3 was on this committee.

 4 Kyle Sliger was on this committee.

 5 John Palowski.

 6 John Eck.

 7 Martin Lifschitz.

 8 How many is that?

 9 Q Six.

 10 A I think that's the extent of it.

 11 Q Was Mr. Yarlborough part of the principal

 12 finance group?

 13 A No.

 14 Q What was he part of?

 15 A The ABS group, asset backed

 16 securitization.

 17 Q Was principal finance group part of ABS?

 18 A No.

 19 Q Kyle Sliger, was he part of principal

 20 finance?

 21 A Yes, he was.

 22 Q What was Mr. Sliger's job in principal

 23 finance?

 24 A I would say portfolio manager for the

 25 middle market program.

 29

 1 Xanthos

 2 Q John Palowski?

 3 A Was in credit at that time.

 4 Q John Eck?

 5 A Was in the ABS group as well.

 6 Q Martin Lifschitz?

 7 A Principal finance.

 8 Q What was Mr. Lifschitz's job in principal

 9 finance?

 10 A It was a director in principal finance.

 11 Q Was a director higher than a VP?

 12 A Yes.

 13 Q Was a director higher than Mr. Visconti?

 14 A No.

 15 Q Was Mr. Lifschitz Mr. Visconti's boss?

 16 A No.

 17 Mr. Visconti was basically all of our

 18 bosses.

 19 Q So it's Visconti, Lifschitz, you?

 20 A Yes, and Sliger.

 21 Q You and Sliger were parallel?

 22 A Yes.

 23 Q On the same level?

 24 A Yes.

 25 In the beginning, yes.

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 1 Xanthos

 2 Q When you started, if I was going to do an

 3 organizational chart, it would be Visconti,

 4 immediately under him was Mr. Lifschitz, and

 5 immediately under Lifschitz was yourself and Sliger?

 6 A Yes.

 7 Q Then you indicated something changed?

 8 A I moved out of that group as I said

 9 before. After that I don't recall in great depth

 10 how things changed.

 11 Q Then I really don't care about principal

 12 finance so it doesn't matter.

 13 So there was a committee. Did the

 14 committee have a name?

 15 A I don't recall the name of the committee.

 16 Q Was there more than one committee?

 17 A Not that I'm aware of, no.

 18 Q If we just call it the committee we're

 19 fine with that?

 20 A Should be, yes.

 21 Q We can call it the principal finance

 22 group committee. We can --

 23 A Let's call it the middle market

 24 committee.

 25 Q The only reason we need to pick a name

 31

 1 Xanthos

 2 here, and we can find out if it had an official

 3 title, is if we come up with another committee we

 4 won't confuse the two.

 5 What did the middle market committee do?

 6 A Like I said before, basically it would

 7 vet potential investments. I would imagine after

 8 the fact would determine what to do with those

 9 investments, whether to retain them, sell them.

 10 Q Did you ever participate in a committee

 11 meeting or function where you vetted potential

 12 investments?

 13 A Oh, yes.

 14 Q Did you ever participate in a middle

 15 market committee function where determinations were

 16 made as to what to do with those investments?

 17 A No. That was after my time.

 18 Q Were there any principal finance group

 19 investments that were in some form disposed of while

 20 you were in the principal finance group?

 21 A Not that I recall, no.

 22 Q So it's not like you missed a meeting or

 23 something, it just didn't happen?

 24 A Like I said from what I recall, I don't

 25 remember that.

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 1 Xanthos

 2 Q Then you went from the principal finance

 3 group to the mortgage finance group?

 4 A That's correct.

 5 Q Why did you go from mortgage -- from

 6 principal finance to mortgage finance?

 7 A Really, again, looking to just focus in

 8 on one asset type, and I had done as we discussed

 9 before, I had done mortgages from early on in my

 10 career, so the -- I just had the opportunity to go

 11 into the group and basically helped them run the

 12 business which appealed to me as well, so that's

 13 basically how I got there.

 14 Q We're up to the mortgage finance group.

 15 When you first joined the mortgage finance group

 16 what was your title?

 17 A Same. Vice president.

 18 Q Who was your boss?

 19 A Susan Mills.

 20 Q Did you have anyone who reported to you

 21 or worked for you?

 22 A I did. I had two analysts who were

 23 reports to me.

 24 Q Who were they?

 25 A Peter Engel, and Joseph Ng, N-g.

 33

 1 Xanthos

 2 Q How do you spell Engel?

 3 A E-n-g-e-l.

 4 Q What were your duties and

 5 responsibilities as a VP in the mortgage finance

 6 group?

 7 A Well, I basically took over the

 8 surveillance/portfolio management function within

 9 the group.

 10 Q Who had been performing the portfolio

 11 management/surveillance function in the group before

 12 you got there?

 13 A I'm not sure.

 14 Q Was there a surveillance function in the

 15 mortgage finance group before you got there?

 16 A I believe so.

 17 Q Did you get some -- why do you believe

 18 so?

 19 A I remember people saying that.

 20 Q Who said that?

 21 A I don't recall who exactly said it.

 22 Q So somebody told you there was a

 23 surveillance function in mortgage finance before you

 24 got there?

 25 A There were people who were doing it,

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 1 Xanthos

 2 yes.

 3 Q Were they doing it when you got there?

 4 A I don't recall, but I don't think they

 5 were doing it to the extent that I had basically --

 6 once I was there -- was doing it.

 7 Q What I'm trying to understand is if when

 8 you got to mortgage finance, what you were doing was

 9 creating something wholly new that had not been done

 10 before at all, as opposed to something that when we

 11 take over a job we do something differently or make

 12 changes in it.

 13 I'm trying to figure out if yours was

 14 wholly new.

 15 A Like you just said, when you start a new

 16 job you bring your own experiences and viewpoints of

 17 how you would want to do it, and at that point in

 18 time there was a lot going on in terms of what was

 19 happening in the marketplace so I just came in with

 20 an open mind and kind of looked to see what was

 21 there and kind of go from there.

 22 That's pretty much the approach that I

 23 took when I first entered the group.

 24 Q So what was there? Let's focus on that.

 25 Were Mr. Engel or Mr. Ng already in the

 35

 1 Xanthos

 2 mortgage finance group?

 3 A No.

 4 Mr. Engel we hired -- I hired I don't

 5 know the exact date, but he came along a couple of

 6 months after I first started.

 7 Joseph Ng was part of the analytics group

 8 and then -- I don't remember the date -- he wanted

 9 to do something different so we had -- he had the

 10 opportunity to come into the surveillance group,

 11 which he did.

 12 Q That was again after you got there?

 13 A After I got there, yes.

 14 Q Who did you discuss taking this

 15 surveillance job with?

 16 A Susan Mills.

 17 Q What did she tell you about the job you

 18 were walking into?

 19 A Well, again, it was -- the marketplace

 20 was very volatile in terms of everything that

 21 everyone has heard about over the last couple of

 22 years, and just trying to get a better understanding

 23 of how the Citigroup securitizations were

 24 performing, formalizing the process as well as

 25 further delving into our vendors that we had placed

 36

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 2 into the securitizations. What I mean by that, the

 3 credit risk managers that were assigned to the

 4 deals.

 5 Q You knew I was going to ask -- was there

 6 something on my face that looked completely

 7 perplexed?

 8 A No.

 9 Q I'm sorry.

 10 So Susan Mills is talking to you about

 11 getting a better understanding of how the Citigroup

 12 securitizations were performing, and formalizing the

 13 process, and the last one I'm a little confused

 14 about.

 15 Vendors placed into the securitizations

 16 that were credit risk managers?

 17 A Right.

 18 A lot of our securitizations, there were

 19 credit risk managers assigned to them. The two that

 20 were -- well, there were two companies that did the

 21 credit risk management role. The first one was

 22 named Clayton and the second one was Pentalpha.

 23 Q Clayton and Pentalpha were performing

 24 this credit risk manager job for Citi

 25 securitizations before you went to the mortgage

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 1 Xanthos

 2 finance group?

 3 A That's correct.

 4 Q So that's not something you instituted,

 5 that already existed?

 6 A That's correct.

 7 Q Just to be clear, you went to mortgage

 8 finance in 2006?

 9 A Yes, I believe.

 10 Q When in 2006?

 11 A My guess is April of 2006.

 12 Q What did Ms. Mills tell you if anything

 13 about whether or not any of these functions that she

 14 was asking you to perform had been performed in any

 15 fashion before you got there?

 16 Was she saying we've got some of this or

 17 not enough, or we've got some of this, and just so

 18 you know where we are at this point --

 19 A Again, I don't recall specifically but,

 20 again, it was just -- it was being done.

 21 Again, this was -- my role was just to

 22 kind of build a group and formalize the process.

 23 Q So now you're in, you're in the mortgage

 24 finance group, and did you report -- who did you

 25 report to in mortgage finance?

 38

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 2 A Susan Mills.

 3 Q These two people, Mr. Engel and Mr. Ng

 4 eventually came to work for you?

 5 A Yes.

 6 Q For a while it was just you?

 7 A Yes.

 8 Q What did you learn when you got into

 9 mortgage finance about what had been done in terms

 10 of understanding how Citi securitizations were

 11 performing?

 12 That was one -- I understood that to be

 13 one of the goals Susan Mills gave you, was to better

 14 understanding how Citi securitizations were

 15 performing.

 16 Is that correct?

 17 A That's correct.

 18 Q When you got there was there anyone you

 19 could talk to about how they were performing?

 20 Were there any records people were

 21 keeping of how they were performing?

 22 What was there?

 23 A Again, as I just said to you, there were

 24 credit risk managers that were part of the

 25 securitizations, and the credit risk managers had

 39

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 2 dedicated teams for each securitization that they

 3 were placed on.

 4 Again, in our circumstances Clayton

 5 was -- was on a good number of our deals.

 6 So initially, since -- and they would

 7 submit reports to people within mortgage finance. I

 8 don't know who they were submitting reports to

 9 initially.

 10 Again, I kind of had them send the

 11 reports to me and to my team on a month in, month

 12 out basis. We would review the reports.

 13 But also initially I wanted to meet the

 14 people that were doing this, so we had taken a trip

 15 out to I think -- Clayton is in Colorado, so we had

 16 taken a flight out to Colorado and spent a day or

 17 two with the team that was assigned to Citigroup's

 18 securitizations for us to get a better understanding

 19 of who they were and their capabilities and

 20 backgrounds and what processes they were using to do

 21 their job and also for them to get to know us, since

 22 we were a new group within mortgage finance.

 23 Q So each securitization had a credit risk

 24 manager?

 25 A No.

 40

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 2 Q A lot of --

 3 A Some. Some. I would say a good number

 4 of ours did.

 5 A specific number I cannot give you as of

 6 right now. I don't recall.

 7 You don't have to have a credit risk

 8 manager on a securitization. It's --

 9 Q Optional?

 10 A -- optional, but -- again, I don't know

 11 the percentages but there were a good number that we

 12 had a credit risk manager on.

 13 Q So if there was a credit risk manager you

 14 could get and you did get information from the

 15 credit risk manager, correct?

 16 A Yes.

 17 Q Now we're going to take the deals and put

 18 them into two categories. No credit risk manager,

 19 credit risk manager.

 20 Just for the purposes of this discussion,

 21 if a mortgage finance group securitization didn't

 22 have a credit risk manager, when you got into

 23 mortgage finance, was there any -- were there -- was

 24 there an evaluation or recordkeeping of the

 25 performance of the securitizations with no credit

 41

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 2 risk managers?

 3 A I don't recall if there was or not.

 4 Q When you became part of mortgage finance

 5 in this role, were there records that you inherited

 6 or had access to that talked about or referred to

 7 the performance of securitizations?

 8 A There were records, yes.

 9 Q What kind of records?

 10 A Well, there were spreadsheets that

 11 basically out signed on a month in, month out basis

 12 how the securitizations were performing, utilizing

 13 the monthly performance reports that were issued on

 14 publicly available websites.

 15 Q So there were spreadsheets that were

 16 maintained in mortgage finance, correct?

 17 A Yes.

 18 Q Are we talking about electronic? Are we

 19 talking about hard copy?

 20 In what form?

 21 A Electronic.

 22 Q Where were these maintained? How did you

 23 access them? Were they on a hard drive, a special

 24 program?

 25 Literally how did you get to them?

 42

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 2 A I think they were in specific folders

 3 that mortgage finance had access to.

 4 Drive and then folders.

 5 Q Do you remember which drive that was?

 6 A I don't recall.

 7 Q So it was a specific drive and then

 8 specific folders?

 9 A Yes.

 10 Q In mortgage finance -- mortgage finance

 11 had access to that had these spreadsheets.

 12 These spreadsheets were monthly?

 13 A They were -- yes. The spreadsheets

 14 are -- is a compilation of the performance of each

 15 securitization on a monthly basis.

 16 Q So it's a single spreadsheet for each

 17 securitization and it's updated monthly, with

 18 monthly information?

 19 A Yes.

 20 It's a running total.

 21 Q Got it.

 22 The information that's on this

 23 spreadsheet is what?

 24 A It's basically -- it's the number of days

 25 delinquent. It's basically a snapshot of what is

 43

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 2 publicly available for any investor.

 3 It's the monthly performance statistics,

 4 which includes current outstanding balance of the

 5 pool; number of days delinquent, 30-60, 60-90, 90

 6 plus.

 7 Number of loans in foreclosure as well as

 8 balances, prepayment speeds on a monthly and

 9 cumulative basis. And losses if any that the

 10 securitization basically took for that month.

 11 Q You referred to a publicly available -- a

 12 report that was publicly available to investors.

 13 How -- what was the term you used to refer to that

 14 report?

 15 A Again, like I just said, monthly

 16 performance reports.

 17 Q What was the source of those monthly

 18 performance reports?

 19 A They are the trustees, the trustee to the

 20 deal would publish those monthly performance

 21 reports.

 22 Q Can we call them trustee reports?

 23 A I could imagine so.

 24 I would rather refer to them as monthly

 25 performance reports.

 44

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 2 Q Okay. We'll call them monthly

 3 performance reports from the trustee.

 4 Did the spreadsheets that you're

 5 referring to contain all the information that was in

 6 the monthly performance reports?

 7 A Not -- I don't know if it's all of the

 8 information but, again, it had the information that

 9 a rating agency or investor would use to basically

 10 monitor the performance of their securitizations.

 11 Q Was the information in the spreadsheet a

 12 subset of the information in the monthly performance

 13 reports?

 14 A It's really a compilation of what's in

 15 the monthly performance reports.

 16 Q Was the information in the

 17 spreadsheets -- was there any information that went

 18 into the spreadsheets or into the compilation of the

 19 spreadsheets other than from the monthly performance

 20 reports?

 21 A Not that I recall, no.

 22 Q So everything that was in the

 23 spreadsheets was -- came from or was derived from

 24 the monthly performance reports?

 25 A From what I recall, yes.

 45

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 2 Q Again, with respect to securitizations

 3 for which there wasn't a credit risk manager, was

 4 there any other information in the mortgage finance

 5 group that referred to the performance of the

 6 securitization?

 7 A Well, there was a person in the analytics

 8 group that would go out to let's say the trustee's

 9 websites and would download loan level information.

 10 He would accumulate whatever was posted

 11 there. It was like a central database that stored

 12 that information.

 13 Q So the monthly performance report is one

 14 thing, and then this person in analytics would go to

 15 the trustee's website and download loan level

 16 information?

 17 A Right.

 18 Q And that loan level information was

 19 different than the monthly performance report?

 20 A Well, again, it is what is provided by

 21 the trustee.

 22 What exactly it is, I don't recall, but I

 23 would imagine it's -- it should be very -- it should

 24 be the same.

 25 BY MR. MINOR:

 46

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 2 Q The summary you indicated as publicly

 3 indicated, this drill down loan level data --

 4 A Say that one more time.

 5 Q You said -- what was publicly available?

 6 A The monthly performance reports.

 7 Q The data that the analytics group would

 8 get, was that also publicly available?

 9 A If it was, they would try to obtain it.

 10 Again, I think -- I don't know if that he

 11 is -- the monthly performance reports are standard

 12 across every issuer.

 13 In terms of loan level information, it

 14 may -- I don't know if that's standard across every

 15 securitization. It may be -- again, it may depends

 16 on how it was negotiated at the closing of the

 17 securitization where maybe some of it was provided,

 18 maybe sometimes it wasn't, but I'm not exactly sure

 19 how that works.

 20 Q Were you involved in the negotiation of

 21 those terms?

 22 A No.

 23 (Pause.)

 24 Q You said there was a person in analytics

 25 that would go to the trustee's website and download

 47

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 2 this loan level data. Was that being done when you

 3 got there?

 4 A I believe so, yes.

 5 Q Who was that person?

 6 A I don't remember his last name.

 7 Q I'll take a first.

 8 A Vincent was his first.

 9 Q And he was in the mortgage finance group?

 10 A No. He was in the analytics group.

 11 Q Do you remember who Vincent's boss was?

 12 A I do.

 13 Q Who was that?

 14 A His name is John Wood.

 15 Q Did Vincent in analytics provide or pass

 16 the loan level data to someone in the mortgage

 17 finance group?

 18 A I don't know.

 19 Q So how did you know this person -- when

 20 you first joined the mortgage finance group, how did

 21 you know that Vincent was downloading this loan

 22 level data?

 23 A I asked.

 24 Q You asked. Okay.

 25 What caused you to approach Vincent and

 48

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 2 ask him -- what did you ask him?

 3 A Well, again, remember, when we started

 4 talking about this, again, I was new to the group

 5 and trying to get an understanding of what was

 6 there -- what was being done and what I had -- what

 7 basically -- the type of information I could use to

 8 kind of build up a -- my group within the larger

 9 group, so, again, that was just part of basically

 10 the initial stages of just asking.

 11 Q I want to be clear. You were in the

 12 mortgage finance group?

 13 A I was in the mortgage finance group.

 14 Q Vincent was in the analytics group?

 15 A Right.

 16 Q The analytics group was not part of the

 17 mortgage finance group?

 18 A No.

 19 Q Vincent told you he had this loan level

 20 data?

 21 A Yes.

 22 Q Did Vincent tell you he had anything

 23 else?

 24 A Not that I recall, no.

 25 Q Did anybody else tell you they had

 49

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 2 anything else?

 3 A In what regard?

 4 Q With regard to securitizations for which

 5 there wasn't a credit risk manager.

 6 We were talking all about the information

 7 that you were able to amass.

 8 A There was no distinction, at least in my

 9 mind, between deals that had a credit risk manager

 10 versus deals that did not.

 11 MS. BUERGEL: Is it fair to say that in

 12 addition to the information that the credit risk

 13 manager might have provided for you for deals when

 14 one was on the transaction, this -- this additional

 15 information also was available, the spreadsheet

 16 you've described and the loan level data?

 17 THE WITNESS: Yes. The spreadsheets were

 18 available for every deal.

 19 Like I just said, there was no

 20 distinction between deals with CRMs or deals

 21 without.

 22 Q So the spreadsheets you talked about were

 23 available for all deals?

 24 A Yes.

 25 Q The loan level detail data that Vincent

 50

 1 Xanthos

 2 pulled off the trustee's website was available for

 3 some deals, maybe not others, but whether or not

 4 that was available was not determined by whether

 5 there was a credit risk manager?

 6 A Not that I know of, no.

 7 Q What other sources of data were available

 8 to you when you joined -- or did you identify at all

 9 when you joined the mortgage finance group regarding

 10 the securitizations that Citigroup had done?

 11 A Just what we just talked about is all I

 12 can recall.

 13 Q So there were the spreadsheets for all of

 14 the deals, all the securitizations, and there was

 15 loan level data for some of the securitizations?

 16 A Well, the information that was provided

 17 to us on a monthly basis by the credit risk

 18 managers.

 19 Q Now we'll get to the credit risk

 20 managers.

 21 MS. ELMADANY: Let's take a five-minute

 22 break.

 23 (A recess was taken.)

 24 MS. ELMADANY: We're back on the record

 25 after a brief recess, during which there have been

 51

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 2 no conversations of substance between the staff and

 3 Mr. Xanthos or his counsel.

 4 Do you agree, sir?

 5 THE WITNESS: I do.

 6 MS. ELMADANY: Counsel?

 7 MS. BUERGEL: Yes.

 8 BY MS. ELMADANY:

 9 Q We're back on the record.

 10 I want to focus back on the credit risk

 11 managers that you said were involved for some of the

 12 Citigroup securitizations, and before we get to who

 13 they were, what's the function of a credit risk

 14 manager?

 15 A They are part of a securitization really

 16 to look out for the interest of ultimately the

 17 investor, and that is they also -- they have access

 18 to different parties within the securitization, from

 19 the servicer to a master servicer if there is one,

 20 to the trustee, and, again, they are there to ensure

 21 that what was -- that the loans are performing to

 22 the best that they can be, that the different

 23 parties to the securitizations are maintaining

 24 their -- they are operating in a way that basically

 25 they were thought to have been.

 52

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 2 What does that mean? For a servicer,

 3 that they were following their generally accepted

 4 servicer policies and practices, that they are

 5 maintaining their delinquency timelines, that they

 6 are reaching out to borrowers that need their

 7 assistance, that they are basically helping

 8 borrowers that may need help in terms of modifying

 9 or forbearing their loans for the most beneficial

 10 outcome for both the borrower and ultimately the

 11 investor.

 12 Q So the credit risk manager is overseeing

 13 the other parties to the securitization basically

 14 doing their job, they are looking at what they are

 15 doing?

 16 A Exactly.

 17 Q One of those parties is the servicer, and

 18 the servicer to my understanding is the person that

 19 receives the payments on the loans and tracks the

 20 payments?

 21 A Yes. It receives the payments, tracks

 22 the payments, make sure the insurance is paid, the

 23 taxes are paid, that -- basically is really the

 24 point person for anything that happens with the

 25 borrower.

 53

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 2 So if the borrower is -- needs some --

 3 has any question in terms of their loans or the

 4 terms of their loans, the servicer will address

 5 them.

 6 Again, if a person is experiencing

 7 financial difficulties the servicer really is there

 8 to basically -- to confirm -- to take those calls

 9 and to walk the borrower through a resolution of

 10 what their issues are.

 11 That could be a modification of the loan

 12 terms. It could be a forbearance of some of the

 13 terms in the loans.

 14 They will ensure the borrower is

 15 experiencing financial difficulty and they are

 16 trying to work out the most beneficial outcome for

 17 everyone involved.

 18 Q Then you said master servicer.

 19 A Right. Some deals have a master

 20 servicer. Normally there is a master servicer if

 21 there are two or more servicers.

 22 It's really easy if a deal just has one

 23 servicer, but if a deal has three or four different

 24 servicers normally you have a master servicer which

 25 kind of accumulates the information of the four that

 54

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 2 are accepting the payments and dealing with the

 3 borrowers

 4 BY MR. MINOR:

 5 Q Is it one of the four or is it a

 6 different party?

 7 A From what I recall, usually it's an

 8 independent party. It's a bigger, more financially

 9 secure entity.

 10 Q Okay.

 11 BY MS. ELMADANY:

 12 Q Is the servicer the source of the monthly

 13 performance reports?

 14 A Exactly. Yes.

 15 Now, just so we're further clarifying

 16 this, the servicer will provide that information to

 17 the trustee, and the trustee will post that like we

 18 discussed before in the monthly performance reports.

 19 Q So the information goes from the servicer

 20 to the trustee. The trustee posts the monthly

 21 performance reports?

 22 A Yes.

 23 Q If there's a master servicer, does the

 24 servicer provide the information to the master

 25 servicer?

 55

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 2 A Yes.

 3 Q And then the master servicer provides it

 4 to the trustee?

 5 A From my belief, yes.

 6 Q How is it decided if there will be a

 7 credit risk manager for a securitization?

 8 A The specifics of it I'm not sure how it

 9 comes about.

 10 Formally -- eye say this: Normally in

 11 our deals, or I guess other deals that you have a

 12 credit risk manager, it's more for let's say

 13 subprime loans rather than prime loans.

 14 And also having it, having a credit risk

 15 manager, was really a positive for a

 16 securitization. I know the rating agencies and

 17 investors looked at that as another -- as a good

 18 thing, as a positive for the thing, because you had

 19 another set of eyes working for the deal and the

 20 investors.

 21 Q What sources of information did the

 22 credit risk manager have?

 23 A They had -- they would have a direct link

 24 to the servicer, provided that the servicer allowed

 25 them access, online access, to their servicing

 56

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 2 systems.

 3 So I know with Clayton, if they did have

 4 access to a servicer, they could basically go into

 5 the servicer's system and research a question or an

 6 issue that they had.

 7 If they didn't have access to a computer

 8 system, then the credit risk manager would basically

 9 have to accumulate their questions and provide it to

 10 a point of contact of the servicer who dealt with

 11 credit risk managers, and it would just take a

 12 little bit longer for them to come back basically

 13 with answers to questions.

 14 BY MR. MINOR:

 15 Q You're saying the credit risk manager

 16 having direct access may be -- in terms of

 17 technology they had direct access?

 18 A Yes. Technology as well as to specific

 19 people at the servicer shop who basically

 20 interacted, who took their questions and were there

 21 to basically provide the answers to them, or to --

 22 yes.

 23 To answer their questions if they had

 24 some.

 25 BY MS. ELMADANY:

 57

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 2 Q If there was a master servicer on the

 3 deal, what was the relationship between the credit

 4 risk manager and the master servicer?

 5 A It should be the same as I just

 6 described.

 7 I don't think there's really any

 8 difference between the master or just one of four

 9 regular servicers.

 10 Q And the other party that you talked about

 11 was the trustee.

 12 A Yes.

 13 Q What was the -- how did the credit risk

 14 manager have access to the trustee?

 15 What was their relationship with the

 16 trustee?

 17 A I really didn't delve into that area in

 18 terms of what the credit risk manager did with the

 19 trustee.

 20 For the most part it was always the

 21 credit risk manager with the servicer. Again,

 22 really, the servicer was the main point of contact

 23 to the borrowers.

 24 Q Did the credit risk managers, whoever it

 25 was, have any interaction with the trustee?

 58

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 2 A I would guess yes. What they did with

 3 them I'm not aware.

 4 Q So how did a credit risk manager go about

 5 determining if the different parties to a

 6 securitization were operating as assumed or as

 7 projected, as everybody thought?

 8 MR. BUERGEL: Just to be clear, you

 9 should speak about what you know about or make clear

 10 what you know yourself, given that you never worked

 11 for a credit risk manager.

 12 A They would look at -- a lot of times it

 13 was looking at timelines, and let's give an example

 14 of what I mean by a timeline.

 15 Servicers have, based on their policies

 16 and procedures, they have a certain amount of days

 17 let's say that a borrower is delinquent before they

 18 would -- they would institute foreclosure

 19 proceedings.

 20 So let's use an example. Let's say

 21 there's 91 days of delinquency. On the 91st day of

 22 delinquency a servicer should put a borrower into

 23 foreclosure.

 24 If it turned out a servicer wasn't

 25 following that procedure, then the credit risk

 59

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 2 manager would ask, well, how come, why aren't you

 3 putting these borrowers into foreclosure, and await

 4 a response as to why it was or why it wasn't.

 5 That's an example of let's say what they

 6 did on a month in, month out basis.

 7 In addition, if there were -- if a loan

 8 took a larger than expected loss they would ask

 9 questions as to why did this loan lose this amount

 10 of money. What was the issue with let's say the

 11 property or the condition of the property.

 12 So they would ask for more detail behind

 13 just the numbers that would show up on the monthly

 14 performance report.

 15 Since they were part of the

 16 securitization they could ask those questions

 17 because they were legally entitled to receive that.

 18 Q Am I correct to understand that all of

 19 the loan level data about whether a loan was paying,

 20 was paying on time, the state it was in, foreclosure

 21 or something like that, that all resided with the

 22 servicer?

 23 A Yes.

 24 Again, that information could be also

 25 included in the monthly performance reports, or in

 60

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 2 an Excel spreadsheet that was also available for an

 3 investor to see in -- on a public website.

 4 Q When you say a public website, is that

 5 something different than the place where the monthly

 6 performance report was?

 7 A Usually it would be all in one place.

 8 So if Wells Fargo was the trustee, you

 9 would go to the Wells Fargo website and they would

 10 be a trustee for a lot of different securities. You

 11 would just look for the name of the issuer and then

 12 you would find the particular bond you were looking

 13 for, and then you would click it and you would have

 14 all of the monthly performance reports available to

 15 you, and if they also included let's say loan level

 16 information, but, again -- there couldn't be any

 17 really identifying information because the borrowers

 18 have confidentiality --

 19 Q It doesn't have the borrower's name and

 20 address.

 21 A Yes. You could not basically have any

 22 information there that would identify or provide

 23 someone with the ability to find out who the

 24 borrower is.

 25 Q So a loan could be referred to by number

 61

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 2 for example?

 3 A By number, and also -- you were asking

 4 about the specific information that was available.

 5 It would just be more generic type of information.

 6 Nothing that would give someone the

 7 ability to find out where the property is.

 8 Q You couldn't find the house.

 9 A Yes.

 10 Q Was there any place besides the trustee

 11 website that information about performance of the

 12 securitization appeared?

 13 A The only other place that I'm aware of

 14 is -- would be in a rating agency website, if a

 15 particular rating agency had rated the deal,

 16 normally they will monitor its performance.

 17 They have a surveillance group at the

 18 rating agencies, and if their assumptions changed or

 19 the deal wasn't performing as well as expected, they

 20 could either downgrade the bonds or if they were

 21 performing better than expected, upgrade.

 22 Q The rating agency data, was that loan

 23 level data?

 24 A I'm not a hundred percent sure of how the

 25 rating agency went about -- what they had access

 62

 1 Xanthos

 2 to.

 3 My guess would be it would be the monthly

 4 performance report just like everyone else.

 5 Q That was going to be my next question.

 6 In order to view the monthly performance

 7 report, was it only available to investors, people

 8 who owned the security?

 9 A In my experience it's available to the

 10 general public, but there are some securitizations

 11 where let's say you need a password, maybe you have

 12 to be let's say a registered investor, where the

 13 website would have to give you access to be able to

 14 go into it and extract or you would have to prove to

 15 them that you were an investor in that particular

 16 bond to see that bond.

 17 Q Were any of the Citigroup securitizations

 18 monthly performance reports on a website that

 19 were -- where you required a password or needed to

 20 be a registered investor?

 21 A I'm not a hundred percent sure on that.

 22 Q When we first started talking about

 23 credit risk managers, you said that the credit risk

 24 manager submitted reports to people in the mortgage

 25 finance group. Who in mortgage finance got the

 63

 1 Xanthos

 2 reports?

 3 A Well, in my time I would receive the

 4 reports from them, as well as my -- the two people

 5 that worked for me.

 6 Q Okay.

 7 A That was pretty much the extent of it.

 8 There might have been a few other people but not too

 9 many.

 10 Q Who else besides you and Mr. Engel and

 11 Mr. Ng?

 12 A Guessing, I would think it probably would

 13 be --

 14 Q We don't guess but --

 15 A I don't know for sure. Outside of the

 16 three people I told you.

 17 Q I don't want to be rude, but --

 18 A That's fine.

 19 Q I didn't mean to cut you off like that,

 20 but if you're mining your memory and you say I think

 21 because I have some memory of it, if you had some

 22 understanding because you discussed it with somebody

 23 or for some other reason.

 24 If you're just guessing, I don't want

 25 you -- nor do we need for you to extend your

 64

 1 Xanthos

 2 testimony into an absolute guess. When you're

 3 making an estimate, when you're making some

 4 reasoned -- that's fine.

 5 A Okay.

 6 Q Anyone else you think got it?

 7 A Outside of the three people I just told

 8 you about, I'm not aware of anywhere else.

 9 Q How did it come about that you and your

 10 team I'll call them started to get the reports from

 11 the credit risk managers?

 12 A Again, it was the result of actually

 13 going out to Denver and speaking with the team that

 14 was assigned to us and really developing a

 15 relationship and just having them know for certain

 16 that from there on out everything would basically

 17 flow through me and the two people that work for me.

 18 Q Prior to your trip to Denver which we

 19 will talk about, did anyone in the mortgage finance

 20 group or the analytics group get any reports from

 21 the credit risk manager?

 22 A I don't know.

 23 Q Do you know of anyone in Citigroup who

 24 received credit risk manager reports before you

 25 started to receive them?

 65

 1 Xanthos

 2 A I don't recall.

 3 Q You got there, you took a trip to Denver

 4 to meet with the Clayton people.

 5 First, who is "we"?

 6 A It was myself, a lady by the name of

 7 Joanne Cordero, and one other guy who worked with me

 8 at the time. I forgot his name.

 9 John Radzicki.

 10 Q Could you help me with his --

 11 A Sure.

 12 R-a-d-z-i-c-k-i.

 13 Q When did Mr. Radzicki work with you?

 14 A I want to say second half of 2006 --

 15 yes.

 16 I think that was it, the second half of

 17 2006.

 18 Q Did Mr. Radzicki precede Mr. Engel and

 19 Mr. Ng?

 20 A He did.

 21 Q What were his functions?

 22 A Really kind of developing the -- working

 23 with me, kind of making sense of where we wanted

 24 to -- what we wanted to do and how we wanted to do

 25 it.

 66

 1 Xanthos

 2 Q Was Mr. Radzicki in the mortgage finance

 3 group when you moved over to them, or was he in some

 4 other group?

 5 A I don't think he was. I think he was in

 6 mortgage trading.

 7 Q How did he come to work with you or make

 8 this trip with you?

 9 A He was working with me, so it was both of

 10 our introductions to, really, the credit risk

 11 manager and to Clayton.

 12 Q Who is or was Joanne Cordero?

 13 A She was an outside consultant to us in

 14 terms of putting together this, the surveillance

 15 part.

 16 Q With whom did she work or was she an

 17 independent person?

 18 A She was an independent person.

 19 Q How did you come to work with

 20 Mr. Cordero?

 21 A She was there. She basically -- I was

 22 introduced to her. I don't know who exactly

 23 introduced me to her.

 24 As we were starting to put this program

 25 together, she was a very good source because she had

 67

 1 Xanthos

 2 worked for a servicer for a good part of her career.

 3 Q So you didn't reach out to bring in a

 4 consultant or to Ms. Cordero specifically?

 5 A No.

 6 Q She was already working on something or

 7 working on this project, or --

 8 A I don't know.

 9 Q Who introduced you to her?

 10 A I think it was Susan Mills.

 11 Q What was Ms. Cordero's role in the

 12 developing of the surveillance?

 13 A Well, she was -- we had -- at that point

 14 in time we were trying to figure out what the credit

 15 risk managers actually did on a month in, month out

 16 basis, as well as on a day-to-day basis, and we were

 17 also interviewing other credit risk managers as

 18 well, so Joanne basically helped us in meeting as

 19 well as interviewing other credit risk managers that

 20 wanted to get assigned by Citigroup.

 21 Again, when we went out to Clayton, she

 22 sat in with us when we met the team and we were

 23 asking questions and, again, since she had a lot of

 24 experience with servicing, she was an invaluable

 25 source to kind of getting all of us up to speed that

 68

 1 Xanthos

 2 much quicker.

 3 Q Did you have any experiencing with

 4 servicing before you moved into the mortgage finance

 5 group?

 6 A Yes.

 7 Q You did?

 8 A Yes.

 9 Q What was your experience with servicing?

 10 A It was basically when I was in my credit

 11 role I would visit not only the origination part of

 12 the business but also the servicing part of the

 13 business.

 14 I had done that for a lot of different

 15 asset classes. So I'm familiar with what a servicer

 16 does, how they do it, how they go about on a day in,

 17 day out basis servicing loans.

 18 Q So it wasn't that a servicer was

 19 something you basically had no knowledge of, you had

 20 some experience with a servicer?

 21 A Yes.

 22 Q Did Mr. Radzicki, did he have any

 23 experiencing with servicers prior to making this

 24 Clayton visit with you?

 25 A I'm not sure. I don't know.

 69

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 2 Q Do you know if Mr. Radzicki had any

 3 experience with credit risk managers before your

 4 Denver visit, your visit to Clayton?

 5 A I don't know.

 6 BY MR. MINOR:

 7 Q Did you know the Clayton people before

 8 you worked in this group?

 9 A No.

 10 I knew of Clayton just from reading

 11 industry magazines and things like that, but I had

 12 never had any contact with them.

 13 BY MS. ELMADANY:

 14 Q What made you decide to go visit Clayton?

 15 A It was a great opportunity to meet the

 16 people that were doing a lot of our work for us.

 17 I'm a big believer in meeting

 18 face-to-face people I do business with as well as

 19 people who provide services to me, and since they

 20 were -- they had been in this line of business for a

 21 very long time, they were a great source of

 22 information in terms of how they went about doing

 23 their day -- their job day in and day out, as well

 24 as it gave me an opportunity to see what types of

 25 technology they had available to themselves as well

 70

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 2 as what we could access to.

 3 Again, as we talked about before, we

 4 eventually got access to their technology

 5 infrastructure, so it made myself and my team that

 6 much more efficient in a very time effective manner

 7 to basically be able to go in and look at what the

 8 Clayton team was doing day in and day out.

 9 Q When you were talking about Clayton, you

 10 referred to them as the people who were doing a lot

 11 of work for us. Who is the "us" in that sentence?

 12 A When I say us, I mean mortgage finance as

 13 well as here for loans that were securitized -- I

 14 say us but I'm also including the investors in it

 15 just because I don't really distinguish in my mind

 16 between investors and Citigroup. To me it's all one

 17 and the same.

 18 That's what I mean when I say that.

 19 Q Okay. I'll come back to that.

 20 Before we get to getting access to the

 21 Clayton technology, I guess there's something I

 22 should ask.

 23 Your job was to -- as I understand it was

 24 to track the performance of the securitizations.

 25 Did you have any involvement in tracking the

 71

 1 Xanthos

 2 performance of loans before they were securitized?

 3 A I did.

 4 I developed some of those reports that

 5 would track loans before they were securitized.

 6 Q At the point before a loan was

 7 securitized, was a credit risk manager involved?

 8 A No.

 9 Q We'll come back to that.

 10 So when you went to Clayton it was the

 11 three of you, and you got to meet -- you indicated

 12 there were specific Clayton employees who worked on

 13 specific Citigroup securitizations?

 14 A Yes.

 15 Q Was there like a designated Citigroup

 16 group within Clayton?

 17 A Yes.

 18 So all they did day in, day out were the

 19 deals we had basically made Clayton CRM for.

 20 Q Approximately how many people are we

 21 talking about at Clayton?

 22 A I don't remember the exact number.

 23 Q More than a hundred?

 24 A No, no.

 25 Q Less than 50?

 72

 1 Xanthos

 2 A I would say -- I would say between 10 and

 3 15.

 4 Q What was the meeting about?

 5 A It was really to find out what they

 6 actually did for us or for the deal.

 7 Also, well, what were the backgrounds of

 8 the people that were assigned to our team. What was

 9 the background and capabilities of the people that

 10 were overseeing the analysts of those teams. What

 11 were the methodologies of how they looked at the

 12 loans or how they looked at the economy or real

 13 estate, or just trying to get an understanding of

 14 how they looked at the world of let's say mortgages

 15 and securitization.

 16 Again, the trip was very well worthwhile

 17 because, again, it gave us -- well, gave me and the

 18 people with me -- more of a comfort as to who is

 19 this person. Who is Joe. Who is Matt. And what is

 20 their kind of approach to the business. Are they

 21 progressive in how they approach looking at issues

 22 or non-issues.

 23 What types of information or databases do

 24 they have access to which would enable them to

 25 basically make better and more efficient and very

 73

 1 Xanthos

 2 time -- more time efficiency, really, in spotting

 3 potential issues and rectifying them.

 4 Because, again, we're talking about a lot

 5 of loans here so every loan is a different story for

 6 the most part and it has to be given the proper

 7 amount of time and also resources to try to make

 8 sense of what's going on.

 9 So that's really what I was trying to get

 10 out of that meeting, trying to get a sense of

 11 comfort that this group and this company are really

 12 good at what they are doing and they basically

 13 are -- we can kind of be comfortable with them, but

 14 at the same time monitor how they are performing and

 15 really have to establish a very good and deep

 16 relationship.

 17 Q Thank you.

 18 How long is this meeting we're talking

 19 about?

 20 A It was probably a whole day meeting.

 21 Q You mentioned one of the things you

 22 wanted to learn was what information or databases

 23 Clayton had access to that it used in its duties and

 24 decision-making.

 25 Did you learn what databases it had

 74

 1 Xanthos

 2 access to?

 3 A We did.

 4 Q What were those?

 5 A A lot of times the servicer provided them

 6 with loan level or provided them to their servicing

 7 systems, they would download a lot of this

 8 information on a monthly basis which would go into

 9 their database and then basically as they were doing

 10 their review of the securitization and as they

 11 looked into specific loans that were part of the

 12 securitizations they could basically tell or get a

 13 better idea of what was going on with let's say the

 14 borrower.

 15 Q Then I think you said at some point,

 16 because I was writing as fast as I could, that

 17 Clayton eventually gave you access to something, to

 18 databases or something.

 19 A They gave us access to the database which

 20 the entire Citigroup team utilized to do their own

 21 types of analysis of the loans in the

 22 securitizations.

 23 Q Who in Citigroup was given access to

 24 those Clayton databases?

 25 A It was myself, Peter Engel and Joseph Ng.

 75

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 2 Q Who is Josephine?

 3 A Joseph Ng.

 4 Q Sorry.

 5 A The team. I don't know if we've --

 6 Q I thought you said Josephine. My

 7 apologies. I misheard you.

 8 Using those databases that Clayton gave

 9 you and your team access to, what was it that you

 10 could see?

 11 A Well, again, it was whatever the servicer

 12 was providing Clayton.

 13 What does that mean? If they had

 14 servicer comments, so if they talked to a borrower

 15 and the servicer made a comment about what they had

 16 discussed with the borrower, what the issue was in

 17 terms of the delinquency, if the borrower -- well,

 18 if there was a new appraisal that was done the

 19 servicer had ordered.

 20 Those were basically the main things.

 21 Q So was the information in the database

 22 that Clayton gave you access to on a loan level

 23 basis?

 24 A On a loan level basis.

 25 We tried to do everything on a loan level

 76

 1 Xanthos

 2 basis because, again, it was a lot of loans but that

 3 really was -- you have to look at it on a loan by

 4 loan basis.

 5 A lot of times you're looking at it on a

 6 portfolio basis, and you can do that, but you're

 7 trying to get much more granular so you try to look

 8 at things on a loan by loan basis.

 9 Q If you were looking at things on a loan

 10 by loan basis, could you see if a loan was paid

 11 timely or if it was behind in its payments?

 12 A Sure. And that's something you can get

 13 on an aggregate basis.

 14 Then if you wanted to look at something

 15 in terms of why is this -- why is this borrower 90

 16 plus days or more delinquent, you could access

 17 that. Provided the servicer was able to comment on

 18 the borrower and they had written a comment, that's

 19 something you could access, that.

 20 Q When you said you could get that on an

 21 aggregate basis, what does that mean?

 22 A That's kind of what you would see in the

 23 monthly performance summary. Where there it's a

 24 snapshot of how many loans are 30-60 days, 60-90,

 25 foreclosure, REO, bankruptcy.

 77

 1 Xanthos

 2 There's a lot there that gives you the

 3 sense of how the loans are performing on an

 4 aggregate basis.

 5 Q Got it. Thank you.

 6 You indicated there was another credit

 7 risk manager for multiple Citigroup securitizations

 8 and it was pen --

 9 A Pentalpha.

 10 Q How was it determined who the credit risk

 11 manager for a particular securitization would be, or

 12 even whether or not it would have one?

 13 A I don't know the specifics of why

 14 Pentalpha would be chosen versus Clayton, but I do

 15 know what I said before, that we interviewed a lot

 16 of credit risk managers.

 17 We decided -- we always had Clayton. We

 18 added Pentalpha to our credit risk manager I guess

 19 team. There was only two of them.

 20 The way we decided on let's say Pentalpha

 21 versus other people, other firms, was really a

 22 judgment on their capabilities, background of the

 23 people that would be assigned to our team. Their

 24 technology. How sophisticated was it.

 25 But it really came down to the people.

 78

 1 Xanthos

 2 What are their backgrounds. What are their -- are

 3 they diligent. Did they try to find what the issues

 4 are and are they -- do they pursue finding the

 5 answers to their questions.

 6 Because a lot of this is really -- you

 7 have to ask the questions but you also have to

 8 basically get the answers. Asking the questions is

 9 only part of it, really. The main goal here is to

 10 basically get the answer.

 11 And then to determine whether that's a

 12 sufficient answer, or if it's not a sufficient

 13 answer, because a lot of times credit risk managers

 14 would point out things to the servicers that the

 15 servicers maybe weren't adhering to policies or

 16 there were certain reasons why they weren't doing

 17 something. But unless you asked the question you

 18 would never know.

 19 So the follow-up was really key. So when

 20 we met these people, it was the people, the

 21 technology and their methodology of how they

 22 basically put it altogether.

 23 Q Thank you.

 24 So when you moved into the mortgage

 25 finance group, Pentalpha wasn't already working as a

 79

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 2 credit risk manager?

 3 A I don't think. Because I do remember

 4 that at that point in time, and that was another

 5 thing Joanne was helping us out with was

 6 interviewing a lot of the proposals that these

 7 credit risk managers had presented to us.

 8 I don't know if they had been a credit

 9 risk manager. I don't recall.

 10 But I do remember we put them on some

 11 deals during my time in the group.

 12 Q Was there information that Pentalpha

 13 provided to the mortgage finance group the same way

 14 that Clayton did?

 15 A It was -- well, Clayton at first was much

 16 more technology advanced. They had the systems

 17 already built out.

 18 What I remember was Pentalpha was getting

 19 there. They were spending money in terms of

 20 improving their systems.

 21 So we -- we got to the Clayton database

 22 or technology database much more quicker than

 23 Pentalpha. But eventually we also did get the

 24 Pentalpha.

 25 So really for the most part, there really

 80

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 2 wasn't much of a difference between the two. But,

 3 again, Clayton was a bigger organization than

 4 Pentalpha so they just had more resources available

 5 to them.

 6 But in terms of the quality of both, I

 7 think they were both very good.

 8 Q Thank you.

 9 So now what I've learned there were these

 10 spreadsheets and there were the monthly performance

 11 reports, and not immediately but eventually there

 12 was information from the credit risk managers.

 13 A Yes.

 14 Q And was there any other information that

 15 you used in doing your surveillance of the

 16 performance of the Citigroup securitizations?

 17 A The last piece of it is we developed

 18 ourselves our own database, basically taking

 19 information from all of the sources, Pentalpha,

 20 Clayton, what Vincent had downloaded that we talked

 21 about before, as well as accessing and -- I worked

 22 with an outside consultant at Citigroup, we would

 23 access Bloomberg information, rating agency

 24 information, so we created a master database which

 25 we basically used and the people worked for me used

 81

 1 Xanthos

 2 to do their job much more efficiently and

 3 effectively.

 4 Q So the information -- going backwards,

 5 there was a master database and it included the

 6 performance reports and the loan level data from

 7 Vincent and the credit risk manager data, and then

 8 some other thing, and I lost you right there.

 9 A It was a lot of information coming from a

 10 lot of different sources, a lot of them being public

 11 or sources that were -- Citigroup contracted out

 12 with let's say Bloomberg or some of these other

 13 vendors.

 14 Q What other vendors? That's what I'm

 15 trying to figure out.

 16 A Let's use Bloomberg. I don't remember

 17 the other -- Loan Performance --

 18 Q That's the name of something?

 19 A Yes.

 20 Again, another vendor for mortgage data.

 21 So we basically accumulated all of this

 22 information. We had our technology staff work with

 23 me in establishing this database, with the ultimate

 24 goal of being much more efficient because, again, as

 25 I keep coming back to, we're dealing with a lot of

 82

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 2 different loans, a lot -- and in order to kind of --

 3 to enable my team to be able to quickly kind of

 4 figure out, because each analyst had a lot of deals

 5 which they were responsible for, so in order for

 6 them to be able to oversee not only the credit risk

 7 managers but understand why the deals were

 8 performing well or not, they needed to have a lot of

 9 information at their fingertips, so that was the

 10 result of kind of working with all of our vendors,

 11 looking to see where we needed to be and becoming

 12 much more efficient and more effective, really, at

 13 the end of the day.

 14 So that was a working project for me from

 15 when I first started up until I left Citigroup.

 16 MS. BUERGEL: Started in mortgage

 17 finance?

 18 THE WITNESS: Exactly. Started in

 19 mortgage finance.

 20 Q I wrote this down, I have absolutely no

 21 idea what it means.

 22 A Well, you can ask me whatever you want.

 23 Q You said something about accessing

 24 network with outside consultants. When you were

 25 talking about the sources of data.

 83

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 2 A Yes.

 3 The sources of data, they were both

 4 internal and external. So external, it was Clayton

 5 and Pentalpha. Those were our two main sources of

 6 information.

 7 Then internal for vendor, it could be

 8 Loan Performance, it could be Bloomberg, maybe one

 9 or two others that I don't remember at this point in

 10 time.

 11 So, again, we tried to put all of that

 12 information -- we merged that information all into

 13 one database. So don't ask me the particulars of

 14 it, because I'm not a computer person. I just come

 15 up with the ideas and I tell people how it should

 16 look.

 17 We had really good people in technology

 18 and this outside consultant was very, very good as

 19 well. So they could basically incorporate all of

 20 this type of data into one database which then my

 21 team basically would have access to.

 22 So both Peter and Joe could go in there

 23 and if they had a question about any type of loan or

 24 securitization or they wanted to monitor the

 25 performance of the securitization they could do so

 84

 1 Xanthos

 2 in a very efficient manner.

 3 So basically just having every piece of

 4 information we had in one spot as opposed to going

 5 out to the web and looking at 12, 13 different

 6 sources.

 7 It made it more compact, efficient.

 8 Q Was the outside consultant Ms. Cordero?

 9 A This was another person.

 10 Q Who was this person?

 11 A His name is -- I have his face in my

 12 mind.

 13 Jack Broad is his name.

 14 Q Jack?

 15 A Broad, B-r-o-a-d.

 16 Q So Jack Broad was an outside consultant

 17 who worked on putting together this master

 18 database. Did it have a name?

 19 A I always called it the master database.

 20 Q That's what we'll call it.

 21 What was Mr. Broad's area of expertise?

 22 A He -- well, from what I recall, he

 23 worked -- he has been a consultant for a lot of

 24 different Wall Street firms.

 25 He also helped create surveillance

 85

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 2 systems at other firms he used to work at.

 3 So -- now, I had my own viewpoints of

 4 kind of how I would want things, but I'm open to --

 5 I don't think I'm the most knowledgeable person but

 6 I tried to kind of listen to other people's

 7 experiences, and if it's already been done you don't

 8 have to recreate the wheel.

 9 For a lot of the stuff it was piecing it

 10 together, thinking it through, going back to the

 11 drawing board and saying, okay, what are we missing,

 12 what should we get, what can we get. How can we

 13 incorporate all this into one system that kind of

 14 will do on the fly in real time, get us that loan

 15 level information as well as on an aggregate basis.

 16 You had access to it on an aggregate

 17 basis, per deal, as well as on a granular level per

 18 deal. So that kind of made it much more robust.

 19 Q Thank you.

 20 Was there any information that went -- or

 21 data that went into the master database that was not

 22 publicly available information?

 23 A Yes, there was.

 24 Q What was that?

 25 A Well, it's a lot of what we said

 86

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 2 before --

 3 Q The loan level?

 4 A -- the loan level, the identifying

 5 information for the borrower.

 6 Property addresses. It could be Social

 7 Security numbers.

 8 The database was only a certain amount of

 9 people could look at it. It was only myself and the

 10 two people who worked for me. We were very, very

 11 careful of who could see it and who can't, and most

 12 people couldn't see it because of that. Because

 13 there was public and non-public information.

 14 So there were firewalls set up.

 15 Q Tell me about the firewalls.

 16 A It was set up by our technology group and

 17 the regular powers that be within big institutions

 18 that would look at situations where you have

 19 non-public information.

 20 Q How was the information protected? Was

 21 it password protected?

 22 A I think you had to access the system, you

 23 had a user name and password, but I think you

 24 probably also had -- you couldn't access it if you

 25 didn't have those things, or maybe you couldn't even

 87

 1 Xanthos

 2 access -- let's say it was put in another drive that

 3 only you had access to or your team had access to.

 4 I think that's what we did.

 5 Q So the master database was on a drive

 6 that only you and your team --

 7 A Let's call it the X drive.

 8 Q We're making up the X drive.

 9 A Yes.

 10 Q So the master database was on a drive,

 11 the X drive, that only you and your team had access

 12 to.

 13 A Yes.

 14 Q Beyond that it was password protected?

 15 A From what I recall, yes.

 16 Q You had a password, Mr. Ng and Mr. Engel?

 17 A Yes.

 18 Q Anyone else have passwords?

 19 A Not that I'm aware of.

 20 Q What about the boss? The boss always has

 21 a password.

 22 A Like you told me before, if I don't know

 23 for a hundred percent --

 24 Q Okay. No problem.

 25 Let's step away from the securitized

 88

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 2 loans for a minute.

 3 In addition to working on monitoring the

 4 performance of the securitized loans you also worked

 5 on monitoring the performance of non-securitized

 6 loans, correct?

 7 A Yes.

 8 Q Let's start with non-securitized loans.

 9 These are loans that are sitting somewhere within

 10 the Citigroup universe, right?

 11 A Yes.

 12 Q Where are they sitting?

 13 A The exact legal place where they were

 14 sitting I don't know.

 15 Q So the non-securitized loans are

 16 identified to you how? How do you know they exist?

 17 A Well, we -- when loan pools are

 18 purchased, they are identified by package codes.

 19 Q Package codes?

 20 A They call them package codes. An ID

 21 number. So it can be package code one, two, three,

 22 four, whatever is assigned to that pool.

 23 So they are basically identified through

 24 that, by seller, and then by package code. If -- on

 25 our analytics team, you basically could tell which

 89

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 2 loans were securitized and which loans were not

 3 securitized. So that's basically the manner in

 4 which they were identified.

 5 Q So the analytics team knew if a loan that

 6 had been purchased was securitized or not?

 7 A The analytics team as well as people

 8 who -- we had a loan management system, it was a

 9 department-wide let's say loan management system,

 10 software system, so you could go in and filter loans

 11 based on a lot of different criteria. If you knew

 12 how to use the software system you could do it

 13 yourself.

 14 So people on my team knew how to use that

 15 so they could do that. They could go in and

 16 basically determine which loans were securitized,

 17 unsecuritized, and look at things on a package

 18 basis.

 19 Q So the analytics team knows if a loan is

 20 securitized or not, and also there is a loan

 21 management system. Is that actually what it was

 22 called?

 23 A I think it is if my memory serves me

 24 correct. I think that's what it was called.

 25 Q To your knowledge, was the access to the

 90

 1 Xanthos

 2 loan management system restricted in any way?

 3 A I'm not sure.

 4 Q But certainly you and your team had

 5 access to it, and you could go in and could you just

 6 choose to see loans based on the fact that they

 7 hadn't been securitized?

 8 A Sure.

 9 You can filter by that.

 10 Q So you know this universe of loans --

 11 unsecuritized loans exists, so what did you do with

 12 respect to those loans?

 13 A Well, what I did was I basically came up

 14 with management reporting -- management reports

 15 which my team would run really on a weekly basis.

 16 We could run it any time we wanted but run it on a

 17 weekly basis and distribute it to the group. Again,

 18 these were unsecuritized loans.

 19 Basically the reports were put together

 20 by originator, seller of the loans, and then by

 21 package code. I like to look at things by package

 22 code, chronologically.

 23 Q What did this report show the viewer?

 24 A It showed what we had in inventory that

 25 was on our books.

 91

 1 Xanthos

 2 It also showed the performance of those

 3 loans over time.

 4 Again, as I just said, I liked to look at

 5 things by package codes. That would be in somewhat

 6 chronological time order. So depending on how many

 7 loans we purchased, if those loans were all current,

 8 great. If there were some 30 days delinquent,

 9 things like that.

 10 It kind of gave you a nice snapshot of

 11 what was kind of happening with the pools as we

 12 purchased them.

 13 BY MR. MINOR:

 14 Q Was this a large part of the business

 15 model, or during the time you were involved with

 16 this did this grow over time?

 17 A It didn't grow. I mean, I basically --

 18 again, with my background, what I was doing, I

 19 figured let us come up with a way -- also for my

 20 purposes -- to kind of -- and for anybody to

 21 basically pick up and make sense of, I'm a big

 22 believer in keeping it specific but general so that

 23 basically anybody can pick it up, just look at it

 24 and kind of understand what was going on.

 25 BY MS. ELMADANY:

 92

 1 Xanthos

 2 Q Did this weekly report have a name?

 3 A I just called it weekly management

 4 report.

 5 Q Works for me.

 6 Who got it?

 7 A We sent it out to the mortgage finance

 8 group, so the people who were in our area, some of

 9 the bankers as well, and that was it -- well, Susan

 10 Mills and Jim Demar.

 11 The traders -- I don't think we sent it

 12 to the traders but, again, if it was -- they had

 13 purchased these loans so I don't think there would

 14 be a problem in terms of providing them with

 15 non-securitized loan level information.

 16 Q How did you distribute the weekly

 17 management report?

 18 A Well, my analysts would basically run the

 19 reports after -- we basically had standardized it

 20 with the reports, how we wanted it to look, and

 21 after that was done it just became as simple as my

 22 analysts basically going in, clicking a button,

 23 generating each one of the reports that we would

 24 issue.

 25 So I don't know -- I can't sit here and

 93

 1 Xanthos

 2 tell you how long it took them. I don't think it

 3 probably took them more than 20 minutes or a half

 4 hour to do, or more.

 5 Before we would submit the reports we

 6 would review them. It basically had to -- before we

 7 would ever want to send it out, so that's kind of

 8 the process of how we would do that.

 9 Q They would distribute it by hard copy,

 10 email?

 11 A Email. That was the most efficient way

 12 to do it.

 13 Q So either Mr. Ng or Mr. Engel would email

 14 these out once a week?

 15 A Yes.

 16 Q Besides distributing this data about the

 17 non-securitized loan, what else did you do?

 18 A We would discuss -- if anybody had a

 19 question on anything they would basically ask us.

 20 Sometimes we would have discussions about the

 21 results with Susan Mills or Jim Demar.

 22 Like I said, anyone who had a question

 23 about it, you know, the intention of sending out the

 24 report was just to get the information out to as

 25 many people who were working on this as possible.

 94

 1 Xanthos

 2 Information is a good thing.

 3 So, again, just another benefit.

 4 Q So who in the mortgage finance group got

 5 this?

 6 A I don't know. It's everyone who worked

 7 on in terms of purchasing the loans, worked on

 8 purchasing the loans, and everyone who was in the

 9 mortgage finance group. I think there was an email

 10 address with mortgage finance.

 11 Basically that's the people that worked

 12 for Susan Mills.

 13 Q The bankers, what did you mean by the

 14 bankers?

 15 A Well, there were -- I guess they were

 16 considered mortgage bankers or investment bankers.

 17 They were people who basically would be

 18 the main point of contact for the funding clients or

 19 the securitization clients.

 20 (Pause.).

 21 BY MR. MINOR:

 22 Q You had indicated with respect to

 23 monitoring the non-securitized loan pools you came

 24 up with this management report that was run weekly,

 25 and it would show inventory and the performance of

 95

 1 Xanthos

 2 the inventory, right?

 3 A Yes.

 4 Q What was the source of the information

 5 that you used to create this specific report?

 6 A I believe it was the loan management

 7 system as we talked about before.

 8 Q So the master --

 9 A No.

 10 The loan management system -- not to

 11 complicate -- the master database is what I

 12 described before, that was kind of what I developed

 13 with the consultants --

 14 MS. ELMADANY: That was for the

 15 securitized product?

 16 THE WITNESS: Yes.

 17 For the most part, yes. Almost all of

 18 the securitized product.

 19 A The loan management system was really a

 20 software system that a lot of the servicer data for

 21 non-securitized loans were put into.

 22 I don't want to say there wasn't data

 23 that was put into the loan management system that

 24 was let's say -- I don't know if what they were able

 25 to get as far as the public securitization data, it

 96

 1 Xanthos

 2 could have flown into the loan management system,

 3 but, again, it was public information.

 4 Q So you can see more than just -- through

 5 the loan management system more than simply whether

 6 or not the loan is securitized or unsecuritized,

 7 there's other data --

 8 A There is but it's not any -- it's limited

 9 public available data for -- I think your question

 10 was securitized.

 11 For non-securitized, again, Citigroup

 12 owned those loans so we could get information from

 13 the servicer on a month in, month out basis which I

 14 think then would be populated in the loan management

 15 system.

 16 BY MS. ELMADANY:

 17 Q Who maintained the loan management

 18 system?

 19 A I don't know for sure who did.

 20 Q Well, when you needed to extract data

 21 from the loan management system, how did you get

 22 access to it or who did you go to?

 23 A We had access to it. I think everyone in

 24 mortgage finance had access to it.

 25 My team, we knew how to use the loan

 97

 1 Xanthos

 2 management system. If you didn't know how to use

 3 the system you would go to the analytics group.

 4 Like I said, my team, we've learned how

 5 to use that system and we knew how to extract data.

 6 BY MR. MINOR:

 7 Q To have an understanding of who it gets

 8 sent out to, who is acting on that information, for

 9 any performance changes?

 10 A We put it out to the group that I

 11 described before. If people had questions on it,

 12 again, they could ask us or if they knew how to go

 13 into the loan management system to kind of generate

 14 whatever their question was.

 15 Again, it was there just as a general

 16 management report to kind of lay out in a very

 17 straightforward manner how much -- how many loans we

 18 had purchased and how they were performing.

 19 Again, as I said before, it was by

 20 package code so you could basically see what was

 21 happening with those loans month in, month out.

 22 BY MS. ELMADANY:

 23 Q We have to go back to the master

 24 database.

 25 I had been under the impression which I

 98

 1 Xanthos

 2 now know is wrong that the master database was only

 3 with regard to securitized products.

 4 A For the -- yes, it was.

 5 Q Mostly? When you say for the most part I

 6 start to question it.

 7 A If you ask me -- the reason I said that

 8 is because it was. The master database was put

 9 together for the securitization product.

 10 Now, if -- but we also incorporated the

 11 loan data that was in the loan management system

 12 into the master database, right, but for my team's

 13 purposes -- so that's why I say to you mostly,

 14 because I don't want to sit here and tell you that,

 15 no, it only had securitization information.

 16 We only acted on the securitization --

 17 the securitized loans in the database, so even if it

 18 had let's say some of the fields that were in LMS,

 19 the loan management system, we really didn't access

 20 it in terms of the master database. That was there

 21 just to look at what we talked about before.

 22 Q The master database contained the

 23 information in the loan management system but that

 24 was not part of the purpose of the analysis?

 25 A Yes.

 99

 1 Xanthos

 2 It could have been in the master

 3 database, the non-securitized information, but to

 4 the best of my information it really wasn't -- the

 5 master database was not used to look at

 6 non-securitized information.

 7 Q I want to ask now about the loan

 8 management system.

 9 Within the loan management system, could

 10 you tell if a payment on a loan was late?

 11 A Yes.

 12 Q Could you tell when the loan had been

 13 purchased?

 14 A Yes.

 15 Q There's a phrase called an early payment

 16 default.

 17 Are you familiar with the phrase early --

 18 A Yes, I am.

 19 Q What does it mean to you?

 20 A What does it mean to me? When we

 21 purchased these loans, and when I say we, people

 22 actually purchased -- actually negotiated the

 23 purchase agreements -- there were issuers who

 24 provide it -- some didn't -- with protection in that

 25 if -- let's use this as an example.

 100

 1 Xanthos

 2 We had a three month early payment

 3 default clause. So after we purchased the mortgage,

 4 if for three months after the fact that borrower did

 5 not make a payment, or was delinquent in any of

 6 those three months, we had the right to take that

 7 loan and to go back to -- basically put it back for

 8 repurchase or substitution to the seller of that

 9 loan to us.

 10 Q If you know -- of course this is all if

 11 you know -- was there a person or a group within

 12 Citigroup that looked at loans that had been

 13 purchased to determine if there was an early payment

 14 default?

 15 A That was my group.

 16 Once we developed the group we took that

 17 function from another person that was doing that

 18 within the group.

 19 But, yes, we did the early payment

 20 default.

 21 Q Who was the person you took it over from

 22 and what group were they in?

 23 A The person's name was Richard Annunziata,

 24 I'm pretty sure that's the last name, and he was in

 25 mortgage finance.

 101

 1 Xanthos

 2 I'm sorry. It's not Annunziata. It's --

 3 it's with an A, the last name, but Annacario I think

 4 the last name was.

 5 That's the last name.

 6 Q Don't fret about that. We're only going

 7 to call him Richard.

 8 To the best of your knowledge, how did

 9 Richard go about monitoring or looking at loans to

 10 see if an early payment default had occurred?

 11 A Well, I don't know how he did it. I can

 12 tell you what we did.

 13 Q You don't know how he did it.

 14 A I don't think it's too different than

 15 what I'm going to describe.

 16 Since, again, these were -- we basically

 17 programmed our computer database, the loan

 18 management system, to look at the purchase date and

 19 then the early payment clause, and track whether --

 20 so the system -- we would have to run the report

 21 that would identify loans that didn't meet the early

 22 payment default clause which we would identify,

 23 okay, and then what we would do with that -- see,

 24 that's the first step.

 25 The second step, which is even more

 102

 1 Xanthos

 2 important or equally as important is you have to

 3 confirm that the borrower didn't in fact make a

 4 payment.

 5 Let me take another step back to further

 6 clarify what I mean by that.

 7 A lot of times with these loans, we would

 8 buy a loan from an originator who also happened to

 9 be the servicer of that loan. Let's say we bought

 10 the loan and the servicing right when we purchased

 11 the loan. Then we turned around and sold -- we sold

 12 the servicing right to another servicer, so there's

 13 a second servicer now.

 14 The borrower doesn't -- either he

 15 doesn't -- he is notified there's a new servicer but

 16 he sends his payment to the person that gave him the

 17 loan who also was a servicer.

 18 So he in fact made his payment but our

 19 servicer is sending us the data saying he didn't

 20 receive the payment. So what we did to confirm that

 21 that in fact happen, my group would submit those

 22 names to a dedicated group at 406 Partners who was

 23 an outside vendor for us who had a dedicated team

 24 who would basically work with the former servicer

 25 and the new servicer, right, as well as the

 103

 1 Xanthos

 2 originator/seller of the loan and confirm the old

 3 servicer didn't have the payment, or if the old

 4 servicer did have the payment, that the old servicer

 5 would then send the new servicer the payment and the

 6 loan would show up as current.

 7 If you have any questions about that, let

 8 me know because I know it's a little --

 9 Q Okay.

 10 So there was a functionality that allowed

 11 you to look at loans in the loan management system

 12 and compare the purchase date and the early payment

 13 default clause and track payments on those loans.

 14 A Yes.

 15 Q And then if it appeared for some reason

 16 that a payment was missing or late, there would be a

 17 follow-up to determine --

 18 A We would provide the listing of those

 19 loans, the listing of those loans, to our outside

 20 vendor named 406 Partners who would do the ground

 21 work with the current servicer as well as the former

 22 servicer to determine that the borrower did or did

 23 not make its payment.

 24 Q Thank you.

 25 MS. BUERGEL: Was that with respect to

 104

 1 Xanthos

 2 every late payment in the system or only if the EPD

 3 clause was in fact triggered?

 4 THE WITNESS: If the EPD clause was

 5 triggered, that's just basically how the loan was

 6 identified.

 7 So we just saw it was 30 days or 60 days

 8 late.

 9 Q Then 406 Partners follows up with the

 10 servicers to find out what's going on with the

 11 payment.

 12 If the payment was actually in someplace

 13 on time it's not really an EPD.

 14 A Right.

 15 What happens then, 406 would notify us

 16 and we would take that loan off of the list --

 17 again, because we didn't want to bother the seller

 18 of the loan as well because, again, things like this

 19 happen, we understood that, so we wanted to do as

 20 much of the work to confirm or not to confirm so we

 21 didn't waste anybody's time and we really had a --

 22 we were just picking the proper loans to go back.

 23 So we did a lot of that type of foot

 24 work.

 25 Q So now let's assume for this discussion

 105

 1 Xanthos

 2 that a loan really is an EPD, the payment didn't get

 3 made at all. We don't have to deal -- it just never

 4 happened.

 5 What happens next?

 6 A We would contact the seller of that loan

 7 and say, okay, this loan failed its EPD clause, we

 8 would like you -- again, depending on the purchase

 9 contract, they could either repay -- well, pay off

 10 the loan to us or substitute a loan, similar like

 11 type of loan.

 12 So those were the -- that was the

 13 process.

 14 Q Did you report to someone about what you

 15 were doing with regard to EPDs?

 16 A Oh, yes.

 17 Q Who?

 18 A That was another report -- I had another

 19 management report which would show that as well.

 20 Q Was it called the other management report

 21 or does it have a name?

 22 A I don't recall but I think we called it

 23 the EPD report.

 24 Q But there was a report that was specific

 25 to EPDs?

 106

 1 Xanthos

 2 A Yes.

 3 Q Who got the EPD report?

 4 A The same people who I sent the other

 5 reports out to.

 6 Q So Mills, Demar --

 7 A People within mortgage finance.

 8 Q And the bankers?

 9 A Yes.

 10 They would be included in the mortgage

 11 finance email list, yes.

 12 Q So the seller says sure, no problem,

 13 here's your money, finished.

 14 The seller says no, what did you do?

 15 A Well, in my experience, early payment

 16 default is pretty clear-cut. It wasn't really that

 17 much of an argument. They made a payment or they

 18 didn't. There was really not that much room to say

 19 I'm not going to do it.

 20 In my experience, almost all of the time,

 21 the originator/seller did buy back the loans.

 22 Whether they were securitized or unsecuritized.

 23 Q Which was going to be my next question.

 24 Hold that thought.

 25 Was there ever an occurrence where an

 107

 1 Xanthos

 2 originator or -- the seller would say to you sorry,

 3 I just don't have the money to buy it back?

 4 A Sure.

 5 Q It did happen?

 6 A Not too often but it did, yes.

 7 Q Who?

 8 A Well, I don't know.

 9 THE WITNESS: Can I --

 10 Q You don't know?

 11 A I do know but I don't know if that's --

 12 MS. BUERGEL: You can provide the

 13 information.

 14 MS. ELMADANY: Thank you.

 15 A Two I remember. One being New Century

 16 and another company being I think it was American

 17 Home.

 18 Both companies went bankrupt.

 19 Q Thank you very much.

 20 So what do you do when the seller says

 21 no?

 22 A Well, we kept pursuing it. We have

 23 claims into the bankruptcy trust to basically try to

 24 get money.

 25 MS. BUERGEL: And be clear where you're

 108

 1 Xanthos

 2 speaking about things you have personal knowledge

 3 about.

 4 A I have personal knowledge about that,

 5 yes. Because I was the one who worked with the

 6 lawyers.

 7 Q Caveat. I'm going to stop you whenever

 8 you mention the word lawyer. Not to be rude. It's

 9 just that those conversations are privileged and we

 10 respect that privilege.

 11 If it's something I ever need to address

 12 with your counsel I will but otherwise I'm going to

 13 stop you fast so don't be offended.

 14 You actually touched on a topic that I

 15 was about to ask about, which was we just discussed

 16 this EPD report, the process, and that's great. Was

 17 it different if the loan had been securitized or not

 18 been securitized?

 19 A No difference whatsoever.

 20 Q If the loan had already been securitized,

 21 were there other parties you had to get involved in

 22 this?

 23 Like did you have to tell the trustee?

 24 A Yes.

 25 Q How did that work?

 109

 1 Xanthos

 2 A The trustee had to basically, per the

 3 deal documents, request that the seller repurchase

 4 the loans, as well as the monies -- money would go

 5 to the trust.

 6 Q So you're doing this recordkeeping about

 7 the EPDs. So now if you -- we'll go way back. If

 8 you identify a potential EPD, it comes up in the raw

 9 numbers from the loan management system, do you give

 10 that information to 406 on the list or do you give

 11 it to someone else?

 12 A Like I described, the list was determined

 13 based upon a computer program that we had set up in

 14 the loan management system.

 15 The list was provided to 406 Partners who

 16 then went out and confirmed or didn't confirm it was

 17 a true EPD.

 18 Once it was confirmed it was a true EPD,

 19 the seller and the trustee I guess would be

 20 notified.

 21 Q So who notified the trustee?

 22 A I think it was 406 on our behalf.

 23 Q If it was a loan that had been

 24 securitized, did you also learn that, you being the

 25 mortgage finance group, from 406 that it was a true

 110

 1 Xanthos

 2 EPD?

 3 A Yes.

 4 Like I said, there was no difference

 5 between securitized -- the process was the process.

 6 It was not any -- there was not any distinction.

 7 Q So when someone had to go back to the

 8 seller and say give me my money, was that your group

 9 that did that?

 10 A Well, again, 406 was dealing with the

 11 servicer or the seller -- let's say the seller on a

 12 pretty in-depth basis, so they pretty much were kind

 13 of leading that.

 14 If anything did arise I would be

 15 contacted. Like I said, most of the time it's

 16 pretty clear-cut. It's not that there's too much of

 17 a disagreement.

 18 Q So 406 didn't come back to you and say,

 19 here's list, these are the true EPDs --

 20 A They did.

 21 Q They did come back to you with that list.

 22 A They did.

 23 Q 406 also went to the seller and said give

 24 me the money?

 25 A Well, again, depending on how the deal

 111

 1 Xanthos

 2 documents -- if it was securitized they would do it

 3 through the trustee but, yes, that's how it went.

 4 Q What I need to understand is how they did

 5 it through the trustee. I'm not understanding that

 6 piece.

 7 A Well, again, the deal documents specify

 8 how that is completed so they just followed the deal

 9 documents per early payment defaults.

 10 Q Does it vary from securitization to

 11 securitization?

 12 A It could.

 13 I'm not sure what's written in one

 14 securitization versus another, but it should be

 15 outlined.

 16 Q Just in terms of people talking to people

 17 or getting emails, if the loan was securitized, 406

 18 told the people on your team if it was a real EPD.

 19 A Yes.

 20 Q This is the part I don't understand. Did

 21 somebody from your team or from mortgage finance

 22 contact the seller or 406 --

 23 A 406, because they were the ones dealing

 24 with -- we identify and then we kind of managed but

 25 since they were dealing with their counterpart at

 112

 1 Xanthos

 2 the seller who pretty much did this on a full-time

 3 basis, so they would confirm, yes, we agree that

 4 these 50 loans are early payment defaults and then

 5 they would basically work toward determining that

 6 the money -- the monies were correct, the accounting

 7 of the 50 loans, and that would be sent directly to

 8 the trust for the benefit of the investors.

 9 Q With respect to the securitized loans, in

 10 order to do this monitoring, this check, you needed

 11 to have loan level payment records for the

 12 securitized loans, correct?

 13 A Yes.

 14 Q Did you have that in all cases?

 15 A I think we did, yes.

 16 (Pause.)

 17 BY MR. MINOR:

 18 Q How long did this process take from the

 19 406 Partners check of things that appeared to be

 20 EPDs and it being their responsibility to check to

 21 determine whether or not it was a valid EPD?

 22 A It really varied on the cooperativeness

 23 of the seller and the servicer.

 24 Again, we tried to do it as quickly as

 25 possible but, again, it depended on people's -- not

 113

 1 Xanthos

 2 so much on our part but the entities we were asking

 3 to repurchase the loans how quickly they could

 4 process it, how many people they assigned to it and

 5 their attention to taking care of it.

 6 Q Was there a generally expected timeline

 7 in which --

 8 A There were. There were timelines that

 9 specified it.

 10 We monitored that as well. We tried to

 11 make sure they adhered to it.

 12 Q What was that standard time frame?

 13 A I don't recall.

 14 But if I'm forced to guess I could do

 15 that but...

 16 MS. ELMADANY: No.

 17 Q Did this process work any differently

 18 where the originator and the servicer was the same

 19 entity?

 20 A Nothing worked differently, but in that

 21 scenario it should be much quicker to determine it,

 22 because, again, you're not having to deal with that

 23 second servicer.

 24 So there it's one and the same. They

 25 have always received the payment from day one and

 114

 1 Xanthos

 2 they continued to do so so there isn't a check if

 3 the servicing has been moved to another party.

 4 MS. ELMADANY: Let's take a five-minute

 5 break.

 6 (A recess was taken.)

 7 (Luncheon recess taken at 12:55 p.m.)

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 115

 1 Xanthos

 2 A F T E R N O O N S E S S I O N

 3 1:15 p.m.

 4 J A M E S X A N T H O S,

 5 having been previously duly sworn, was

 6 examined and testified further as follows:

 7 MS. ELMADANY: We're back on the record

 8 after a recess, during which time there have been no

 9 conversations of substance between the staff,

 10 Mr. Xanthos or his counsel.

 11 Is that correct?

 12 MS. BUERGEL: Yes.

 13 EXAMINATION

 14 BY MS. ELMADANY:

 15 Q When we began your testimony, I indicated

 16 to you that we would mark for the record the letter

 17 which was sent to you by which we scheduled your

 18 testimony today.

 19 MS. ELMADANY: With that I will ask the

 20 reporter to mark it as Enforcement Exhibit Number 8,

 21 a letter dated March 5th, 2009 on the letterhead of

 22 FINRA addressed to you, and the signatory is Marc B.

 23 Minor, Senior Counsel.

 24 (Marked for identification.)

 25 BY MS. ELMADANY:

 116

 1 Xanthos

 2 Q I'll ask you to take a look at that.

 3 (Pause.)

 4 Q Mr. Xanthos, for the record, is it

 5 pursuant to the letter before you that's marked as

 6 Enforcement Exhibit Number 8 that you appeared and

 7 testified today?

 8 A Yes.

 9 Q Thank you.

 10 Mr. Xanthos, in connection with this

 11 investigation which is certainly much broader than

 12 yourself, FINRA has asked and Citigroup has provided

 13 us with email from various sources, and I'm going to

 14 ask the reporter to mark as Exhibit 9 a chain of

 15 emails that were extracted from the email of a

 16 Mr. Paul G. Humphrey, and the chain is three pages

 17 in length, and just for identification purposes it

 18 begins on the last page with an email from a

 19 Mr. Brian Hugo to a Mr. Mark Palko, P-a-l-k-o, and

 20 Peggy Banchek, B-a-n-c-h-e-k, and that's dated

 21 February 26th, 2008, and it ends at the top of the

 22 first page with an email from yourself to a Mr. Paul

 23 Humphrey. It's dated March 7th, 2008.

 24 MS. ELMADANY: I'm going to ask the

 25 reporter to mark this as Enforcement Exhibit

 117

 1 Xanthos

 2 Number 9, and then we'll have a moment to discuss

 3 it.

 4 (Marked for identification.)

 5 MS. BUERGEL: Do you happen to know the

 6 corresponding control number?

 7 No problem. We can perhaps touch base

 8 about those at another time.

 9 (Pause.)

 10 BY MS. ELMADANY:

 11 Q I want you to take your time reviewing

 12 this, because I will note for the record that you

 13 are only a party to the last few, I think it's four

 14 emails in this chain, but you received the whole

 15 chain.

 16 So take your time and look it over.

 17 (Pause.)

 18 A Okay.

 19 Q Who is Paul Humphrey?

 20 A Paul Humphrey was a banker in the

 21 mortgage finance group.

 22 Q When you say a banker, you referred to

 23 those as the persons within mortgage finance who

 24 have the -- who had the relationship with the

 25 entities that Citigroup was either loaning money to

 118

 1 Xanthos

 2 or buying loans from?

 3 A Yes.

 4 Q Who is Brian Hugo?

 5 A Brian Hugo was an analyst in the mortgage

 6 finance group.

 7 Q What was Mr. Hugo's function?

 8 A As best as I can recall him, he's more of

 9 like a junior person who works on various different

 10 issues that come up during the day in regards to the

 11 types of businesses that mortgage finance is doing.

 12 Q Was he ever part of your team of people

 13 that we talked about who did the surveillance part?

 14 A No.

 15 Q Mark Palko, do you know who Mark Palko

 16 is?

 17 A No.

 18 Q Peggy Banchek?

 19 A No.

 20 Q In the middle of the second page, the

 21 name David Ratner, do you know who David Ratner is?

 22 A No.

 23 Q That's all of the names.

 24 The line of emails starts at the back,

 25 and about -- towards the top of the second page

 119

 1 Xanthos

 2 there's a paragraph that reads as follows: I am

 3 trying to tie as much as I can from what you

 4 provided in the Word file to what is in the latest

 5 remittance. On the Word file you indicate the

 6 number of BK loans in each category. However, would

 7 you be able to provide that associated balance as

 8 well. Also, could you do the same for loans in REO

 9 and FCL.

 10 You were not a party to the email and I'm

 11 not saying that you were, but do you know in the

 12 context of that paragraph what the Word file that is

 13 referred to is?

 14 A No.

 15 Q Do you know what the remittance that is

 16 referred to is?

 17 A No.

 18 Q Do you know what BK loans are?

 19 A I know what BK normally stands for.

 20 Q Okay.

 21 A Bankruptcy.

 22 Q REO?

 23 A Real estate owned.

 24 Q FCL?

 25 A Foreclosure.

 120

 1 Xanthos

 2 Q What does real estate owned mean?

 3 A Those are properties that have basically

 4 gone through the foreclosure process from beginning

 5 to end and is owned by -- in this case I guess it

 6 would be owned by the trust, being the property has

 7 reverted back -- the borrower has defaulted on the

 8 mortgage, and basically the mortgage now is in the

 9 name of the trust.

 10 Q Thank you.

 11 When we get to the first page of this,

 12 Mr. Humphrey send you an email and asks you if you

 13 have a minute to discuss, question mark, and as we

 14 go further up the email it's basically I'll be there

 15 in five minutes.

 16 Looking at this document, do you have any

 17 recollection of what was being discussed here?

 18 A Not really, no.

 19 Q Do you have any recollection of having

 20 any discussions with Mr. Humphrey about the subject

 21 of this email?

 22 A No.

 23 Q With Mr. Hugo?

 24 A No.

 25 Q Mr. Palko's name is associated in the

 121

 1 Xanthos

 2 emails with NationalCity.com. What is National

 3 City?

 4 A I'm taking it's a banking institution.

 5 Q Do you have any -- have you had any prior

 6 experience or knowledge of National City?

 7 A Generally I just know what -- Nat City is

 8 a bank.

 9 Q It's a bank.

 10 Was Nat City an entity that Citigroup

 11 provided financing to or bought loans from?

 12 A I don't know if we provided financing to

 13 National City.

 14 I do think we purchased loans from

 15 National City.

 16 Q Looking at the second page, towards the

 17 bottom, there's an email from Brian Hugo to Mark

 18 Palko and Peggy Banchek, and it says David -- says

 19 David was to provide additional delinquency info

 20 ranging from 90-120, 120-150, and 150-180 days. As

 21 we noted, remittances only give a 90 plus bucket.

 22 Thanks.

 23 Do you know what that's referring to,

 24 those 90-120, 120-150 and 150-180 day compartments?

 25 A Your question is do I know --

 122

 1 Xanthos

 2 Q What that means.

 3 A Per this, it just appears that it's

 4 delinquency ranges.

 5 Q Do you recall any of the circumstances

 6 revolving around this email, or any discussions you

 7 had or communications you had regarding any of the

 8 contents?

 9 A Not really, no.

 10 Q Anything at all?

 11 A No.

 12 Q All right.

 13 Did you have any -- your surveillance

 14 group, did you have any involvement in I guess

 15 tracking or identifying loans that went into

 16 bankruptcy or REO or foreclosure?

 17 A That's what we were talking about

 18 before. In terms of the monthly performance

 19 reports, those are categories that are identified in

 20 those reports, by number of loans, as well as by

 21 dollar amounts.

 22 Q These are the monthly performance reports

 23 that are on the websites or the monthly reports that

 24 your team produced?

 25 A No. Those are the monthly reports that

 123

 1 Xanthos

 2 are provided to the trustee, which is then posted on

 3 a website for the investors where the general public

 4 as a whole can go in and view.

 5 Q Then let me rephrase it.

 6 Did the loan management system identify

 7 loans that had -- that fit within one of these

 8 status of bankruptcy, REO or foreclosure?

 9 A It did.

 10 Q It did?

 11 A Yes. Based upon the information that was

 12 provided by the public sources.

 13 Q So if it was in the trustee report, then

 14 it would be in the loan management system?

 15 A It would -- again, if there were loan

 16 level data that was published along with the monthly

 17 performance reports, then as we discussed before,

 18 there would be a person in analytics who would

 19 download that information which I would imagine he

 20 would then update the loan management system with

 21 the updated data.

 22 Q I think there was a lot of guessing going

 23 on.

 24 A Again, because I don't -- I'm telling you

 25 what I think. I don't know a hundred percent what

 124

 1 Xanthos

 2 people did.

 3 Your question was would that information

 4 be in the loan management system. Per my

 5 recollection, information such as loans in

 6 bankruptcy, foreclosure, REO, were in loan

 7 management systems.

 8 Q Okay.

 9 A The particulars on who did what, what

 10 time of the day they did it, I don't recall.

 11 Q Thanks.

 12 So that information was in the loan

 13 management system?

 14 A From what I recall, yes.

 15 Q Now, there was the master data bank --

 16 A Master database.

 17 Q -- master database that you created.

 18 A Yes.

 19 Q Did that database contain information

 20 about loans that were in bankruptcy, REO or

 21 foreclosure?

 22 A Yes.

 23 Q What was the source of that information

 24 in the master database?

 25 A Some sources that we just described in

 125

 1 Xanthos

 2 terms of the loan management system.

 3 It could be information provided to

 4 Bloomberg. Bloomberg has a very extensive mortgage

 5 analytics tool on their -- on the Bloomberg

 6 terminals.

 7 It could be information provided by the

 8 servicer or the trustee to loan performance.

 9 It could be information that was provided

 10 to our credit risk manager.

 11 It's coming from a lot of different

 12 sources. However, the one source that all of this

 13 information is really coming from is coming from the

 14 trustee's websites which have that information.

 15 Q So when the information -- I think I

 16 misunderstood something. I want to be clear.

 17 I thought the information that went into

 18 the master database included information from the

 19 credit risk manager, correct?

 20 A Yes.

 21 Q And that information could potentially be

 22 more detailed than what was on the trustee's

 23 website?

 24 A Yes.

 25 Q Were there instances where the master

 126

 1 Xanthos

 2 database contained information that was more

 3 detailed than what was on the trustee's website?

 4 A There could be.

 5 Again, it depends on -- let's say we had

 6 downloaded information that Clayton or Pentalpha had

 7 obtained, where they had specific servicer comments

 8 or updated credit scores or updated appraisal

 9 scores, that is information that would not be

 10 available on the public website.

 11 (Pause.)

 12 Q This is a long string of emails. We're

 13 going to mark it as Exhibit 10.

 14 The first email starts on the fourth

 15 page, and it's from an individual called Vadim,

 16 V-a-d-i-m, Krisyan, K-r-i-s-y-a-n, to David Ratner

 17 with a cc to Hasan, H-a-s-a-n, Rizvi, R-i-z-v-i, and

 18 the subject line is CMLTI 2006-NCB-1 remittance.

 19 Then this chain of email goes up to the

 20 top one, which is from Brian Hugo to Paul Humphrey

 21 on March 10th, 2008, with the exact same subject

 22 line.

 23 You appear on the first page for the

 24 first time of this string of emails, so once the

 25 reporter marks it as Exhibit 10 I want you to take

 127

 1 Xanthos

 2 your time, review it, and then we'll go over it

 3 together.

 4 (Marked for identification.)

 5 (Pause.)

 6 A Okay.

 7 Q Thank you for taking the time to review

 8 that.

 9 We're referring to the document marked as

 10 Exhibit 10, and I'm going to start as I did before

 11 with who's who.

 12 Do you know who Vadim Krisyan is?

 13 A Yes, I do.

 14 Q Who is that?

 15 A He's an analyst within the analytics

 16 department.

 17 Q Hasan Rizvi?

 18 A He's also within the analytics group.

 19 Q Do you know what his function was?

 20 A I think he oversaw the analysts group in

 21 analytics.

 22 Q David Ratner appears again here. Does

 23 reading this in any way give you any recollection of

 24 who he is?

 25 A No.

 128

 1 Xanthos

 2 But just looking at this, it looks like

 3 he is -- he's at Citibank agency and trust, so I'm

 4 taking it that he's the trustee or the main contact

 5 for the trustee on this particular deal.

 6 MS. BUERGEL: But you're speculating; is

 7 that fair to say?

 8 THE WITNESS: Yes.

 9 I'm just looking at what the subject is

 10 and his -- where he works and what he does.

 11 Q Do you know what Citibank agency and

 12 trust is?

 13 A No more than what I just see on this

 14 piece of paper here.

 15 Q I think we did all of the other names

 16 already.

 17 Your first appearance in this string of

 18 emails is at the top of the second page, and it's

 19 from Mr. Krisyan to yourself and the rest of your

 20 team, Mr. Engel and Mr. Ng, and the same subject

 21 line we discussed before, and it says please see

 22 below. The trustee will be revising these prior

 23 months based on the discrepancies we found. We

 24 forward them additional issues we come across as we

 25 go through the loan level data.

 129

 1 Xanthos

 2 Do you have any recollection of these

 3 emails or the subject matter of these emails?

 4 A Just vague recollections. Nothing

 5 specific.

 6 Q I'll take it. What's your vague

 7 recollection?

 8 A Basically just reading through this,

 9 again, it's just a vague recollection of just Vadim

 10 and certain other people in analytics I remember

 11 them working with either Peter or Joe on these -- I

 12 guess the way the servicer or the trustee was

 13 presenting some of the data in the monthly

 14 performance reports.

 15 But I don't recall anything more specific

 16 than just kind of what I've read here.

 17 Q And that's already a lot more than I

 18 knew, so that's good.

 19 So what's being discussed, then, is the

 20 way the trustee is presenting data in the

 21 performance -- in the monthly performance reports we

 22 talked about before?

 23 A Yes.

 24 It seems like there's -- in terms of the

 25 buckets, just -- that's what I was looking at when

 130

 1 Xanthos

 2 you first gave me this piece of paper, in terms of

 3 slight differences in the number of loans in certain

 4 classifications.

 5 Q When you say the bucket, what do you mean

 6 by that?

 7 A Again, as it's pointed out on I guess

 8 page 5 here, bankruptcy 90 plus and foreclosure 90

 9 plus.

 10 Q I'm completely lost.

 11 A If you go to page 5, toward the --

 12 three-fourths of the way down the email message --

 13 it's right here.

 14 Q Issues with the December 2007 remittance,

 15 so we're reading there?

 16 A Yes.

 17 Q When you say a bucket, you mean a

 18 category of loans?

 19 A Right.

 20 Bankruptcy is a category of loans.

 21 Foreclosure is a category of loans.

 22 Then again, within each category there

 23 are subsets. Because you can be a foreclosed loan

 24 and be included in the foreclosure, but, again, you

 25 have a different timeline. You could be a 30-day

 131

 1 Xanthos

 2 loan -- 30 day delinquent loan in foreclosure, a

 3 60 -- on a granular level, you further distinguish

 4 that loan within each bucket.

 5 Q For example, if we look at that piece of

 6 the email at the bottom of the page that's numbered

 7 page 5 of 8, and it starts with issues with the

 8 December 2007 remittance, it says I am showing three

 9 and three loans in the (BK/90 plus) and (FC/90 plus)

 10 buckets respectively, but the remittance is showing

 11 four and two loans for these buckets. I think we

 12 already discussed about that issue. Loan number

 13 19110 should be updated.

 14 Have I read that properly?

 15 A Appears so, yes.

 16 Q Now we're talking about what a bucket is

 17 and then substrata within that bucket, so when it

 18 says in brackets BK/90 plus, what does that mean?

 19 A Well, my thought process of what it means

 20 is it's a bankrupt loan that is also 90 days or more

 21 delinquent.

 22 Q That means that the borrower is bankrupt.

 23 A The bankrupt has declared bankruptcy.

 24 Q And hasn't paid for 90 or more days?

 25 A Yes.

 132

 1 Xanthos

 2 Q The next bracket is FC/90 plus, and

 3 that's foreclosed?

 4 A Yes.

 5 Q And then I don't get the rest.

 6 A It's a foreclosed loan and also the same

 7 as before, this borrower is 90 plus or more days

 8 delinquent.

 9 Q What causes a loan to go into

 10 foreclosure?

 11 A There's a lot of reasons. The main

 12 one -- again, there's always different scenarios, no

 13 one situation is the same.

 14 However, as we were talking about before,

 15 again, it depends on the servicer's policy and a lot

 16 of this has changed over time, but normally a

 17 servicer will put a borrower in default let's say on

 18 the 91st day of delinquency. So they initiate the

 19 foreclosure process on the 91st day.

 20 Some servicers may do it on the 121st

 21 day.

 22 MS. BUERGEL: When you say default, is

 23 that the first stage of a foreclosure process?

 24 MS. ELMADANY: That was my next

 25 question.

 133

 1 Xanthos

 2 THE WITNESS: Say it one more time.

 3 MS. BUERGEL: You said on the 91st day,

 4 whatever the servicer's policies or practices were,

 5 if it's 91 days delinquent it would be put in

 6 default. That is the first step in the foreclosure

 7 process?

 8 THE WITNESS: Basically there's a legal

 9 declaration or letter that basically goes out to the

 10 borrower and also gets filed in the locality where

 11 the home is. That's the initial stage.

 12 There's different -- there's a timeline

 13 within foreclosure that is one of the ways that

 14 people analyze the effectiveness of a servicer.

 15 So they are doing the right -- if they

 16 are taking the right steps in the right timeline,

 17 that's one of the ways the rating agencies, that's

 18 one of the things they are taking into consideration

 19 about how good a servicer is.

 20 That's basically one of the benchmarks

 21 they use from one servicer to the next.

 22 Q We're going to veer off here a little

 23 while. I didn't know rating agencies rate

 24 servicers.

 25 A They do.

 134

 1 Xanthos

 2 Q You mean like Standard & Poor's and

 3 Moody's rate servicers?

 4 A Yes. There are servicer ratings.

 5 Q Does the servicer's rating somehow impact

 6 the rating of a securitization?

 7 A It could, yes.

 8 Q How?

 9 A Well, again, if a servicer is well

 10 thought of and they can demonstrate that they are

 11 successful in rectifying problem loans, dealing with

 12 borrowers who are kind of experiencing economic

 13 turmoil, or they can show they are diligent in

 14 meeting the timelines, it's -- again, time is --

 15 time and dealing with borrowers who can't make their

 16 payments are the keys to really how a loan

 17 performance and ultimately I guess if a property has

 18 to be taken into REO, it's also a function of loss

 19 severity that would be experienced for the trust or

 20 holder of that loan.

 21 Q So if a property is taken into REO -- I'm

 22 adopting your terminology, it's not that I was

 23 trying to show off -- if a property is taken into

 24 REO and the trust owns it, is it the servicer that's

 25 responsible for disposing of it somehow?

 135

 1 Xanthos

 2 A They will work with a broker, put the

 3 property back on the market through a broker, and

 4 they will market it and try to sell it.

 5 Q The information in Mr. Krisyan's email to

 6 Mr. Ratner, the first one, back on February 27th,

 7 indicates that he's looking at a universe of data

 8 and somehow it's different from whatever this

 9 remittance is showing.

 10 Do you know what universe of data

 11 Mr. Krisyan had access to that would be different

 12 from what's showing on the trustee's monthly report?

 13 A I don't know.

 14 Q Was Mr. Krisyan one of the people who had

 15 access to the master database?

 16 A No.

 17 Q If you know, was Mr. Krisyan one of the

 18 people that had access to the loan management

 19 system?

 20 A I'm pretty certain he had access to the

 21 loan management system.

 22 Q Generally, Mr. Krisyan seems to be saying

 23 that there are these differences. Other than this

 24 instance, were you ever aware of an instance or a

 25 situation where information that Citigroup had was

 136

 1 Xanthos

 2 different than information that was in the monthly

 3 performance or remittance reports?

 4 A Not that I'm aware of, no.

 5 Q Is the information that's in here about

 6 these differences, does it strike you as

 7 extraordinary?

 8 A Not really.

 9 I mean, again, looking at this, the

 10 amount of loans, there were six loans in total. It

 11 seems like one of the loans were -- one or give or

 12 take were -- there seems to be just a disagreement

 13 as to where it should be slotted, but in my

 14 experience in the normal course of this that's not

 15 unheard of.

 16 Again, it's -- it happens. It doesn't

 17 happen all the time but it happens.

 18 Again, it's human error sometimes between

 19 what is provided by the servicer to the trustee and

 20 how basically the trustee will show the information

 21 on a month in, month out basis.

 22 A lot of times a trustee will reissue a

 23 remittance report, so -- from what they previously

 24 issued.

 25 Q That's not an uncommon event?

 137

 1 Xanthos

 2 A With the loans we're talking about, the

 3 granularity, it doesn't happen often but when it

 4 happens it's not unheard of when it happens.

 5 Q Something you just said. The servicer

 6 doesn't put the loans in the bucket?

 7 A The servicer provides the information,

 8 right, on a loan by loan and probably on an

 9 aggregate basis to the trustee.

 10 The trustee -- the deal documents

 11 prescribe how they should show it, what they should

 12 show, so, you know, normally -- again, I never

 13 worked for a trustee and I don't really know how

 14 they go about it, but normally it's just a flow

 15 through.

 16 Sometimes they will -- again, it's human

 17 error that could occur where they may slot it or

 18 just -- when they transcribed the numbers, they may

 19 make a mistake.

 20 Q Your answer just implied so much more

 21 than my question. It's actually a pretty simple

 22 one.

 23 When the servicer passes the information

 24 to the trustee, is it -- do they put these loans in

 25 the buckets or is that what the trustee does?

 138

 1 Xanthos

 2 A From what I'm aware of and what I'm --

 3 how I'm answering the question, the servicer

 4 provides to the trustee the loans in the buckets.

 5 Q In the buckets?

 6 A I'm thinking they do that.

 7 If they don't, I'm pro -- I don't know if

 8 they give it to them the exact same way you see it

 9 in the mortgage performance report. They may, or

 10 they will provide them with all of the loans in a

 11 spreadsheet and then the trustee will, using a pivot

 12 table, 30-60, 60-90, foreclosure.

 13 How they do it, again, like I said, I

 14 didn't work for a trustee so I don't know. But I

 15 would think it would be either of the two I just

 16 described to you.

 17 Q What's a pivot table?

 18 MS. BUERGEL: It's an Excel function.

 19 MS. ELMADANY: Thank you.

 20 A Just makes it easy to characterize things

 21 when you have a huge spreadsheet. That's all.

 22 MS. BUERGEL: It's a term of art within

 23 Excel. It's a way to pivot the data in order to

 24 stratify it.

 25 MS. ELMADANY: Which I'm familiar with.

 139

 1 Xanthos

 2 I thought it was -- never mind.

 3 (Pause.)

 4 Q Do you recall -- just moving up the chain

 5 of emails, do you recall having any discussions or

 6 communications with anyone listed within these

 7 emails or anyone else at Citigroup regarding these

 8 issues?

 9 A I remember I think Peter Engel was

 10 assigned to this deal. I think we discussed -- I

 11 think I asked him to discuss what was done here with

 12 I think the people in analytics, since he was the

 13 main analyst for that -- for this deal, so other

 14 than that I don't recall anything more in-depth or

 15 anything specific more than what I just said.

 16 Q Something you just said and I think you

 17 actually mentioned it earlier.

 18 Each of Mr. Engel and Mr. Ng had

 19 securitizations or deals assigned to them; is that

 20 correct?

 21 A Yes.

 22 Q Were there records kept of which deals

 23 were assigned to whom?

 24 A Yes.

 25 Q On the second page of the exhibit, at the

 140

 1 Xanthos

 2 bottom, Mr. Krisyan asks Mr. Ratner will you be

 3 posting the revised remittances on the website.

 4 Do you understand that to mean the

 5 monthly performance reports we were talking about?

 6 A I believe so, yes.

 7 Q If you know, when a monthly performance

 8 report was changed or replaced in some way, did the

 9 website indicate that there was a change or a

 10 replacement in a monthly performance report that had

 11 been posted before?

 12 A In my experience, no. A lot of times we

 13 would basically re-download the remittance reports,

 14 as we were saying, monthly performance reports, but

 15 I don't recall anything like a flashing indication

 16 on the website where it would say that.

 17 Q I'd settle for any indication.

 18 A People would see it -- if you were

 19 invested in that security and you were diligent in

 20 looking at the monthly performance report/remittance

 21 reports, and you were keeping track of it like we

 22 talked about before, you would see it. You would

 23 see the changes.

 24 Q How?

 25 A By the number -- by the number of loans.

 141

 1 Xanthos

 2 Maybe a loan -- okay. Good example. Maybe there

 3 were ten loans in bankruptcy one month, and then the

 4 following month there were two. It could be a lot

 5 of those people were successful in their bankruptcy

 6 plans, so maybe the servicer then moved out of the

 7 bankruptcy bucket and went back into the term

 8 bucket. But normally eight borrowers to go out of

 9 foreclosure in a month is not the norm. Then that

 10 would -- I don't know. I don't recall ever seeing

 11 like that many notes. You would think -- sometimes

 12 there would be but not -- I don't know. In my

 13 experience of looking at these things, I don't

 14 recall if I would always see notes but the way we

 15 would go about it and we would see the numbers and

 16 because we were tracking the numbers we would be

 17 able to figure it out or ask questions.

 18 Q Here's what I think I understand from

 19 that, that sometimes when one of these monthly

 20 performance reports was replaced or changed there

 21 might be a note or an indication on the website?

 22 A Could be.

 23 Q Do you recall ever seeing any of those?

 24 A Me personally? I don't. From what I

 25 recall at this moment.

 142

 1 Xanthos

 2 Q That's fine.

 3 Even if there wasn't, the way -- there

 4 was a way that somebody might know there had been a

 5 change?

 6 A You could. Again, it depends on how

 7 diligent you are and how closely you look at the

 8 numbers.

 9 (Pause.)

 10 BY MR. MINOR:

 11 Q Was there any difference in the way that

 12 delinquency was calculated by the servicer versus by

 13 securitized loans in a trust?

 14 For example, on the previous email in

 15 Exhibit 10, the email suggests that a particular

 16 loan may be 90 days plus. Is that 90 calendar days

 17 if you know, or is that 90 days passed the beginning

 18 of a month?

 19 A It depends on the servicing methodology.

 20 There are two servicing methodologies.

 21 There is an OTS method and the MBA method.

 22 Q What do those refer to?

 23 A Just exactly what you said. It could be

 24 the day after the due payment or it could be a month

 25 after the due payment.

 143

 1 Xanthos

 2 But that's spelled out in the deal

 3 documents. So, again, you could read that and then

 4 kind of know for a certainty how they were going

 5 about doing it.

 6 Q Okay.

 7 (Pause.)

 8 Q Is there any way to tell by looking at

 9 Exhibit 10 what methodology that discourse is

 10 referring to?

 11 A Based on what I'm seeing here, I wouldn't

 12 be able to tell. I don't think it goes into that

 13 amount of detail.

 14 (Pause.)

 15 BY MS. ELMADANY:

 16 Q Aside from the trustee website and

 17 those --

 18 MS. ELMADANY: Strike that.

 19 Q Was there any means by which Citigroup

 20 published or made publicly available information on

 21 the performance of its securitizations?

 22 A Historical, meaning --

 23 Q Yes.

 24 A Yes, there was.

 25 Q How?

 144

 1 Xanthos

 2 A They would post it on a public website.

 3 Q So Citigroup actually posted them on a

 4 website?

 5 A Yes.

 6 Q What was it?

 7 A I don't know the specific but I'm sure

 8 someone can provide you with that website.

 9 Q So Citigroup posted performance

 10 information for its securitizations on some website,

 11 and do you know what the source of that data was?

 12 A The source of that data was really the

 13 monthly performance reports. Again, the same

 14 information that's available to the public.

 15 Q In an instance such as the one we see

 16 discussed in Exhibit 10 where there's some

 17 difference between the data that Citigroup has and

 18 the data as it's reflected in the trustee -- the

 19 monthly performance report from the trustee, which

 20 data did Citigroup post on this website? Was it --

 21 A Well, again, the trustee is responsible

 22 for posting the data and making sure that it's

 23 correct.

 24 So when I look at these emails you

 25 provided to me, this shows me we as a group going

 145

 1 Xanthos

 2 above and beyond, and it's a good thing we're

 3 looking at it, where we see a discrepancy based upon

 4 information that we have or maybe -- probably most

 5 likely public information that was out there, where

 6 we're just asking the trustee to answer a question,

 7 and it appear that the trustee went back and looked

 8 at it, maybe they did it by themselves or maybe they

 9 did it with the servicer, and realized they just had

 10 to reissue the remittance report.

 11 Q So I understand that there's a website

 12 where the trustee publishes the monthly performance

 13 report, and then there's a separate place where

 14 Citigroup posted performance --

 15 A It's historical performance.

 16 Q What do you mean by historical

 17 performance?

 18 A That's what you asked. If there was

 19 historical performance.

 20 I forget the name of the regulation, but

 21 every issuer is required to issue historical

 22 information on their securitization platform.

 23 That's what I was referring to before.

 24 Q Is the information that is on the

 25 securitization platform with respect to the same

 146

 1 Xanthos

 2 deals that information is being posted on trustee

 3 websites?

 4 A Say your question one more time.

 5 Q There are two websites. One is the

 6 trustee's website, and one is the Citigroup

 7 securitization platform.

 8 A Right.

 9 Q Two separate things?

 10 A They are separate, but in reality they

 11 are one and the same.

 12 Because, again, we're using the

 13 information that's provided to us as well as

 14 everyone in the public that is publicly issued.

 15 If a remittance has been updated, then

 16 everyone involved, every investor, would update

 17 their numbers. So there's really no way there could

 18 be a difference.

 19 Hence, what I was saying to you before,

 20 when you have all of this data coming in from all

 21 these different sources they are all coming in

 22 reality from one place and that's the trustee.

 23 In reality, if there is a difference

 24 computer-wise, technology-wise, theoretically you

 25 can find it.

 147

 1 Xanthos

 2 Q Like Exhibit 10 did.

 3 A This is by looking at just further

 4 designating or just further analyzing a pool of

 5 loans -- a couple of loans that were -- there was

 6 only one or two loans that were basically maybe -- I

 7 guess the question was, is this the proper bucket to

 8 slot it into, and based upon what I guess Vadim had

 9 seen, based upon the information that was out there,

 10 he asked the question.

 11 Q When we look at Exhibit 10, it's not --

 12 the only remittance report referred to isn't the

 13 December 1 at the bottom of the fourth page, there

 14 are additional ones referred to. And they each have

 15 different numbers --

 16 A It's consistency, right? If they are

 17 basically slotting it not in the right manner, they

 18 are going to be consistent from month to month.

 19 Evidently -- again, there's different

 20 people doing these things. I don't know if there's

 21 a dedicated group at the trustee who basically takes

 22 the information, sometimes there are new people who

 23 maybe don't know how the prior person was doing it,

 24 or they did it a little different. So that's

 25 something that's pretty normal.

 148

 1 Xanthos

 2 It normally doesn't happen but an example

 3 like this is not unheard of.

 4 Q Let's put aside for a second how it winds

 5 up in the wrong bucket or sub-bucket. That's not my

 6 question.

 7 The information -- the information that

 8 Exhibit 10 indicates to me is that Mr. Krisyan is

 9 looking at something and is drawing a different

 10 conclusion or is looking at different data than the

 11 trustee is looking at.

 12 When Citigroup posts its information on

 13 its website, is it posting based on what Mr. Krisyan

 14 is -- Mr. Krisyan's data, or the trustee's data?

 15 A One, I don't know what Mr. Krisyan had in

 16 terms of loan level information. My guess would be

 17 he had the same information that was publicly

 18 available for any investor.

 19 When he pivot tabled the loans, he saw a

 20 discrepancy which he pointed out to the trustee.

 21 The trustee then updated that month's as

 22 well as prior months' remittance reports which then

 23 would have been updated on Citi's historical. So it

 24 was one and the same as I said before.

 25 There wasn't a difference between what

 149

 1 Xanthos

 2 was posted on the trustee's website versus what was

 3 posted in Citi's historical loan -- deal level.

 4 It's one and the same.

 5 MR. BUERGEL: You're speaking from your

 6 understanding of what happened, you don't really

 7 know what literally happened with respect to --

 8 THE WITNESS: No.

 9 I'm just giving you a general

 10 understanding of basically how this works.

 11 Q When you say -- just so I understand what

 12 you mean by historical. When you talk about

 13 historical with respect to Citigroup's website, what

 14 do you mean?

 15 A I forget the name of the regulation.

 16 However, every issuer had to provide historical

 17 information so depending on when the -- the year.

 18 For some reason -- I don't want to

 19 guess -- it could have started from 2005 onward

 20 where they have to post -- every issuer again would

 21 have to post the performance of the securitizations

 22 on a publicly available website.

 23 That's all I'm saying.

 24 Q When you say historical, you don't mean a

 25 securitization is completely closed out, you mean

 150

 1 Xanthos

 2 the prior months of a securitization that there are

 3 securities outstanding?

 4 A Well, let me give an example.

 5 For every deal that was done in 2005

 6 onward, there would be historical information on

 7 2005 deals, 2006, 2007.

 8 Q Let's just pick a deal. So seal 2005 A,

 9 the very first deal of the year, if I look at the --

 10 if I look at the website the months after the deal

 11 is done, what will I see?

 12 A You will see most likely that month --

 13 we're in February, you would see January's

 14 performance information on that loan, just like you

 15 would if you went to the trustee's website.

 16 Q Is it the trustee's monthly performance

 17 report that gets taken up and put whole into --

 18 A For the most part, yes.

 19 Q I was going to say put into Citigroup's

 20 website.

 21 A Again, the information that is provided

 22 by the trustee is what everyone from rating agencies

 23 to investors to whoever, that is -- that's the

 24 official scorecard of the securitization.

 25 So there are no differences between any

 151

 1 Xanthos

 2 of those -- there's one source, so from that one

 3 source as I was saying to you before, from that one

 4 source all of these different vendors, loan level

 5 vendors, obtain that information from one source and

 6 that's from the trustee.

 7 Q So the -- just to go back, the trustee's

 8 monthly performance report was taken as it existed

 9 at the moment and put into Citigroup's website?

 10 A That is information that we -- that was

 11 accumulated and then posted after it was audited --

 12 again, we had auditors who investigated this and

 13 confirmed the numbers are right, and how do they do

 14 that? They went back to the trustee website, just

 15 like I explained.

 16 Q So there's -- is there a time -- some

 17 time lance between when the information goes on the

 18 trustee's website and on the Citigroup website?

 19 A I don't recall the time length.

 20 Q You said that Citigroup accumulated the

 21 data. What data are you talking about?

 22 A The trustee data.

 23 Q Then you said it was audited. Who

 24 audited the trustee data?

 25 A Whoever our auditor was at the time.

 152

 1 Xanthos

 2 Q Citigroup's auditor?

 3 A It could be Citigroup's auditor or it

 4 could be an external auditor.

 5 From what I recall, it was always an

 6 external auditor.

 7 Q The auditor worked for whom?

 8 A The outside auditing firm.

 9 Q Who engaged the outside --

 10 A I don't recall the auditor's name.

 11 Q I didn't ask the name.

 12 A The firm. I don't know.

 13 Q That wasn't the question either.

 14 Someone engages an auditor.

 15 A Yes.

 16 Q Who engaged the auditor, regardless of

 17 who it was?

 18 A I don't know. Probably the

 19 securitization team.

 20 Q Someone within Citigroup?

 21 A Yes.

 22 Q So the auditor is engaged by Citigroup.

 23 What is it that the auditor is engaged to do?

 24 A The specifics I don't know. I don't know

 25 what the audit engagement letter provided.

 153

 1 Xanthos

 2 I do recall that they would do an audit

 3 of the historical information.

 4 Q By historical information, you mean the

 5 information in the trustee's monthly report?

 6 A The information that we posted based upon

 7 the -- that was historical information on the

 8 securitizations.

 9 Q I really just need to understand if there

 10 is a difference between what appeared on the

 11 Citigroup website and on the trustee's website.

 12 A I'm answering you. I don't think there

 13 really -- there really is no difference.

 14 Q The auditor is auditing -- what's the

 15 data source he uses for his audit?

 16 A I don't know.

 17 Q Did you ever interact with the auditors

 18 for any of these --

 19 A No.

 20 Q -- these website issues?

 21 MS. BUERGEL: Let her finish the question

 22 and then you can provide your answer.

 23 A No.

 24 Q Can you identify anyone who -- can you

 25 identify anyone the auditors did interact with in

 154

 1 Xanthos

 2 performing this duty?

 3 A No.

 4 Q You don't know any of the auditors that

 5 were used?

 6 A No.

 7 Q How did you know there was an auditor

 8 involved?

 9 A Well, again, I know that the -- the

 10 historical data, it would get posted on I think a

 11 quarterly basis, and this was all part of the

 12 securitization function.

 13 I think I recall that as part of that

 14 securitization process, the auditor would look at

 15 the historical data as well, or update it since the

 16 last time they did it.

 17 That's why I said what I did.

 18 Q So the auditor performed this function on

 19 a quarterly basis?

 20 A I don't know when the auditor did it.

 21 Again, I said to you I don't know the

 22 specifics of it. All I do know is that the numbers

 23 were audited.

 24 Q And we're referring to the numbers on the

 25 Citigroup website, not the trustee website?

 155

 1 Xanthos

 2 A Yes.

 3 BY MR. MINOR:

 4 Q You said you believe the historical data

 5 on the Citigroup website was posted on a quarterly

 6 basis?

 7 A I believe so.

 8 BY MS. ELMADANY:

 9 Q Are you aware of any instance with regard

 10 to a securitization where the information on the

 11 trustee's website and the Citigroup website was

 12 different?

 13 A No.

 14 Q Did anyone ever make you aware of any

 15 audit findings with respect to any of the

 16 securitizations?

 17 A No.

 18 Q Did you ever receive any reports of any

 19 of the audits or any of their findings?

 20 A No.

 21 Q Do you know who did receive the audit

 22 findings or those reports?

 23 A No.

 24 (Pause.)

 25 BY MR. MINOR:

 156

 1 Xanthos

 2 Q I believe when we were first talking

 3 about Exhibit 9, going into Exhibit 10, my

 4 recollection is that you said that sometimes

 5 Citigroup may have updated information from Clayton

 6 or Pentalpha that may be greater or more recent than

 7 the trustee information.

 8 Is that --

 9 A No.

 10 What I said was that if Pentalpha or

 11 Clayton had access to the servicer, more of the

 12 servicer data fields or servicer comments or updated

 13 FICO scores or credit scores, appraisals, that's

 14 what I was referring to.

 15 Q How is that different than having greater

 16 or more recent information than the trustee's

 17 information?

 18 A Well, again, the trustee information is

 19 what we just talked about. It's by delinquency,

 20 loans in REO, loans in foreclosure, loans in

 21 bankruptcy.

 22 I don't know if the trustee was also

 23 receiving from the servicer, they could, I don't

 24 know, additional data item -- data fields from the

 25 servicer as I just described.

 157

 1 Xanthos

 2 (Pause.)

 3 BY MS. ELMADANY:

 4 Q With that, Mr. Xanthos, the staff has no

 5 further questions for you at this time.

 6 As with every investigation, you remain

 7 further -- subject to re-call for further

 8 testimony.

 9 I would anticipate that as our review

 10 expands that is very possible in this area.

 11 You have been very helpful today and we

 12 appreciate that.

 13 With that I would like to offer you or

 14 your counsel the opportunity to ask questions or to

 15 make a statement at this time if you wish.

 16 MS. BUERGEL: We don't have anything at

 17 this time.

 18 MS. ELMADANY: With that we will go off

 19 the record.

 20 It is approximately 2:25 p.m.

 21 Thank you very much.

 22 THE WITNESS: Thank you.

 23 (Time noted: 2:25 p.m.)

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 158

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 2 I N D E X

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 4 WITNESS EXAMINED BY PAGE

 5 James Xanthos Ms. Elmadany 2

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 E X H I B I T S

 8

 ENFORCEMENT PAGE

 9 FOR IDENTIFICATION

 10 8 Letter dated 3/5/09 115

 11 9 emails 117

 12 10 emails 127

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 159

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 2 C E R T I F I C A T E

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 4 STATE OF NEW YORK )

 : ss.:

 5 COUNTY OF NEW YORK )

 6

 7 I, ALAN PUDDING, a Certified Shorthand

 8 Reporter, a Registered Professional Reporter and

 9 Notary Public of the State of New York, do hereby

 10 certify:

 11 That the within is a true and accurate

 12 transcript of the proceedings taken before the

 13 FINANCIAL INDUSTRY REGULATORY AUTHORITY on the

 14 24th day of March 2009.

 15 I further certify that I am not related

 16 to any of the parties to this action by blood or

 17 marriage and that I am in no way interested in the

 18 outcome of this matter.

 19 IN WITNESS WHEREOF, I have hereunto set

 20 my hand this 10th day of April 2009.

 21

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 24

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 25 ALAN PUDDING, CSR, RPR