FEDERAL RESERVE press release

For immediate release July 2, 2001

The Federal Reserve Board today announced its approval of the application by Citigroup Inc. and Citicorp, both of New York, New York, and Citigroup Holdings Company, Wilmington, Delaware, to acquire European American Bank, Uniondale, New York.

Attached is the Board's Order relating to this action.

Attachment

FEDERAL RESERVE SYSTEM

Citigroup Inc.
New York, New York

Citigroup Holdings Company
Wilmington, Delaware

Citicorp
New York, New York

Order Approving Acquisition of a Bank

Citigroup Inc., Citigroup Holdings Company, and Citicorp, financial holding companies within the meaning of the Bank Holding Company Act ("BHC Act") (together, "Citigroup"), have applied under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire indirectly all the voting shares of European American Bank, Uniondale, New York ("EAB"). EAB is a wholly owned subsidiary of ABN AMRO, Amsterdam, The Netherlands.

The proposed transaction is primarily a merger of EAB with and into Citibank, N.A., New York, New York ("Citibank NA"), a wholly owned subsidiary of Citigroup, with Citibank NA as the surviving entity.[1] As a merger of banks, the transaction is subject to review by the Office of the Comptroller of the Currency ("OCC") under the Bank Merger Act (12 U.S.C. § 1828(c)). The OCC has completed its review under that Act and has today approved the merger based on its review of essentially the same standards as the Board is required to review under the BHC Act.

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[1] Under the proposal, Citibank NA would acquire 100 percent of the voting shares of EAB for a moment in time and, immediately after acquiring the shares, merge EAB with and into Citibank NA.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 13,927 (2001)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Citigroup, with total consolidated assets of $902.2 billion, is the largest commercial banking organization in the United States, controlling approximately 3.9 percent of the total assets of insured commercial banks in the United States ("total banking assets"), and is one of the largest commercial banking organizations in the world.[2] Citigroup operates the second largest depository organization in New York, with $53.6 billion in deposits, representing approximately 12.2 percent of total deposits in insured depository institutions in the state ("state deposits").[3] Citigroup also operates depository institutions in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Nevada, New Jersey, South Dakota, Texas, Utah, Virginia, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

EAB operates only in New York and is the 11th largest depository institution in the state, with $10.9 billion in deposits, representing approximately 2.5 percent of state deposits. After consummation of the proposal, Citigroup would remain the second largest depository organization in New York, with $64.5 billion in deposits, representing approximately

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[2] Asset and U.S. ranking data are as of December 31, 2000.

[3] In this context, depository institutions include commercial banks, savings banks, and savings associations. Deposit and state ranking data are as of June 30, 2000.

14.6 percent of state deposits. Citigroup also would remain the largest commercial banking organization in the United States.[4]

Factors Governing Board Review of Bank Acquisition

The BHC Act sets forth the factors that the Board must consider when reviewing the formation of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the convenience and needs of the community to be served, including the records of performance of the insured depository institutions involved in the transaction under the Community Reinvestment Act ("CRA");[5] the financial and managerial resources and future prospects of the companies and banks involved in the proposal; and the availability of information needed to determine and enforce compliance with the BHC Act and other applicable federal banking laws.[6]

The Board has considered these factors in light of a record that includes information provided by Citigroup, confidential supervisory and examination information, publicly reported financial and other information, and public comments submitted on the proposal.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or be in furtherance of a monopoly. The BHC Act also prohibits the Board from approving a proposal that would

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[4] In connection with the proposed bank merger, EAB's branch in The Bahamas will be merged into Citibank NA's existing branch in The Bahamas.

[5] 12 U.S.C. § 2901 et seq.

[6] See 12 U.S.C. § 1842(c). The BHC Act requires review of additional factors in cases involving the acquisition of a bank by a foreign bank.

substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.[7]

Citigroup and EAB compete directly in the Metropolitan New York/New Jersey banking market ("New York banking market").[8] The Board has reviewed carefully the competitive effects of the proposal in the New York banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions in the market ("market deposits") controlled by Citigroup and EAB,[9] the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index

[7] See 12 U.S.C. § 1842(c).

[8] The New York banking market is defined as New York City; Nassau, Orange, Putnam, Rockland, Suffolk, Sullivan, and Westchester Counties in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, Warren, and a portion of Mercer Counties in New Jersey; Pike County in Pennsylvania; and portions of Fairfield and Litchfield Counties in Connecticut.

[9] Market share data are as of June 30, 2000, adjusted to reflect mergers since that date, and are based on calculations that include the deposits of thrift institutions (savings banks and savings associations) weighted at 50 percent. The Board has indicated previously that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),[10] and other characteristics of the market.

Citigroup operates the second largest depository organization in the New York banking market, controlling market deposits of $51.4 billion, representing approximately 11 percent of market deposits. EAB is the eighth largest depository organization in the market, with deposits of $10.9 billion, representing approximately 2.3 percent of market deposits. On consummation of the proposal, Citigroup would continue to operate the second largest depository organization in the market, controlling deposits of $62.3 billion, representing approximately 13.4 percent of market deposits. The HHI for the market would increase 52 points to 931. The New York banking market would remain unconcentrated after consummation of the proposal, with numerous competitors in the market.

The Department of Justice has reviewed the proposal and advised the Board that consummation of the proposal would not likely have any significantly adverse competitive effects in the New York banking market or any other relevant banking market. The OCC has reviewed the competitive factors as part of its analysis under the Bank Merger Act and has approved the transaction. The Federal Deposit Insurance Corporation ("FDIC") has been provided an opportunity to comment and has not objected to the proposal.

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[10] Under the DOJ Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market is considered unconcentrated if the post-merger HHI is below 1000. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

After carefully reviewing all the facts of record, and for the reasons discussed in this order, the Board concludes that consummation of the proposal would not likely result in a significantly adverse effect on competition or on the concentration of banking resources in the New York banking market or in any other relevant banking market.

Convenience and Needs Factor

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effect of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the CRA. The purpose of the CRA is to require the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of local communities in which they operate, consistent with safe and sound operation. Accordingly, the CRA requires the appropriate federal supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low-and moderate-income ("LMI") neighborhoods, in evaluating bank expansion proposals. The Board has carefully considered the convenience and needs and the CRA performance records of Citigroup's subsidiary depository institutions and EAB in light of all the facts of record, including comments received on the effect the proposal would have on the communities to be served by the combined bank.

A. Summary of Public Comments

Eleven commenters responded to the Board's request for public comment on this proposal. These commenters opposed the proposal, requested that the Board approve the proposal subject to conditions suggested by the commenter, or expressed concerns about the record of Citigroup in meeting the convenience and needs of the communities it serves.[11] The commenters generally criticized Citigroup's record of home mortgage lending to LMI and minority residents and in LMI communities and communities with predominantly minority populations ("minority communities"). Some commenters asserted that Citigroup had low levels of home purchase mortgage lending to LMI or minority residents or in LMI or minority communities. Several commenters alleged or expressed concern that data submitted under the Home Mortgage Disclosure Act ("HMDA")[12] demonstrated that Citigroup engaged in disparate treatment of LMI or minority individuals in several areas in the United States, including New York, New York, and Los Angeles,

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[11] Several commenters requested that Citigroup provide certain commitments and answer certain questions, or that the Board impose specific conditions or take specific actions, particularly with respect to the subprime lending activities of Citigroup's affiliates. A commenter also criticized the CRA-related pledge that Travelers Group Inc. ("Travelers") and Citicorp made in connection with their merger in 1998 as being vague and ineffective. Another commenter alleged that Citigroup's senior management had declined requests for meetings with some community groups. The Board notes that the CRA requires that, in considering an acquisition proposal, the Board carefully review the actual performance records of the relevant depository institutions in helping to meet the credit needs of their communities. Neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges concerning future performance under the CRA, confer authority on the agencies to enforce pledges made to third parties, or require depository institutions to meet with particular persons. The Board also notes that future activities of Citigroup's subsidiary depository institutions will be reviewed by the appropriate federal supervisors in future performance examinations, and that their CRA performance records will be considered by the Board in any subsequent applications by Citigroup to acquire a depository institution.

[12] 12 U.S.C. § 2801 et seq.

Oakland, San Diego, and San Jose, California.[13] As discussed in more detail below, commenters criticized the lending and credit insurance practices of Citigroup's subprime lending subsidiaries, particularly those of Associates First Capital Corporation and its subsidiaries (collectively, "Associates").[14]

A commenter also criticized Citigroup's level of community development lending and investment activities in New York City as being too low, especially when compared with other banking institutions in the area. In addition, several commenters expressed concern that the proposal would result in branch closings that would adversely impact LMI and minority communities. A commenter also expressed concern about the possible termination or

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[13] A commenter asserted that Citigroup has discriminated in providing homeowners insurance by citing a complaint that was filed against Travelers in 1997. The Board considered a substantially identical comment in the proposed acquisition of Citicorp by Travelers. Travelers Group Inc., 84 Federal Reserve Bulletin 985, 1001 n.66 (1998) ("Travelers"). As noted in Travelers, the Fair Housing Council of Greater Washington and the National Fair Housing Alliance filed complaints with the Department of Housing and Urban Development ("HUD") in 1997, alleging that Travelers and other insurance companies systematically violated the Fair Housing Act in four cities, including Washington, D.C. Travelers denied the allegations of discrimination in these complaints, and there has been no adjudication of wrongdoing by HUD.

[14] One commenter asserted that Citigroup should include in its CRA assessment areas those offices of Citigroup's subsidiaries engaged in the sale of insurance products where such products are cross-marketed with the bank products of Citigroup's subsidiary depository institutions. The regulations promulgated by the bank supervisory agencies require that a bank delineate its CRA assessment area based on the geographies in which the bank has offices, branches, and deposit-taking ATMs, as well as surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. See, e.g., 12 C.F.R. 228.41(c). There is no requirement that a bank's CRA assessment area include geographies in which nonbank affiliates are located.

reduction of EAB's affordable housing and community development products and programs.

B. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisors.[15] Citibank NA, the lead depository institution of Citigroup, received a "satisfactory" rating at its most recent CRA performance examination by the OCC, as of October 26, 1998 ("1998 CRA Evaluation"). The other subsidiary depository institutions of Citigroup, with one exception discussed below, received "outstanding" or "satisfactory" ratings at their most recent CRA performance examinations.[16] EAB received a

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[15] See Interagency Questions and Answers Regarding Community Reinvestment, 65 Federal Register 25,088 and 25,107 (2000).

[16] Citibank (New York State), Pittsford, New York ("Citibank NYS"), received an "outstanding" rating from the FDIC, as of March 6, 2000; Citibank Delaware, New Castle, Delaware, received a "satisfactory" rating from the FDIC, as of May 15, 2000; Citibank (Nevada), N.A., Las Vegas, Nevada ("Citibank Nevada"), received an "outstanding" rating from the OCC, as of March 29, 1999; Citibank (South Dakota), N.A., received an "outstanding" rating from the OCC, as of May 24, 1999; Citibank Federal Savings Bank, Long Island City, New York ("Citibank FSB"), received an "outstanding" rating from the Office of Thrift Supervision ("OTS"), as of July 12, 1999; Travelers Bank and Trust, fsb, Newark, Delaware, received an "outstanding" rating from the OTS, as of February 5, 2001; Universal Bank, N.A., Columbus, Georgia, received a "satisfactory" rating from the OCC, as of February 22, 1999; Citibank USA (formerly The Travelers Bank USA), Newark, Delaware, received an "outstanding" rating from the FDIC, as of March 15, 1999;

"satisfactory" rating from the Federal Reserve Bank of New York, as of October 2, 2000.

Associates National Bank (Delaware), Wilmington, Delaware ("Associates Delaware"), a limited-purpose bank that engages only in credit card operations and represents less than 1 percent of the consolidated assets of Citigroup, received a "needs to improve" rating from the OCC, as of May 30, 1997, before Citigroup acquired the bank as part of its acquisition of Associates in November 2000.[17] As discussed in more detail below, the Board

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Universal Financial Corporation, Salt Lake City, Utah, received a "satisfactory" rating from the FDIC, as of March 31, 1999; Associates Capital Bank, Inc., Salt Lake City, Utah, received an "outstanding" rating from the FDIC, as of September 27, 1999; and Hurley State Bank, Sioux Falls, South Dakota, received a "satisfactory" rating from the FDIC, as of April 19, 1999.

[17] Several commenters asserted that the Board should deny the proposal on the basis of the "needs to improve" CRA rating of Associates Delaware. These commenters cited previous Board actions denying applications of bank holding companies with subsidiary banks with less than satisfactory CRA ratings. See e.g., Totalbank Corporation of Florida, 81 Federal Reserve Bulletin 876 (1995); First Interstate BancSystem of Montana, Inc., 77 Federal Reserve Bulletin 1007 (1991). In these actions, the subsidiary banks with less than satisfactory CRA performance ratings were controlled by the applicants at the time the ratings were assigned and represented a significant portion of or all of the depository institutions controlled by the applicant. The Board has approved an application of a bank holding company that had a few subsidiary banks with less than satisfactory CRA ratings on the basis that the bank subsidiaries represented a small percentage of the organization's assets, the organization had taken concrete steps to address the banks' CRA deficiencies, and the problems did not indicate chronic CRA deficiencies at the organization. Sun Trust Banks, Inc., 76 Federal Reserve Bulletin 542 (1990). In addition to representing less than 1 percent of Citigroup's consolidated assets, Associates Delaware received its "needs to improve" rating before it was acquired by Citigroup. Moreover, examiners stated in the CRA performance evaluation that the bank had completed a majority of the corrective actions that it had initiated to address examiner concerns identified during a fair lending examination of the

has carefully reviewed the steps taken by Associates Delaware and those taken by Citigroup since it acquired the bank to correct the deficiencies noted in the examination and has consulted with the OCC, the appropriate federal supervisor of Associates Delaware. Examiners found no evidence of prohibited discrimination or other illegal credit practices, or any substantive violations of fair lending laws at any of the other subsidiary insured depository institutions of Citigroup or EAB.

As discussed in more detail below, the Board has carefully considered the fair lending policies and procedures of Citigroup and all its affiliates, including Associates Delaware.[18] The Board also has evaluated substantial information submitted by Citigroup concerning the CRA performance of its subsidiary insured depository institutions since the dates of their most recent CRA performance evaluations. In addition, the Board has

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bank that was conducted concurrently with the CRA examination. Examiners also noted that Associates Delaware was taking steps to strengthen policies, procedures, training programs, and internal assessment efforts to prevent illegal discriminatory credit practices.

[18] A commenter disagreed with regulations promulgated by the Board that permit Citigroup, as a financial holding company (as defined in section 4 of the BHC Act), to continue to engage in expanded financial activities that are permissible for financial holding companies while Associates Delaware has a less than satisfactory CRA performance rating. As noted above, Associates Delaware received its CRA rating before its acquisition by Citigroup. Under the Board's regulations, Citigroup would become subject to activity restrictions if Associates Delaware does not receive at least a satisfactory rating at its next CRA examination. See Federal Reserve System, 66 Federal Register 400, 404 (2001). As required in the regulations, Citigroup submitted to the OCC a corrective action plan outlining the steps that are necessary for the bank to achieve at least a "satisfactory" rating at its next CRA examination. See id. at 402 and 416 (to be codified at 12 C.F.R. 225.82(d)).

consulted with the OCC and has considered confidential supervisory information regarding Citigroup's CRA performance provided by the OCC.

C. CRA Performance Record of Citigroup

As noted above, Citigroup proposes to merge EAB into Citibank NA, with Citibank NA as the surviving entity. Accordingly, the branches and operations of EAB would become subject to the CRA policies of Citigroup and Citibank NA. Citigroup has represented that it would continue six of the major affordable mortgage programs of EAB and incorporate five of its other major affordable mortgage programs into existing programs of Citibank NA. In addition, Citigroup has represented that it would honor community development loan commitments made by EAB and pursue new community development loans that are currently under consideration by EAB.

Citibank NA. In the 1998 CRA Evaluation, examiners rated Citibank NA's lending activity as "high satisfactory" and found that the bank's community development activity substantially augmented its lending activity in the assessment areas in New York.[19] Examiners indicated that the overall record of lending of Citibank NA and, specifically, its home mortgage and

[19] The assessment areas of Citibank NA in New York included the New York City Primary Metropolitan Statistical Area ("PMSA"), excluding Putnam County (the "New York City PMSA"), and the Nassau-Suffolk County, New York, PMSA (the "Long Island PMSA") (collectively, the "New York assessment area"). Examiners noted that the median cost of housing in the New York City PMSA was very high compared with median family incomes, particularly in Manhattan, the Bronx, and Brooklyn. Examiners indicated that only 5 percent of all owner-occupied units in the New York City PMSA were in low-income census tracts, resulting in a high demand for affordable rental housing. Examiners commended Citibank NA for responding to this demand with investments in city housing and community development funds.

small business lending were adequate for the size and complexity of the bank.[20] Citibank NA made $2.6 billion in HMDA-reportable loans during the review period,[21] which included $1.9 billion in home purchase loans, representing 71 percent of Citibank NA's total residential lending. Examiners commended Citibank NA for increasing the number of HMDA-reportable loans in the New York assessment area by more than 225 percent from October 1997 to October 1998.[22]

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[20] Several commenters asserted that Citigroup's competitors, including EAB, have stronger lending records in the New York assessment area than Citigroup's record.

[21] The review period was from October 4, 1996, to October 26, 1998. The HMDA data reviewed by examiners included data reported by Citibank NA and Citicorp Mortgage (renamed CitiMortgage), which became a subsidiary of Citibank NA during the review period.

[22] Examiners attributed this increase to an increase in home improvement loans by Citibank NA. Citigroup has represented that the home improvement loans were made under a home improvement loan program it began in 1997. Several commenters criticized Citigroup for originating a large number of home improvement loans with low principal amounts, particularly in LMI and minority communities. In assessing the effects of this proposal on the convenience and needs of the communities to be served, the Board has carefully reviewed the entire record of lending of the institutions involved in the proposal. As discussed below, Citibank NA and Citigroup's other lending affiliates offer a broad range of mortgage and other lending products and programs. Neither the CRA nor the CRA regulations of the federal supervisory agencies dictate the types of loan products or the amount of loans a depository institution must provide.

These commenters also asserted that Citigroup's reliance on home improvement loans with low principal amounts failed to meet projections Citicorp made in a July 1998 letter agreement with the New York State Banking Department ("NYSBD") in connection with the merger of Travelers and Citicorp. The Board notes that compliance with projections in an agreement made with the NYSBD is a matter within the exclusive jurisdiction of the NYSBD. The Board has consulted with the NYSBD on Citigroup's lending

Citigroup stated that, in 1999, Citibank NA and its affiliates, CitiMortgage, Inc. ("CitiMortgage") and Source One Mortgage Corporation ("Source One"), made home purchase loans totaling $544 million in the New York assessment area, including loans totaling $18 million in LMI census tracts and loans totaling $18 million to LMI households.[23] Citigroup reported that the overall home purchase lending of Citibank NA, CitiMortgage, and Source One increased to $847 million in the New York assessment area in 2000, including loans totaling $28 million to borrowers in LMI census tracts and loans totaling $21 million to LMI households.[24]

Citibank NA offers a variety of loan products and programs designed to meet the credit needs of LMI individuals and communities through reduced interest rates, low downpayment requirements, or flexible underwriting criteria. These affordable mortgage products include proprietary loan products and various products and programs of the Federal National Mortgage Association ("FNMA"), the State of New York Mortgage Agency ("SONYMA"), and other organizations.[25] Citigroup reported that Citibank NA and CitiMortgage made loans in the New York assessment area totaling more

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record in New York State. The Board also notes that the NYSBD and Citigroup have entered into a letter agreement, dated June 26, 2001, that clarifies the projections and extends them for an additional three years.

[23] Citigroup acquired Source One in 1999 and merged it into CitiMortgage, a subsidiary of Citibank NA, in 2000.

[24] Citigroup represented that the home purchase lending data include originations and purchases, excluding interaffiliate loan purchases.

[25] Citigroup represented that CitiMortgage has initiated a five-year program with FNMA under which CitiMortgage has committed to originate and FNMA has committed to purchase $12 billion in affordable mortgage loans nationwide through a number of affordable mortgage programs of Citigroup.

than $100 million through these affordable mortgage products and programs in 1999 and 2000,[26] including more than $62 million in affordable mortgage loans in the New York assessment area under programs of FNMA, the Federal Home Loan Mortgage Corporation, SONYMA, the Neighborhood Housing Services, and the New York City Housing Partnership. Other examples of Citigroup's affordable mortgage programs include the Mitchell Lama and Limited Equity Co-Ops loan program, which provides reduced interest rate loans to LMI borrowers for the purchase of cooperatives, and the Budget and Credit Counseling program, which provides home purchase financing to individuals who have undergone a rigorous program to improve their credit rating. Citigroup represented that Citibank NA and CitiMortgage made approximately 450 loans totaling more than $22 million under these two programs during 1999 and 2000.

In the 1998 CRA Evaluation, examiners concluded that Citibank NA had a good distribution of business loans with a principal amount of less than $1 million ("small business loans") to businesses of different sizes, particularly to businesses with revenues of $1 million or less, in the New York assessment area during the review period. Examiners reported that Citibank NA made 41 percent of its small business loans in the New York City PMSA to businesses with revenues of $1 million or less.

Citigroup represented that more than 55 percent of Citibank NA's small business loans in the New York City PMSA were made to businesses with revenues of $1 million or less in each of 1999 and 2000. In addition, Citigroup stated that it offers various outreach programs designed to provide

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[26] This amount included mortgage loans totaling $77 million in the New York City PMSA.

loans and other assistance to small businesses in the New York assessment area, including the CitiBusiness Resource Network, which provides business and consulting services to small businesses and refers small businesses to third parties that provide their services at reduced rates to businesses in the Network program.

In the 1998 CRA Evaluation, examiners found that Citibank NA engaged in a high level of community development lending activity during the review period through its affiliate, Citibank Community Development ("CCD"), which compared very favorably with that activity by other lenders. Examiners reported that CCD made community development loans totaling more than $200 million in the New York assessment area during the review period. Approximately 82 percent were community development loans in the New York City PMSA. Examiners noted that CCD's community development lending had resulted in the creation of more than 14,000 units of affordable housing for LMI individuals.

Citigroup stated that, since the 1998 CRA Evaluation, it has made more than 200 community development loans totaling more than $240 million in the New York assessment area.[27] This community development lending includes $15 million in loans to assist in the rehabilitation of more than 12,000 housing units in the Northeast Bronx, $14.3 million in loans to a community-based corporation organized for the development and management of five buildings in the Bronx for low-income individuals, and $43 million in loans to the New York Equity Fund, a syndicator of low-income housing tax credits in New York.

[27] Citigroup represented that it consolidated most of its community development lending and investment activities into a separate affiliate, the National Center for Community Development Enterprise, in March 2000.

In the 1998 CRA Evaluation, examiners concluded that Citibank NA had an excellent level of CRA-qualified investments that compared favorably with other lenders and responded positively to community needs. Examiners favorably noted that Citibank NA made approximately $115 million in CRA-qualified investments during the review period, including investments totaling $88 million in the New York assessment area. Examiners also noted that 59 percent of these CRA-qualified investments in the New York assessment area promoted affordable housing. In addition, examiners commended Citibank NA for making $6.9 million in qualified grants and contributions during the review period.

Citigroup represented that it has made more than $200 million in CRA-qualified investments and $29 million in grants to organizations in New York State since the 1998 CRA Evaluation. These grants and investments were used to promote affordable housing, small businesses and economic development, and other community development projects.[28]

Examiners indicated that Citibank NA is a leader in the development and use of technology, and that the bank's branching and other alternative delivery systems provided good access to all customers, including those in LMI areas. Examiners commended the bank for providing community development services in all its assessment areas. In addition, examiners commended the bank for providing credit counseling, educational seminars, individual consultations, and other educational programs for prospective homebuyers and other retail customers.

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[28] These grants were made through an affiliate, the Citigroup Foundation. Citigroup represented that the Citigroup Foundation had made $75 million in community development grants nationwide in the past two years.

Citibank FSB

Overview. As previously noted, Citibank FSB received an "outstanding" CRA performance rating from the OTS in its 1999 CRA performance evaluation ("1999 CRA Evaluation"). Examiners strongly commended the savings association for its lending performance in all its assessment areas during the review period.[29] Examiners reported that Citibank FSB made more than 25 percent of its total HMDA-reportable loans in its combined nationwide assessment areas in LMI census tracts during the review period. Examiners noted that this percentage exceeded the percentage of total owner-occupied housing units in LMI census tracts in its combined assessment areas and the percentage level of total HMDA-reportable loans made by the aggregate of lenders ("aggregate lenders") in these LMI census tracts in 1997.[30] Examiners also noted that Citibank FSB offered a variety of home mortgage products and programs designed to meet the needs of first-time homebuyers and LMI borrowers, including programs offering reduced closing costs and downpayment requirements and flexible underwriting standards.

In addition, examiners commended Citibank FSB for the variety of small business loan programs it provided and noted that the geographic distribution of its small business lending in low-income areas was generally favorable. Examiners also indicated that the savings association ranked first in small business loan originations (based on dollar amount) among savings

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[29] At the time of the CRA performance evaluation, Citibank FSB had 20 assessment areas in California, Illinois, Florida, Maryland, Virginia, Connecticut, New Jersey, Texas, and the District of Columbia. The review period was from January 1, 1997, through March 31, 1999.

[30] The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given market.

associations nationwide and 12th in small business lending among all banks and savings associations in its combined assessment areas.

In the 1999 CRA Evaluation, examiners determined that Citibank FSB's overall community development lending was excellent. The examiners favorably noted that the savings association engaged in a variety of community development lending activities, including multifamily home mortgage lending that provided housing for LMI families and lending to community development organizations that focused on affordable housing programs and the stabilization or revitalization of economically distressed areas. Citibank FSB originated community development loans totaling more than $365 million during the review period.

Examiners also commended Citibank FSB for its community development investment program, which focused on providing equity investments for affordable housing, improving liquidity in the market for affordable mortgages, and strengthening community development financial institutions. During the review period, Citibank FSB doubled the amount of its CRA-qualified investments to approximately $63 million. Examiners also commended the savings association for making almost $5 million in community development grants during the review period.

In addition, examiners commended Citibank FSB for offering an extensive number of alternative systems for delivering retail banking services in LMI areas. Examiners also indicated that Citibank FSB provided an exceptional level of community development services, including educational seminars for LMI individuals, first-time homebuyers, and small business owners.

California. In the 1999 CRA Evaluation, examiners indicated that Citibank FSB had a strong overall record of lending in California during the review period. Examiners also found that the savings association's HMDA-reportable loans to LMI borrowers showed strong increases each year during the review period. For example, the percentage of Citibank FSB's total number of HMDA-reportable loans to LMI borrowers almost tripled to 33 percent from the beginning of 1996 and through the first quarter of 1999.[31]

Examiners indicated that the geographic distribution of Citibank FSB's small business loans in low-income census tracts compared favorably with the number of small businesses in these census tracts. Examiners also noted that Citibank FSB offered a diverse array of products to address short- and long-term financing needs of small businesses in California. In addition, examiners commended the savings association for creating a pilot small business program called Capital Access that provided loans to creditworthy, underserved small businesses, such as high technology businesses, growth businesses, export businesses, and businesses owned by minorities, women, and veterans. Examiners also noted that Citibank FSB actively promoted small businesses through workshops and seminars for small business owners, and that the savings association had an active Small Business Administration loan program in California.[32]

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[31] Examiners noted that the large increase in lending in LMI geographies from 1997 to 1998 resulted from the introduction of Citigroup's home improvement loan program, as discussed earlier in this order.

[32] One commenter criticized Citibank FSB for developing a small business loan product in California that has a minimum loan amount of $100,000. The commenter asserted that this minimum prevents many small businesses owned by minorities and persons living in LMI areas from qualifying for loans under the program. In the 1999 CRA Evaluation, examiners reported that Citibank FSB made almost $135 million of loans with principal amounts of $100,000 or less during the review period, which represented almost 30 percent of the savings association's total dollar amount of small business lending.

In the 1999 CRA Evaluation, examiners determined that Citibank FSB's community development loans in California, which totaled more than $63 million, represented an excellent volume of community development lending. Examiners also commended the savings association for making CRA-qualified investments totaling more than $21 million during the review period.

In addition, examiners noted favorably that Citibank FSB delivered retail banking services throughout its assessment areas in California through its branch network, a large network of ATMs, and the alternative delivery systems discussed above. Examiners also indicated that Citibank FSB offered a wide range of deposit and loan products at all its branches, including a low-cost checking account.[33]

D. CRA Performance Record of EAB

As noted above, EAB received a "satisfactory" rating for CRA performance from the Federal Reserve Bank of New York, as of October 2, 2000. Examiners rated EAB's performance under the lending test during the review period[34] as "high satisfactory," and commended EAB's loan volume and general responsiveness to the credit needs in the bank's assessment areas. For example, examiners found that EAB and its mortgage lending affiliate (collectively, "EAB") originated or purchased HMDA-reportable loans totaling approximately $1.3 billion during the review period.

In addition, examiners noted that EAB's overall geographic distribution of its housing-related and small business loans reflected good loan

[33] One commenter asserted that Citibank FSB had eliminated low-cost deposit products designed to meet the needs of LMI consumers.

[34] The review period was from January 1, 1998, through December 31, 1999.

penetration throughout the LMI census tracts of its assessment areas, and they commended the bank's distribution of lending to customers of different income levels.[35] In particular, examiners commended EAB's geographic distribution of multifamily loans, which enhanced the distribution of the bank's other HMDA-reportable loans. Examiners found that the impact of EAB's multifamily loans was most important in its New York City assessment area, where examiners indicated that 69 percent of occupied housing units were rentals.

Examiners reported that EAB's small business loans reflected a good distribution among various income-level geographies. In its New York City assessment area, the bank originated 27 percent of its small business loans in LMI census tracts during the review period. This exceeded the percentage level achieved by the aggregate lenders, which originated an average of 25 percent of their loans in LMI census tracts. Eleven percent of EAB's small business loans in the Long Island PMSA were originated in LMI census tracts during the review period, which was only slightly less than the percentage level of the aggregate lenders. Examiners also noted that the majority of EAB's small business loans in its assessment areas were for amounts of $100,000 or less.

In addition, examiners commended EAB for its excellent level of community development lending. During the review period, the bank's community development loan commitments totaled $241 million, of which $135 million was for affordable housing initiatives, which examiners identified as a pressing need in both of the bank's assessment areas. In the New York

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[35] The assessment areas of EAB included (i) the Long Island PMSA and (ii) a portion of the New York City PMSA that includes Bronx, Kings, New York, Queens, and Richmond Counties ("New York City assessment area").

City assessment area, $110 million of EAB's community development loans were directed toward affordable rental housing initiatives. Examiners noted that EAB's community development lending in the Long Island PMSA provided for the construction or rehabilitation of almost 300 affordable housing units, including some designed for the developmentally disabled and senior citizens.

Examiners rated EAB's performance under the investment test as "high satisfactory." Examiners reported that EAB's CRA-qualified investments during the review period totaled $10.5 million, consisting primarily of complex low-income housing tax credits that help provide affordable rental housing. EAB's investments included $6 million directed toward affordable housing initiatives, $3.3 million directed toward community service investments, and $1.2 million directed toward economic development initiatives.

E. Subprime Lending of Citigroup

As discussed above, several commenters criticized the lending and credit insurance practices of Citigroup's subprime lending subsidiaries, particularly those of Associates, which Citigroup acquired in November 2000. The commenters asserted that these entities are engaged in certain abusive lending practices, commonly referred to as "predatory lending," that are harmful to LMI and minority borrowers.[36] Several commenters requested that

[36] Commenters asserted that Associates engages in abusive marketing and sales practices that include misleading customers about key terms of a loan, such as the cost of credit insurance associated with the loan and the effect of balloon payments, and coercing customers to refinance loans that result in high points (interest paid at settlement) and other refinance charges. Commenters also asserted that Associates maintains aggressive foreclosure policies. Several commenters requested that the Board conduct fair lending examinations of all Citigroup's nonbanking subsidiaries that engage in subprime lending before it acts on the proposal.

the Board deny the application in light of the recent lawsuit filed by the Federal Trade Commission ("FTC") against Associates and Citigroup, as the successor owner of Associates, or delay action on the proposal until this lawsuit and other consumer lawsuits concerning the lending and credit insurance sales activities of Associates and Citigroup are resolved.[37] The consumer protection claims in the FTC's lawsuit allege that Associates, before its acquisition by Citigroup in November 2000, engaged in abusive lending practices and lending law violations. There has been no adjudication of wrongdoing or injunctive action taken against Citigroup or any of its affiliates in connection with the FTC lawsuit.

Some commenters also asserted that Citigroup's other subprime lender affiliates, such as CitiFinancial Credit Company ("CitiFinancial"), engage in many of the same lending practices as Associates.[38] Commenters

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[37] Several commenters asserted that the Board should deny Citigroup's proposal, citing the Board's earlier denial of an application of Shawmut National Corporation ("Shawmut National") to acquire a bank while Shawmut National's past mortgage lending operations were under investigation by the Department of Justice. See Shawmut National Corporation, 80 Federal Reserve Bulletin 47 (1994) ("Shawmut"). Unlike the facts in Shawmut, where the mortgage subsidiary under investigation was controlled by Shawmut National at all relevant times, the activities at issue in the pending FTC lawsuit involving Associates relate solely to the operations of Associates' affiliates before their acquisition by Citigroup. As noted below, the Board will monitor Citigroup's progress in addressing any adverse findings resulting from the FTC lawsuit or any other litigation.

[38] For example, a commenter asserted that CitiFinancial has aggressive foreclosure policies. Commenters also noted that the lending and insurance practices of Associates, CitiFinancial, and Citigroup's Primerica Financial Services have resulted in several pending judicial proceedings in addition to the FTC litigation involving Associates and are the subject of consumer complaints filed with several state and federal supervisory authorities. There has been no adjudication of wrongdoing by any Citigroup affiliate in these matters.

asserted that Citigroup has failed to correct these practices at Associates, CitiFinancial, and its other subprime lender affiliates.[39] Some commenters also contended, based in part on HMDA data, that Citigroup improperly markets higher-cost subprime loan products to minority and LMI communities while it markets lower-cost prime loan products to nonminority and more affluent communities.[40] In addition, several commenters alleged that Citigroup has indirectly supported predatory lending through its business relationships with unaffiliated third parties engaged in subprime lending.[41]

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[39] Several commenters also asserted that the management of Citigroup has failed to take an appropriate leadership role in addressing predatory lending problems in the subprime lending market and has lobbied against some state and municipal legislative efforts to address predatory lending.

[40] A commenter also asserted that the CRA is undermined when large financial holding companies without a significant presence in rural communities, such as Citigroup, acquire subprime lenders with a significant presence in rural communities, such as Associates.

[41] Several commenters alleged that Citigroup has indirectly supported predatory lending by a number of unaffiliated consumer lenders through the warehouse lending and securitization activities of its subsidiary, Salomon Smith Barney, Inc., New York, New York ("SSB"). Citigroup indicated that SSB engages in underwriting securities backed by subprime mortgage loans and provides warehouse loans to some of its mortgage banking customers for which it underwrites securities. In addition, Citigroup represented that a company Citigroup acquired in December 2000 in connection with its acquisition of Associates, First Collateral Services ("FCS"), engages in traditional mortgage warehouse lending to consumer lenders, including some engaged in subprime lending.

The Board has considered all the facts of record, including the actions taken by SSB and FCS in connection with their relationships with unaffiliated consumer lenders. Citigroup stated that SSB does not control the origination of subprime loans from its unaffiliated mortgage banking customers, but that it reviews each lender's policies and procedures and sets eligibility criteria for the loans it will finance through its warehouse lending and securitization arrangements. In addition, SSB reviews a sample of any loan pool to be

The Board notes that subprime lending is a permissible activity and provides needed credit to consumers who have difficulty meeting conventional underwriting criteria. An analysis of urban metropolitan data submitted under HMDA indicates that LMI and minority consumers, who traditionally have experienced difficulty in obtaining mortgage credit, have obtained loans at record levels in recent years.[42] Much of this increased lending can be attributed to the development of the subprime loan market.

The Board recognizes that the development of the subprime loan market has been marred with reports of abusive and deceptive practices that can deny the market's beneficial aspects to borrowers. Identifying the lending practices that can be considered "predatory" covers a potentially broad range of behavior and does not lend itself to a concise or comprehensive definition. Predatory lending generally entails either fraud or the misuse of loan provisions

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securitized and hires an outside firm to review the loans in the pool for compliance with consumer protection laws and its loan eligibility criteria before making any warehouse loan advance. Citigroup represented that FCS does not have a role (formal or otherwise) in the lending practices and credit review processes of its warehouse finance customers, and that as part of its agreements with customers, FCS requires its warehouse finance customers to comply with all applicable federal and state laws in their origination and servicing of mortgage loans. Moreover, the Board notes that the FTC, HUD, and Department of Justice have responsibility for enforcing the compliance with fair lending laws of nondepository institutions.

[42] See Federal Financial Institutions Examination Council, Nationwide Summary Statistics for 1999 Home Mortgage Disclosure Act Data (August 2000) at Table 5. The HMDA data indicate that, between 1993 and 1999, the number of conventional home purchase loans made in census tracts with minorities as a percentage of population of between 50 and 79 percent increased 91.7 percent, and the number of such loans made in census tracts with minorities as a percentage of population of between 80 and 100 percent increased 100.7 percent. The data also indicate that the number of HMDA loans made in LMI census tracts increased 97.9 percent during the same period.

that might under ordinary circumstances enhance the credit market. A loan is not "predatory" simply because it is made at a high interest rate or involves high costs.[43]

Borrowers do not benefit from expanded access to credit if the credit involves abusive lending practices. Accordingly, the Board expects bank holding companies and their affiliates to conduct their subprime lending operations free of any abusive lending practices.

In reviewing the convenience and needs factor in this proposal, the Board has carefully considered the record of lending of Citigroup's affiliates, including those engaged in subprime lending, in light of all the comments received. The Board has reviewed the subprime loan products offered by Citigroup and the underwriting and compliance policies and procedures adopted by Citigroup and each of its subprime lending affiliates. The Board also has carefully reviewed the actions Citigroup has taken and is in the process of implementing to address concerns about the lending practices of Associates before its acquisition and to strengthen consumer protections in connection with the real estate-secured lending activities of CitiFinancial, CitiMortgage, and Citigroup's other affiliates that engage in subprime lending.[44] In addition, the Board has consulted with each federal supervisory agency responsible for the oversight of Citigroup's subprime lending affiliates.

In January 2001, the network of retail branches of Associates were transferred to CitiFinancial and the former Associates consumer finance businesses in the United States and Canada became subject to the underwriting

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[43] See 65 Federal Register 81,438 (2000) (proposed rule amending the Board's Regulation Z that implements the Home Ownership and Equity Protection Act).

[44] CitiMortgage's lending activities include the subprime lending operations that comprised a small portion of Source One's mortgage loan business.

and compliance policies, procedures, and programs of Citigroup and CitiFinancial.[45] CitiFinancial and Citigroup's other subsidiaries that engage in subprime lending have underwriting policies and procedures designed to prevent abusive lending practices, which include requiring all real estate-secured loan applications to be evaluated on an applicant's creditworthiness and ability to repay, using credit bureau scoring and proprietary models, and limiting points charged on certain refinanced loans. In addition, the subprime lending affiliates of Citigroup have adopted a number of programs and other policies and procedures, including centralized loan underwriting systems, fair lending self-assessments (including matched-pair analyses), branch and corporate audits, and fair lending and compliance training, that are designed to prevent deceptive and abusive lending practices.

The Board notes that many of the concerns expressed by commenters about the subprime lending activities of Citigroup focus on the historical practices of Associates, which Citigroup acquired in November 2000. In connection with its proposed acquisition of Associates, Citigroup announced in November 2000 consumer protection initiatives that are in the process of being implemented at CitiFinancial (including the former branches of Associates) and certain other affiliates.[46] These initiatives relate to loans

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[45] The legal entities through which the Associates' branches operated continue to exist and hold loans that were originated before the transfer of the branches to CitiFinancial. The former Associates Home Equity Services, now CitiFinancial Mortgage (AHES), engages in indirect, real estate-secured lending through brokers and correspondents and will continue to operate. The continuing Associates entities currently are operating and will continue to operate under Citigroup's lending and compliance policies and procedures.

[46] Several commenters challenged the adequacy of these initiatives and expressed concern that Citigroup would not implement them effectively.

secured by real estate in the United States and include enhancing oral and written disclosures to purchasers of credit insurance products concerning the cost, coverage, terms, and cancellation policies of the insurance products offered.[47] In addition, Citigroup affiliates that engage in subprime lending will not originate subprime real estate loans with balloon payments and will not originate or purchase real estate loans with negative amortization features.[48] The initiatives also include plans for a "referral-up" program to be implemented nationwide by the end of 2001 that will refer CitiFinancial loan applicants who meet certain qualification criteria to CitiMortgage for a prime mortgage loan. In addition, Citigroup is implementing a program at CitiFinancial to provide rate reductions to subprime loan borrowers who make timely payments and a graduation program at CitiFinancial and CitiFinancial Mortgage (AHES) that refers qualifying borrowers who have CitiFinancial subprime loans to CitiMortgage for a prime loan product.[49] As part of the initiatives, CitiFinancial also has created a compliance department that reviews pending and potential

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[47] Currently, CitiFinancial customers have the choice of purchasing single premium credit life insurance, which is financed as part of the total loan amount, or no credit life insurance. Citigroup represented that CitiFinancial is in the process of obtaining the appropriate state insurance licenses so that it may offer nationwide credit life insurance with a premium paid monthly by the borrower. In addition, Citigroup represented that it will discontinue the sale of single premium credit insurance for all real estate-secured loans by the end of 2001.

[48] Citigroup has represented that, in the case of purchased or existing subprime loans in Citigroup's portfolio, borrowers with balloon payments coming due will be given the option to refinance the loan in lieu of making the balloon payment.

[49] Citigroup represented that qualifying subprime borrowers of CitiFinancial will not be required to pay prepayment penalties for refinancing their loans with CitiFinancial or any other Citigroup affiliate.

foreclosures to protect against inappropriate foreclosure proceedings against the borrowers' homes.[50]

Citigroup has adopted comprehensive policies and procedures that are reasonably designed to ensure compliance with the fair lending laws and to prevent abusive lending practices by its holding company affiliates. At the same time, the Board believes that the effective implementation of the initiatives and other consumer protection measures proposed or adopted by Citigroup is particularly important for addressing weaknesses in the historical performance record of Associates' subprime lending. Accordingly, the Board will conduct a thorough examination to assess the effectiveness of that implementation at Citigroup's subprime affiliates, CitiFinancial and CitiFinancial Mortgage (AHES).

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[50] In addition, the initiatives being implemented include (i) giving subprime loan borrowers a choice of paying a higher interest rate loan in exchange for the elimination of a prepayment penalty fee; (ii) limiting prepayment fees to the lesser of three years after a loan is made or the maximum term mandated by state law; (iii) establishing toll-free "hotlines" for customers to seek redress for complaints and problems concerning their loans; (iv) implementing a "mystery shopper" program at CitiFinancial branches (including former Associates branches) administered by a third party to help ensure that compliance procedures are followed; (v) providing updated training on compliance (including fair lending) for all consumer finance employees, strengthening compliance by and oversight of loan brokers; (vi) enhancing fair lending self-evaluations in consultation with outside counsel; (vii) prohibiting refinancing of certain below-market rate loans by nonprofit organizations and certain other programs within a specified timeframe; (viii) implementing additional limits on points charged on the refinancing by CitiFinancial of some of its loans; (ix) enhancing disclosures regarding refinancing; and (x) evaluating CitiFinancial's policies and procedures to prevent "loan flipping" (e.g., repeated refinancing of a loan to charge high points or fees) and implementing additional appropriate safeguards.

To assist the Board in this monitoring and review, Citigroup must submit to the Board quarterly reports on the status of all major litigation involving any of its affiliates engaged in subprime lending activities and Citigroup's compliance with any resulting court orders or court-approved settlements. Citigroup must submit these quarterly reports for two years, or such longer time period as the Board in its sole discretion determines is needed, beginning on September 30, 2001.

If the examination of CitiFinancial or CitiFinancial Mortgage (AHES) or the ongoing monitoring of the implementation of the initiatives indicates a problem with the oversight, procedures, or practices associated with the subprime lending of CitiFinancial or CitiFinancial Mortgage (AHES), the Board has broad supervisory authority under the banking laws to require Citigroup to take any other steps necessary to address deficiencies identified in the examination. The Board will coordinate its examination and monitoring with the other agencies responsible for enforcing laws that are applicable to these matters, including the appropriate banking supervisory agencies. The Board also will consider any information gathered in these reports or the examination in reviewing future proposals by Citigroup, as relevant and appropriate.

F. HMDA Data

The Board also has carefully considered Citigroup's lending record in light of comments on HMDA data reported by its subsidiaries.[51] In 1998 and

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[51] Based on 1999 and 2000 HMDA data, commenters criticized Citigroup's record of home mortgage lending to African-American or Hispanic individuals in the following PMSAs and Metropolitan Statistical Areas ("MSAs"): New York City, Long Island, Buffalo, and Rochester, New York; Chicago, Illinois; Los Angeles, Oakland, San Diego, and San Jose, California; Washington, D.C.; Philadelphia, Pennsylvania; Newark, New Jersey; Memphis,

1999, Citigroup's lending to African-American and Hispanic individuals and to borrowers in minority census tracts,[52] as a percentage of its total HMDA-reportable lending (which includes home purchase, home improvement, and multifamily residential loans and refinancings), generally exceeded or was comparable to that of the aggregate lenders in many markets.[53] In addition, in 1998 and 1999, Citigroup's lending to LMI borrowers and in LMI census tracts in its assessment areas, as a percentage of the number of Citigroup's total HMDA-reportable loans, generally exceeded or was comparable to that of the aggregate lenders.

The HMDA data for the subcategory of home purchase loans, however, indicate some disparities. The percentages of Citigroup's home purchase loans originated to minorities and to borrowers in minority census tracts in 1998 and 1999 were less than the percentages of the aggregate lenders.

Tennessee; St. Louis, Missouri; Tampa, Florida; Wilmington, Delaware; Phoenix, Arizona; Milwaukee, Wisconsin; and Salt Lake City, Utah. Commenters also criticized Citigroup's record of home mortgage lending to LMI individuals, based on 1999 and 2000 HMDA data, in the following MSAs: Los Angeles, San Diego, and San Jose, California; Sioux Falls, South Dakota; and Salt Lake City, Utah.

[52] For purposes of this HMDA analysis, minority census tract means a census tract with a minority population of 80 percent or more, and Citigroup includes Citibank NA, Citibank NYS, Citibank FSB, CitiMortgage, and Source One. As previously noted, in 2000, Source One was merged into CitiMortgage through which it reported its 2000 HMDA data. The data reviewed in this analysis do not include loans purchased by Citigroup.

[53] For example, the percentages of Citigroup's home purchase loans originated to borrowers in minority census tracts in the PMSAs of Los Angeles and Oakland, California, in 2000, exceeded the percentages achieved by the aggregate lenders in 1999. In the New York City PMSA, Citigroup's percentage of home refinance loans originated to Hispanics in 2000 exceeded that of the aggregate lenders in 1999.

For instance, the number of Citigroup's home purchase loans originated to African-American and Hispanic individuals and to borrowers in minority census tracts, as a percentage of Citigroup's total home purchase loan originations, in the PMSAs of New York City and Los Angeles in 1998 and 1999 generally lagged behind the percentage for the aggregate lenders. The data, however, generally show that Citigroup's home purchase lending to these individuals and communities significantly improved during this time period and substantially exceeded the percentage increases of the aggregate lenders.

Citigroup's percentage of home purchase loans originated to LMI borrowers and in LMI census tracts in 1998 and 1999 also generally were lower than the percentages of the aggregate lenders in many markets. However, the data also show that Citigroup's volume of home purchase loans to LMI borrowers and in LMI census tracts generally increased during this time period.[54]

Importantly, the HMDA data generally do not indicate that Citigroup is excluding any race or income segment of the population or geographic areas on a prohibited basis. The data, however, reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups and persons at different income levels generally and in certain local areas. The Board is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes,

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[54] The HMDA data indicate that in the subcategory of home improvement loans, Citigroup's volume of lending to LMI borrowers and in LMI census tracts declined from 1998 through 2000.

however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.[55] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide an on-site evaluation of compliance by the subsidiary depository institutions of Citigroup with fair lending laws. As noted above, examiners found no evidence of prohibited discrimination or other illegal credit practices at any of the subsidiary depository institutions controlled by Citigroup.[56] The record also indicates that Citigroup has taken a number of

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[55] The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

[56] As noted above, Associates Delaware received a "needs to improve" rating in its most recent CRA performance evaluation. This rating was received before Citigroup acquired control of Associates. Examiners stated that the bank initiated corrective actions to address the examiner criticisms, and that a majority of these actions were completed during the fair lending examination. Examiners also noted that additional steps were being taken to strengthen policies, procedures, training programs, and internal assessment efforts to prevent illegal discriminatory credit practices. Citigroup reported that it has strengthened the compliance processes at Associates Delaware since acquiring control of the bank in November 2000, and that it has increased compliance

affirmative steps to ensure compliance with fair lending laws. Citigroup has instituted corporate-wide compliance policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations, employed compliance officers and staff charged with monitoring compliance, and conducted regular corporate and branch audits of compliance. Citigroup's housing-related lending subsidiaries have established detailed fair lending procedures in addition to Citigroup's corporate policies and procedures, including extensive fair lending training programs for employees and fair lending self-assessments using matched-pair testing and statistical analyses. CitiMortgage and CitiFinancial also have implemented a "mystery shopping" program administered by a third party to help verify that compliance procedures are followed.

The Board also has considered the HMDA data in light of Citigroup's overall lending and community development activities discussed above, which show that Citigroup's subsidiary banks significantly assist in helping to meet the credit needs of their entire communities, including LMI areas.[57] The Board does not believe that, viewed in light of the entire record,

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staff and expanded internal audit and control procedures. Citigroup also noted that all new employees receive fair lending training as part of their orientation, and that fair lending training recertification is conducted for all employees who received fair lending training in the past.

[57] Two commenters alleged that some of Citigroup's lending subsidiaries have violated HMDA reporting requirements. These allegations have been forwarded to HUD. A commenter also alleged a pre-screening and reporting violation by Citibank NA under the Equal Credit Opportunity Act (15 U.S.C. § 1691 et seq.). The OCC, the appropriate federal supervisor for Citibank NA, has been informed of this allegation.

the HMDA data indicate that Citigroup's record of performance in helping to serve the needs of its communities is inconsistent with approval of the proposal.

G. Branch Closings

Several commenters expressed concern about the possible effect of branch closings in Citigroup's New York assessment areas that might result from this proposal. The Board has carefully considered the comments concerning potential branch closings in light of all the facts of record, including the preliminary branch closing and consolidation information submitted by Citigroup, the branch closing policies of Citigroup and EAB, and the record of the two organizations in opening and closing branches. Citigroup has identified 24 branches, including nine EAB branches in supermarkets, that it intends to close or consolidate into nearby branches. None of the 24 branches proposed to be consolidated or closed is in a low-income census tract, and only three are in moderate-income census tracts. These three branches are on Long Island, and an existing branch of Citibank NA or EAB within relatively close proximity to each branch would remain to serve each branch's moderate-income community.[58]

Citigroup has represented that it would follow its existing branch closure policy before closing or consolidating any of the branches. The Board has carefully considered the branch closing policy of Citigroup and its record of opening and closing branches. Under Citigroup's branch closing policy, Citibank must review a number of factors before closing or consolidating a branch, including a profile of the branch, the marketplace demographics, a profile of the community in which the branch is located, and the effect on

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[58] Remaining branches of Citibank NA or EAB would be located less than one-half mile from two of these branches and less than 1½ miles from the third branch.

customers. Also, Citibank's CRA Director and legal/regulatory staff must approve any branch closing, consolidation, or relocation. Examiners have reviewed the branch closing policies and record of opening and closing branches of Citigroup's subsidiary banks under the branch closing policy on several occasions.[59] In the 1998 CRA Evaluation, examiners noted that Citibank NA had not closed any branches in LMI census tracts during the evaluation period. Citigroup represented that, since September 1998, Citibank NA has not closed or consolidated any branches in LMI census tracts.[60]

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings. Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisory agency before closing a branch.[61] In addition,

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[59] Two commenters also alleged that Citigroup has closed branches in LMI and predominantly minority communities in the past, citing press reports in 1996. The Board considered substantially identical comments when it approved the acquisition of Citicorp by Travelers in 1998. As noted in Travelers, the appropriate federal and state financial supervisors of the relevant subsidiary banks, Citibank NA and Citibank NYS, stated in CRA examination reports that the branch closures and consolidations in question had not negatively affected the accessibility of banking services in the banks' New York assessment areas, including LMI communities. See 84 Federal Reserve Bulletin at 999, 1000.

[60] Citigroup reported that, since September 1998, Citibank NA has relocated one branch from an upper-income to a lower-income census tract and relocated a second branch within a moderate-income census tract.

[61] Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Federal Register 34,844 (1999)), requires that a bank provide the public with at least 30-days' notice and the appropriate federal supervisory agency with at least 90-days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

the Board notes that the OCC, as the appropriate federal supervisor of Citibank NA, will continue to review Citibank NA's branch closing record in the course of conducting CRA performance examinations.

H. Conclusion on Convenience and Needs Consideration

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered the entire record; all the information provided by commenters, Citigroup, and EAB; evaluations of the performance of Citigroup's insured depository institution subsidiaries and EAB under the CRA; and confidential supervisory information.

Based on all the facts of record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

Financial and Managerial Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including public comments, supervisory reports of examination, other confidential supervisory information assessing the financial and managerial resources of the organizations, and other information provided by Citigroup.

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. The proposed acquisition is structured as a cash purchase of EAB's common stock and an exchange of preferred shares. Citigroup would not directly or indirectly incur any debt to finance the proposed transaction. The Board notes that Citigroup and its subsidiary depository institutions and

EAB are well capitalized and would remain well capitalized on consummation of the proposal.

The Board also has considered the managerial resources of Citigroup and EAB, the examination reports of the federal financial supervisory agencies that supervise these organizations, including Citigroup's subsidiary depository institutions, and other confidential supervisory information. In addition, the Board has consulted with these federal financial supervisory agencies.

The Board received several comments on the proposal criticizing the managerial resources of Citigroup and its subsidiaries. Several commenters asserted that Citigroup's management has failed to implement effective policies and programs to address alleged abusive sales and lending practices of Citigroup's subsidiaries, including those engaged in subprime lending and insurance activities. These commenters asserted that adverse managerial resources are evidenced by the pending FTC lawsuit against Associates and Citigroup, as its successor owner, and by consumer lawsuits and complaints filed against Associates and other Citigroup affiliates.[62]

After reviewing all the facts of record, the Board concludes that Citigroup and its subsidiary depository institutions and EAB are well managed and have appropriate risk management systems in place.[63] In reaching this

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[62] A commenter also expressed concern that Citigroup conducted an inadequate due diligence review when it acquired Associates. The commenter further alleged, based on press reports, that SSB improperly provided advice to an unaffiliated bank holding company on a potential acquisition of EAB while Citigroup was considering whether to acquire EAB.

[63] Several commenters also expressed concern that Citigroup has helped to finance various activities and projects worldwide that might damage the environment or cause other social harm. These contentions contain no

conclusion, the Board has considered the supervisory experience and assessments of management by the various bank supervisory agencies, Citigroup's efforts to address supervisory and other concerns about the operation and management of the organization, management's due diligence efforts and record of integrating other organizations, and the organization's record of compliance with applicable banking law. As previously discussed, the Board has reviewed the compliance policies and procedures of Citigroup and its subsidiaries, including those engaged in subprime lending, and consulted with the appropriate federal supervisory agencies and state supervisors.[64] Based on these and all other facts of record, the Board concludes that the financial and managerial resources and the future prospects of Citigroup and its subsidiary

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allegations of illegality or action that would affect the safety and soundness of the institutions involved in the proposal, and are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

[64] The Board also received several comments asserting that recent investigations of staff of the Subcommittee on Investigations of the Committee on Governmental Affairs of the United States Senate and the United States General Accounting Office demonstrate that Citibank NA and other affiliates of Citigroup lack sufficient policies and procedures and other resources to protect against money laundering. See Correspondent Banking: A Gateway for Money Laundering, S. Doc. No. 69-919 (1st Sess. February 5, 2001) (Report of the minority staff of the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs of the United States Senate); Suspicious Banking Activities, General Accounting Office, GAO-01-120 (October 2000). The Board has reviewed carefully supervisory examinations of Citibank NA and consulted with the OCC, the appropriate federal financial supervisory agency of the bank, regarding the policies, procedures, and practices of Citigroup to comply with the Bank Secrecy Act. In addition, the Board has reviewed recent enhancements to Citigroup's policies and procedures to prevent money laundering that address the issues raised in those investigations.

depository institutions and EAB are consistent with approval, as are the other supervisory factors the Board must consider under section 3 of the BHC Act.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved.[65] In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.[66] The Board's approval is specifically conditioned on

[65] Several commenters requested that the Board hold a public meeting or hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully these commenters' requests in light of all the facts of record. In the Board's view, the public has had ample opportunity to submit comments on the proposal and, in fact, the commenters have submitted written comments that the Board has considered carefully in acting on the proposal. The commenters' requests fail to demonstrate why their written comments do not present their views adequately. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests for a public meeting or hearing on the proposal are denied.

[66] A number of commenters requested that the Board delay action or extend the comment period on the proposal. The Board has accumulated a significant record in this case, including reports of examination, confidential supervisory information, public reports and information, and considerable public comment. In the Board's view, for the reasons discussed above, commenters have had ample opportunity to submit their views and, in fact, have provided substantial written submissions that the Board has considered carefully in acting on the

compliance by Citigroup with all the representations and commitments made in connection with the application, the conditions described or referenced in this order, and on the receipt by Citigroup of all necessary regulatory approvals. These representations, commitments, and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of EAB may not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,[67] effective July 2, 2001.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

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proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant action at this time, and that a further delay in considering the proposal, extension of the comment period, or a denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

[67] Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.