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November 28, 2000

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Re: Supplement to CitiFinancial Initiative Letter dated November 7, 2000

Dear Ladies and Gentleman:

After considering public comments made during the hearing held on November 10, supplemental filings by community groups and questions from regulators in connection with the pending notices and applications, Citigroup's consumer finance subsidiary, CitiFinancial, has determined to supplement the voluntary initiatives (the "Initiatives") outlined in its letter of November 7, 2000 to the New York State Banking Department, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. These additional measures are intended to ensure that the spirit of the Initiatives is carried out in a prompt and effective manner and that the results of the Initiatives are made available to each of your agencies. Details on these supplemental measures are, in most cases, necessarily preliminary and are expected to be revised and refined as CitiFinancial implements the Initiatives. These measures are organized below under the subject headings found in the November 7 letter describing CitiFinancial's voluntary Initiatives. In addition to these supplemental measures, we also respond below to certain allegations raised in the record.

Like the Initiatives, these supplemental measures are a voluntary effort on the part of CitiFinancial to address concerns about the operation of the combined CitiFinancial and Associates consumer finance business. The applications now pending before each of your agencies clearly satisfy the standards under which each agency must act, notwithstanding this voluntary decision to adopt the Initiatives. Like the Initiatives, these supplemental measures are in the process of being incorporated into the business model of CitiFinancial. CitiFinancial expects to be held accountable for the implementation and execution of these measures by each of your agencies, as well as the public. Accordingly, CitiFinancial commits to meet with the agencies periodically to review the progress in developing, implementing and monitoring the Initiatives, as modified by this letter.

I. ACCESS TO LOW COST CREDIT

- **Referral Up Pilot**

CitiFinancial's Referral Up Pilot described in the Initiatives will test a program to inform consumers who approach a CitiFinancial branch network office, and who appear to qualify for a prime loan, of their options. The Referral Up Pilot will begin in January 2001 in all CitiFinancial network offices in Maryland, Missouri, New York and Virginia. The pilot is intended to determine how, and not whether, to put the program in place in all states. The length of the Referral Up Pilot has not been determined, but CitiFinancial plans to begin a national program during 2001.

The Referral Up Pilot has been substantially improved and expanded since the November 7 announcement, based on the input described above. In order to understand the Referral Up Pilot, an explanation of the manner in which prime first mortgage loan applicants are processed by CitiMortgage, Inc. ("CitiMortgage"), Citigroup's primary channel for prime real-estate secured loans, is helpful. A consumer who enters a Citibank branch office seeking to apply for a real estate-secured loan is typically directed to a CitiMortgage toll-free number, or referred to a mortgage consultant if available. Indeed, many consumers do not go through a

Citibank branch at all, but simply contact CitiMortgage's toll-free number directly. Because Citibank's branch distribution is limited to a handful of major urban centers, most real estate-secured direct loan applicants contact CitiMortgage through the toll-free number or website.

A consumer that uses the CitiMortgage toll-free number to inquire about a real estate-secured loan may ask the CitiMortgage representative to be prequalified for such a loan based on information provided over the telephone, as well as other information, such as credit reports, obtained simultaneously by the CitiMortgage representative. Prequalification provides a high likelihood that CitiMortgage will grant the loan, although final approval depends upon the completion of an application, receipt of qualifying appraisals, verification of application information, the payment of application fees, and other factors.

As currently envisioned, the Referral Up Pilot will apply to all customers who apply for a consumer finance real estate-secured loan through the CitiFinancial branch office network. Under the pilot, all applicants for consumer finance real estate-secured loans will continue to have their applications processed in the same manner. MAESTRO (the CitiFinancial computer system used for consumer finance application processing) will identify for the CitiFinancial loan employee taking the application, each applicant that meets a threshold credit score, loan to value ratio, and debt-to-income ratio commonly used by CitiMortgage to prequalify applicants for prime or conventional loans.

Subject to any prior approval requirements under applicable consumer protection laws, the CitiFinancial employee then will contact a special desk within CitiMortgage, which will attempt to prequalify the applicant for a prime mortgage loan. This prequalification process may occur while the applicant is in the CitiFinancial branch office. In such a case, the prequalified applicant will be immediately advised of his or her prequalification and option to apply for a prime loan.

In every other case, an applicant for a CitiFinancial real estate-secured consumer finance loan who is prequalified for a prime loan will be informed by a letter and a follow-up telephone call that they have been prequalified for a prime loan at a lower interest rate. The letter will encourage the applicant to make application for a prime loan to CitiMortgage or another specific member of the Citigroup family. The letter will also explain the CitiMortgage application process and timing, application fees and product terms.

The prime loan prequalification letter will be forwarded to such applicant early in the consumer finance loan process, enabling the applicant to have sufficient time to assess his or her situation, begin an application for prime credit, or continue with CitiFinancial. The prime loan prequalification letter will be sent at the same time that CitiFinancial sends by mail the written disclosures required for a real estate-secured consumer finance loan such as the Good Faith Estimate and Transfer of Servicing disclosures. Such disclosures must be sent no more than three days after receiving the application.

The letter will be followed by a telephone call to be certain that the applicant understands his or her available options. CitiFinancial also will inform CitiMortgage that the prequalified applicant has been notified of his or her options.

CitiFinancial applicants prequalified for a prime loan will be able to apply for a prime loan through any one of the convenient methods currently available for all other applicants to CitiMortgage, as noted above, or by using a dedicated toll-free number to a special referral staff that will be created as part of the Referral Up Pilot.

CitiFinancial will evaluate every new application against the Referral Up Pilot criteria, regardless of whether the applicant is an existing or new CitiFinancial customer. As an additional measure to ensure that all applicants meeting the credit criteria are prequalified and contacted directly by CitiMortgage, CitiFinancial is evaluating its internal incentive system to determine how best to encourage employees to refer qualified applicants to Citigroup prime channel lenders.

CitiFinancial will have its independent auditors review and make recommendations regarding the operation of the Referral Up Pilot. An independent third party will also conduct mystery shopping on the program. The results of the review, recommendation and mystery shopping will be shared with each of your agencies, together with the telephone script and correspondence to applicants concerning qualification for a prime loan.

- **Freedom-Like Loan Program**

As part of the CitiFinancial Initiatives, CitiFinancial is designing a loan program which recognizes improvement in the timeliness of payments by a borrower. The Freedom Loan rewards a borrower who pays punctually, granting a borrower several interest rate reductions as milestones for timely payments.

The similar CitiFinancial program will be responsible for monitoring and tracking the program's criteria for every new, fixed-rate, closed-end real estate-secured consumer finance loan and will automatically provide rewards for meeting the criteria. The borrower will be provided in each monthly statement the status of the borrower's timely payments and the amount of any interest rate reduction in a similar manner to Associates Freedom Loan. The program is expected to be introduced promptly after closing and will apply to all subsequent fixed-rate, closed-end, real estate-secured loans.

- **Graduation Loan Program**

As part of CitiFinancial's Initiatives, CitiFinancial is in the process of designing a Graduation Loan Program to facilitate refinancing by customers who achieve prime credit status into a conventional real estate-secured loan with a member of the Citigroup family.

CitiFinancial will be responsible for monitoring and tracking whether borrowers have satisfied the requirements of the program. While the specifics of the Graduation Loan Program are being developed, the MAESTRO system will monitor and track borrowers' performance under the Graduation Loan Program criteria. Borrowers will be automatically advised when they meet these criteria.

II. SALES PRACTICES

- **Compliance Programs**

As stated in the Initiatives, CitiFinancial will conduct a thorough review of the existing consumer finance compliance programs of CitiFinancial, including compliance manuals, training programs and compliance and examination policies and procedures. The objective is to identify improvements and enhancements to the program with respect to both the integration of the ongoing business operations of CitiFinancial and changes related to the Initiatives.

The review of CitiFinancial's branch office network is underway. During the first and second quarters of 2001, reviews will be conducted of the compliance programs in place in the broker and correspondent businesses.

By mid-year (if not sooner), CitiFinancial anticipates its compliance program review will be submitted to its independent auditors for recommendations on CitiFinancial's plan to implement changes addressed by this review. CitiFinancial anticipates implementing the auditors' recommendations during the fourth quarter of 2001. CitiFinancial will share the results of its compliance program review, including the recommendations of its independent auditors with each of your agencies.

- **Mystery Shopper Program**

The new Mystery Shopper Program will be introduced at CitiFinancial's existing network offices beginning in December and will be introduced at the offices that CitiFinancial acquires from Associates during the second quarter of 2001. The program will be conducted by an independent third party.

III. PRODUCTS

- **Single Premium Credit Insurance Pilot**

In its November 7 filing, CitiFinancial explained that it would introduce a monthly premium credit insurance product that would be offered to all customers whenever CitiFinancial offers credit insurance. Subject to state approval, the product will be offered in all states. A special 18-month pilot program (the "Insurance Pilot") will be introduced in New York and one additional state, to be determined (the "Other State") and will involve the following features:

- *Comparison of Customer Choice* - In order to determine customer reaction to the new monthly premium product, CitiFinancial will, in one-half of its New York branch offices and one-half of the branches in the Other State, offer consumers the choice of (i) single premium credit insurance, (ii) monthly premium credit insurance or (iii) no credit insurance. In other similarly-situated New York branch offices and Other State branch offices, CitiFinancial will offer consumer finance applicants a choice between the monthly premium product or no insurance. These customers will not be offered single premium insurance. CitiFinancial will submit a list of the New York offices proposed for each group to the New York State Banking Department.

- *Reporting* - CitiFinancial will monitor the performance of the Insurance Pilot within New York, and report regularly to the New York State Banking Department:

    - the rate structure of the insurance products offered;
    - the number of each type of policy issued by branch offices in each group;
    - compensation arrangements for sales personnel with respect to the sale of these insurance products; and
    - the results of an independent third party mystery shopping on the Insurance Pilot.

- *Sales Training* - CitiFinancial will provide the New York State Banking Department with sales training materials for the Insurance Pilot.

- *Insurance Approval* - CitiFinancial expects to file an application for monthly credit insurance with the New York State Insurance Department in December 2000 and will invite the New York State Banking Department to work closely with the New York State Insurance Department toward prompt action on the application. The 18-month Insurance Pilot will begin in each state once the insurance product is approved in each state.

- *Initiation* - CitiFinancial will be prepared to begin the Insurance Pilot as promptly as possible, subject only to state approval of the monthly premium product. In order to train its staff in New York and convert its systems to offer both products, CitiFinancial will cease all sales of single premium insurance in New York State until it is able to offer this new product, or three months after CitiFinancial applies to the New York State Insurance Department for approval of a monthly premium credit insurance product, whichever occurs first.

- **Prepayment Fees**

The CitiFinancial Initiatives will reduce from five to three years the term during which prepayment fees will be payable on its loans. In those states that require shorter prepayment fee periods, CitiFinancial currently observes all such limits. In particular, with respect to New York, which limits prepayment fees to no more than the first year, CitiFinancial's prepayment fees are currently limited to the first year and will remain limited to one year.

IV. FORECLOSURE REVIEW

As part of its Initiatives, CitiFinancial will promptly create a unit specially trained by its compliance department to review pending and potential foreclosure actions, together with those in the recent past, to ensure that no borrower inappropriately loses his or her home through foreclosure. The unit will review foreclosures on loans held by CitiFinancial and Associates (whether made through a branch office, a broker, or a correspondent) and take appropriate action. If the unit concludes that foreclosure is not appropriate, it will recommend what other action is necessary on the delinquent balance. The unit will also review consumer finance real estate-secured loans that are serviced, although not owned, by CitiFinancial (and that are usually part of securitization pools) and, because CitiFinancial cannot act on its own initiative, will make appropriate recommendations to the trustee or investor.

While the specifics of the foreclosure review are being developed, among the factors that CitiFinancial expects that it will consider in evaluating the appropriateness of foreclosure would be circumstances where a borrower did not have an ability to repay the loan at the time the loan was made. In addition, a borrower whose loan has been too frequently refinanced by us or who paid excessive lender points or fees or insurance premiums would be subject to reconsideration. Other considerations would include, for example, the age of the borrower, the reason for default, and the location of the property.

As with other aspects of the Initiatives, CitiFinancial expects to complete promptly the process of developing appropriate procedures and standards to be used by the special foreclosure unit. CitiFinancial will share the proposed standards with each of your agencies prior to implementation.

CitiFinancial anticipates the review process will involve several levels of review and supervision. The initial screen will be applied by business and compliance staff familiar with the loan and reviewed by at least the next level of supervision. If the screen reveals any area of concern, it will be forwarded to a foreclosure reviewer specially trained in fair lending and related areas who, working under the supervision of CitiFinancial's General Counsel, will conduct a thorough review of the loan and make a recommendation as to whether foreclosure should be stopped. The recommendation and the supporting information that mitigates against foreclosure will be forwarded to a senior compliance officer or attorney for a final decision.

Assuming the decision is made to avoid foreclosure, a combined team of loan officers, legal advisers, credit specialists and other trained personnel, as needed, will determine what action to take to resolve the loan. These actions, which are dependent on the particular facts and circumstances of each case, may include, among other things:

- waiving the remaining loan balance and releasing the mortgage lien,
- modifying the loan terms (reducing the interest rate, lowering the monthly payments, extending the loan term),
- settling for repayment of part of the loan balance,
- cooperating with the owner in the sale of the property,
- subordinating the lien of the mortgage to another lender who will refinance the balance,
- assisting the borrower to qualify for emergency housing financial assistance from a state or agency fund,
- helping the borrower obtain credit/housing counseling,
- deferring payments until the borrower is able to resume payments,
- for senior borrowers, taking a deed in lieu of foreclosure and providing the senior borrower a life estate,
- refunding credit insurance premiums, or
- refunding points.

In order to assure that the review process is conducted in an even-handed and consistent manner, CitiFinancial anticipates having the process audited on a regular basis, not only by its own compliance and audit personnel, but also by its independent auditors. The auditor's proposed role will be presented to the New York State Banking Department for review and comment before implementation.

V. OTHER ISSUES

- **Delinquency and Foreclosure**

As noted at page 15 of the November 7 filing, the effectiveness of CitiFinancial's sales and compliance practices is demonstrated by the low delinquency and foreclosure rates on its loans. CitiFinancial's foreclosure rate for 1998-1999 with respect to its branch-originated loans was approximately 1.0 percent, which is substantially below the industry foreclosure level of approximately 2.6 percent.[1] Similarly, CitiFinancial's serious delinquency rate (i.e., loans 90 days overdue or in foreclosure) was approximately 1.4 percent during that period, as compared to an industry rate of approximately 4.8 percent.[2]

- **MAESTRO System**

Some commentators have suggested that CitiFinancial's Referral Up Pilot should be structured as a seamless process in which CitiFinancial would actually underwrite and qualify borrowers on behalf of Citigroup's prime channels. For a number of reasons, it is not presently feasible for the CitiFinancial MAESTRO system to accommodate such a process. Nor does such an alteration of CitiFinancial's core operating system appear warranted, especially in light of the Referral Up Pilot, Freedom-like loan program and Graduation Loan programs described above.

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1 In order to compare CitiFinancial's record with a publicly available figure for industry foreclosures, CitiFinancial used statistics relied upon by the Departments of Housing and Urban Development and Treasury in their analysis of the consumer finance market. See Report on Subprime Lending issued by the Department of Housing and Urban Development and the Department of the Treasury at p. 34. CitiFinancial's foreclosure and delinquency rates were calculated on the same basis using the same 1998-1999 period as the HUD/Treasury report.

As described in footnotes 12 and 13 to the November 7 response to commentators, CitiFinancial acts as servicer and is bound by a related servicing agreement in connection with certain loans originated or purchased by IMC Mortgage Company that were sold to securitization pools. CitiFinancial's foreclosure rates do not include these IMC loans.

CitiFinancial did not acquire, and does not currently own, IMC. Moreover, CitiFinancial did not acquire any of IMC's loans as part of the November 1999 transaction in which it acquired the IMC servicing rights. Because it merely services and does not own the IMC loans, CitiFinancial cannot choose unilaterally to forego foreclosure proceedings for individual loans, as it might choose to do with respect to loans in its own portfolio. As described above, however, CitiFinancial will make appropriate recommendations to the trustees and investors for these loans.

2 Mortgage Market Statistical Annual, Year 2000 Edition, Vol. 1.

CitiFinancial developed the MAESTRO system in 1991 to provide its branches with an automated front-end system to originate and service its personal and home equity loan business. MAESTRO is customized to handle CitiFinancial's method of conducting business, which includes taking applications, applying underwriting standards, making product and pricing determinations, preparing loan documents, servicing loans, and record-keeping. The system has accounting features and facilitates compliance with reporting and other requirements. MAESTRO also contains CitiFinancial's on-line policy procedures manual to give employees easy access to company policy and state legal requirements. In a nutshell, MAESTRO is the heart of CitiFinancial's consumer finance lending operation.

Citibank's prime conventional real estate-secured products are Fannie Mae/Freddie Mac conforming and are typically purchase money transactions. In contrast, CitiFinancial does not offer purchase money mortgages. Consequently, for MAESTRO to accommodate Citibank's products, significant and major changes would have to be made to the MAESTRO application code and system architecture. Changes to the system would undermine the efficiency and effectiveness of a system specialized for consumer finance. Examples of some of the fundamental changes that would have to be made include:

- CitiFinancial would need to incorporate the Fannie Mae/Freddie Mac forms, such as application forms. A Form 1003 application requires significantly more information than is needed for CitiFinancial's streamlined process. MAESTRO uses a simple and short on-line application for both personal loans and home equity business.
- The MAESTRO systems cannot substitute for the Fannie Mae/Freddie Mac's desktop underwriting system. Therefore, in addition to running MAESTRO, CitiFinancial would need to run the Fannie Mae system, which requires consideration and verification of different and considerably more factors than is required for MAESTRO.
- In addition to being knowledgeable regarding the products and services sold as part of CitiFinancial's core business, CitiFinancial employees would need to be trained as experts in a specialized line of business (Fannie Mae/Freddie Mac conforming loans) for purposes of accommodating a small number of customers.

In short, to offer Citibank's prime products, CitiFinancial would be required to restructure and maintain, at substantial cost, a separate infrastructure not required by its current business. The benefits that would accrue to only a small percentage of CitiFinancial's applicant pool from such an undertaking would not justify the substantial costs involved.

- **Broker Fees**

The CitiFinancial Initiatives include a new limit on broker compensation. Set forth below are the limits on points that are now applicable to CitiFinancial for loans and on-us refinancings. Also set forth are the limits on total points allowed in any loan that involves a broker, and an explanation of points that a broker may receive in an on-us refinancing.

CitiFinancial loan pricing is based on APR, which is unaffected by points charged on a loan. All lender points charged by CitiFinancial will reduce the interest rate on the loan.

Loan Type	**Maximum Points (Subject to state legal maximums)**
1. Original Loan – No broker involvement	5 lender points on loan amount
2. Original Loan – With broker involvement	
a. Test states (Maryland and Illinois)	3 points total for lender points and broker fees with no back-end compensation from lender to broker.
b. All other states	8 points total for lender points and broker fees with a cap of 2 points that lender may pay broker as back-end compensation. Lender points subject to 5 point maximum. For example, if broker charges 4 points; lender can charge up to 4 points. If broker charges 5 points, lender can charge up to 3 points.
3. On-Us Refinancing	
a. Within the first 12 months	5 lender points on new money[3]
b. Within 13-24 months	3.5 lender points on loan amount
c. After 24 months	5 lender points on loan amount
d. At any time, to refinance existing balance.[4]	No points
e. At any time, to refinance for up to and including 110% of the refinanced loan.[5]	Points only on new money

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3 For this purpose, new money includes all amounts in excess of the original loan amount. For example, assume that in January 2001, a person borrows $10,000 from CitiFinancial and pays 2 points on the original loan. In October 2001 (less than 12 months from the original loan), the borrower seeks to (i) refinance the $10,000 outstanding balance and (ii) borrow an additional $5,000, for a total loan of $15,000. In this instance, the maximum number of points the borrower would be charged would be $250 (5 points on the $5,000 in new money), which amounts to only 1.7 percent of the $15,000 loan.

4 For example, in order to cure a delinquency.

5 As noted below under "Protection Against Inappropriate Refinancing," this is a new limit intended to help ensure that there is no inappropriate refinancing.

With respect to the overlap of categories 2 and 3 above, i.e., an on-us refinancing brought to CitiFinancial by a broker, the amount of the fees paid to the broker depends upon whether the broker brought the original loan to CitiFinancial. If the broker brought the customer to CitiFinancial for the existing loan, CitiFinancial would only compensate the broker for new money on an on-us refinancing within twelve months of the original loan date. This policy is consistent with CitiFinancial's understanding with brokers that they are not permitted to solicit a borrower for at least a year after they bring an applicant to CitiFinancial. After the end of the first year of the CitiFinancial loan, the maximum points allowed for loans with broker involvement (listed in the chart above) would apply. In the exceedingly rare instance in which a broker brings to CitiFinancial a customer who seeks to refinance a CitiFinancial loan that was not originally sourced by the broker, the maximum points allowed for loans with broker involvement (listed in the chart above) would apply for any such on-us refinancing.

- **Protection Against Inappropriate Refinancing**

As noted in the Initiatives, CitiFinancial currently places restrictions with respect to "on-us" refinancing (i.e., where a customer seeks to refinance a CitiFinancial loan) to guard against flipping, including point limits. Points, which critics view as a principal incentive for flipping, are limited to the new money portion of an on-us refinancing during the first 12 months after a loan. During the second 12 months, points are capped at 3.5 percent. After the first 24 months, points are capped at 5 percent. In addition, as noted above, CitiFinancial's lender points have the effect of reducing the interest rate on the loan.

To add additional safeguards against inappropriate on-us refinancing, CitiFinancial agreed as part of the Initiatives to review refinancing procedures, to ensure that it does not refinance below market rate loans by non-profits and certain other loan programs, and to adopt the Referral Up, Freedom-like and Graduation Loan programs to provide customers whose credit improves alternatives to consumer finance products.

In addition to these limits and safeguards, CitiFinancial will adopt these new limitations to on-us refinancings.

- For any refinancing of our loan, at any time, where new money does not exceed 10 percent of the balance amount of the refinanced loan, CitiFinancial will charge points only on new money. For loans with new money in excess of 10 percent of the refinanced loan amount, the usual fee limits explained in the chart above would apply.

- For any refinancing of our loan, CitiFinancial will advise the borrower orally and in writing that the cost of refinancing, i.e., points or charges, should be weighed against the benefits of the refinancing, including the amount of the net additional loan proceeds.

CitiFinancial believes that these new measures will provide ample protection against inappropriate refinancing when coupled with (i) CitiFinancial's compliance and audit systems, (ii) a compensation system that takes into account compliance and the performance of loans that a branch office originates, (iii) the lack of prepayment penalties for on-us refinancings, (iv) existing limits on points described above, and (v) CitiFinancial's tangible benefit test of refinancings. The effectiveness of these limits and internal controls working together is demonstrated by CitiFinancial's low delinquency level and high customer satisfaction rating.

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In summary, these additions and expansions of the voluntary Initiatives undertaken by CitiFinancial will help to ensure that the combined CitiFinancial and Associates real estate-secured consumer finance business will by operated according to the highest standards. Although the details of these Initiatives will continue to develop over time, CitiFinancial expects to be held accountable for the efficient and effective implementation of the Initiatives. Citigroup's pending notices and applications to acquire Associates clearly meet or exceed the relevant legal standards under which such filings must be judged by each of your agencies. CitiFinancial's thorough and unprecedented changes to the resulting real estate-secured consumer finance business, provide an important and meaningful public benefit to the consumer finance customers far beyond any required by the relevant statutes.

Sincerely,

Robert B. Willumstad