citigroup

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November 7, 2000

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Re: Response by Citigroup Inc. ("Citigroup") to Public Comments Regarding Its Acquisition of Associates First Capital Corporation ("Associates")

Dear Ms. Williams and Mr. Zamorski:

Please find enclosed a copy of a response prepared by Citigroup Inc. and CitiFinancial to comments filed in connection with the above-referenced notices and application.

Sincerely,

Pamela P. Flaherty

cc: Distribution

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CITIGROUP INC.

Response To Public Comments
filed with the

Office of the Comptroller of the Currency
and
Federal Deposit Insurance Corporation

In Connection with
the
Indirect Acquisition of

Associates National Bank (Delaware),
Associates Capital Bank, Inc.
and
Hurley State Bank

November 7, 2000

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OMNIBUS RESPONSE TO
COMMENTS OF COMMUNITY GROUPS

I. Introduction.

On September 6, 2000, Citigroup Inc. ("Citigroup") announced that it would acquire Associates First Capital Corporation ("Associates"). Aspects of the acquisition require prior approval or clearance from a variety of federal, state and foreign financial and antitrust regulators. Notices under the federal Change in Bank Control Act ("CBC Act")[1] with respect to each of Associates' three banking subsidiaries (the "Banks") were filed with the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") on or about September 15, 2000.[2]

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1 12 U.S.C. § 1817(j).

2 Citigroup has filed:

(i) a CBC Act notice with the OCC for the indirect acquisition of Associates National Bank (Delaware), Newark, Delaware;

(ii) a CBC Act notice with the FDIC and a notice with the Utah Commissioner of Financial Institutions for the indirect acquisition of Associates' industrial loan company, Associates Capital Bank, Inc., Salt Lake City, Utah; and

(iii) a CBC Act notice with the FDIC and a notice with the South Dakota Department of Commerce and Regulation - Banking Division for the acquisition of Hurley State Bank, Sioux Falls, South Dakota, a limited purpose credit card bank.

A. The public has taken advantage of the substantial time allowed for comment on Citigroup's Notices.

Notice of the transaction was published in local newspapers on September 15, 2000, as required by OCC and FDIC regulations. The OCC and FDIC subsequently extended the end of the public comment period on the federal Notices filed with these agencies for an additional 10 days to ensure all interested parties would have adequate time to comment. Citigroup estimates that more than 120 written comments were filed with the OCC and FDIC in connection with the Notices. Citigroup representatives also have held voluntary informal meetings and calls with approximately 50 community groups and other interested parties throughout the country, primarily to better understand community concerns regarding the proposed acquisition.

While Citigroup takes these comments very seriously and has specific proposals to address the issues raised by these comments, many of the comments received are not relevant, as a statutory matter, to the agencies' consideration of the Notices. Some commenters, for example, have expressed concern that (i) the Community Reinvestment Act (the "CRA") records of the parties are not part of the statutory criteria considered by the federal regulators and (ii) the OCC and FDIC have not held public hearings. As described in detail in Section V below, (i) the

CRA records of the parties are not part of the statutory criteria considered under the CBC Act, and (ii) the CBC Act does not provide for public hearings.

While the CBC Act does not direct federal regulators to hold public hearings on the Notices, the agencies' regulations and procedures under the CBC Act afford the public an opportunity to supply comments, as previously described. The volume of written comments submitted (including, in some cases, multiple comments by the same party) attests that commenters have had ample opportunity to communicate any concerns regarding the acquisition to the OCC and FDIC.

B. Citigroup's Notices meet the statutory criteria for clearance under the Change in Bank Control Act.

The CBC Act authorizes each of the OCC and the FDIC to disapprove a change in control of the Banks if it determines that:

- the acquisition would have an adverse competitive effect (under the same standards applicable under the Bank Holding Company Act[3] and the Bank Merger Act [4]);

- the financial condition of Citigroup might jeopardize the financial stability of the Banks;

- the competence, experience, or integrity of Citigroup or of any of the proposed management personnel indicates that it would not be in the interests of the Bank's depositors or the public to permit such person to control the Banks;

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3 12 U.S.C. § 1841 et. seq.

4 12 U.S.C. § 1828(c).

- Citigroup neglects, fails, or refuses to furnish the information required by the agency; or

- the agency determines that the transaction would have an adverse effect on the Bank Insurance Fund or the Savings Association Insurance Fund.[5]

The proposed acquisition of the Banks satisfies the applicable standards set forth in the CBC Act.

The acquisition would have no adverse competitive impact. The acquisition was independently subject to the review of federal antitrust authorities pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976.[6] Citigroup satisfied those authorities that the transaction raises no competitive issues, and the transaction was cleared from further review by the Federal Trade Commission on October 2, 2000. The acquisition of the Banks also does not raise competitive issues under the competitive analysis that the bank regulators conduct, as set forth in the Notices.

Citigroup's financial condition would not threaten the banks. With respect to the second standard, the financial condition of Citigroup would not threaten the financial stability of any of the Banks. To the contrary, as the ultimate

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5 12 U.S.C. § 1817(j).

6 15 U.S.C. § 18a.

parent of the Banks, Citigroup has far greater financial resources available to it than does the Banks' current parent.

Citigroup's competence, experience and integrity is consistent with the interests of the Banks' depositors and public interests. There is substantial evidence supporting the conclusion that the competence, experience and integrity of Citigroup is substantial and would serve the interests of the depositors of the Banks and public interests. First, Citigroup and its management are regularly subject to examination by Citigroup's principal federal regulator, the Board of Governors of the Federal Reserve System ("Federal Reserve Board" or "Federal Reserve"). The Federal Reserve has given Citigroup's management a rating, which is not public, but is available to the other banking regulators.

Second, as the OCC and the FDIC are aware, each of Citigroup's subsidiary banks and thrifts are routinely examined by appropriate federal or state bank regulatory agencies on a variety of matters and each has received a management rating. Those ratings reflect directly upon the management of the depository institutions and indirectly on Citigroup, which oversees the management of its various businesses and subsidiaries. Thus, satisfactory ratings on management of the banks would be consistent with a conclusion that the competence, experience and integrity of Citigroup satisfies the standard of the CBC Act. While those ratings are not public, each was required to have been satisfactory or better for Citigroup to have qualified as a financial holding company earlier this year.

Some commenters have encouraged the OCC and FDIC, in considering the "competence, experience and integrity" of Citigroup, to focus on its consumer finance lending operations. Following the acquisition, Citigroup will be a large participant in the consumer finance market, just as it is a significant force in most aspects of the financial services industry. The importance to consumers of Citigroup's role in this market has been recognized by its most senior management officials. In announcing the new initiatives described below in Part III, Sanford I. Weill, Chairman and Chief Executive Officer of Citigroup noted:

> We prize our long-standing reputation for service to customers and communities and we recognize that CitiFinancial's position as the soon-to-be largest consumer finance company in the United States, gives it the opportunity to play an even more important and valuable role in communities in which it does business. While many of our products and practices are among the best in the industry, we are proud to do more.

The consumer finance market fulfills an important role in communities by providing access to credit for individuals with impaired credit. The banking agencies have recognized the benefits of the consumer finance market and have sought to avoid unnecessary restrictions which could have the effect of reducing available credit for qualified borrowers. In her testimony before the House Committee on Banking and Financial Services, for example, FDIC Chairwoman Donna Tanoue differentiated lending by consumer finance lenders from so-called "predatory" lending and called well-managed consumer finance lending programs "an important source of credit for [higher risk] borrowers . . ."[7] She went on to say that "the FDIC does not want to inhibit subprime lending . . . . Lenders should have the flexibility to effectively manage their risk without reducing credit availability for those who must rely on 'subprime' products to obtain the financing that they need."[8] Comptroller of the Currency John D. Hawke, Jr. similarly testified:

> [t]he OCC, in fact, encourages responsible, risk-based subprime lending to borrowers who are willing and able to repay their loans. Lending to subprime credit applicants, whose credit histories, or lack thereof, indicate a higher than normal risk of default, can be conducted in a fair and responsible manner. . . . Such fair and responsible subprime lending can be of benefit to a wide range of borrowers who might otherwise not have access to credit. . . . [W]e need to preserve and encourage, to the greatest extent possible, consumer access to credit, meaningful consumer choice, and competition among responsible lenders in the provi-

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[7] *Full Committee Hearing on Predatory Lending Practices Before the House Committee on Banking and Financial Services*, 106th Cong. 38 (2000) (Statement of the Hon. Donna Tanoue, Director, Federal Deposit Insurance Corporation).

[8] Id.

> sion of financial services to low- and moderate-income families."[9]

Superintendent Elizabeth McCaul of the New York State Banking Department similarly has acknowledged, while consumer finance lending can be abused, there is an important role for responsible lenders to play:

> [T]he sale and approval of loans that are too expensive for the consumer, that contain unnecessary and unjustified fees and other costs, and that result in homeowners losing equity and ultimately possession of their homes [must be prevented]. . . . [We will] . . . make sure that families have access to the credit they need to pursue the American dream of home ownership. Sub-prime lenders can help provide credit and liquidity to members of the consumer market that otherwise might have difficulty obtaining homeowner loans.[10]

Citigroup firmly believes that its involvement in this market provides benefits to consumers by expanding their financing alternatives, by increasing the quality of products offered, and by insuring adherence to high standards for sales practices. First, Citigroup's participation increases market liquidity and thereby increases credit availability for individuals with impaired credit. Second, Citigroup's

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9 *Full Committee Hearing on Predatory Lending Practices Before the House Committee on Banking and Financial Services*, 106th Cong. 36 (2000) (Statement of the Hon. John D. Hawke, Jr., Comptroller of the Currency).

10 Remarks by Elizabeth McCaul, Superintendent of the State of New York Banking Department, Neighborhood Housing Services 2000 Gala in NYC Speech on October 24, 2000.

extensive financial resources and new product development expertise expand the product choices available to consumers. Indeed, tangible and immediate evidence of product enhancements and consumer benefits that will result from Citigroup's increased role in the consumer finance market is provided by the innovative initiatives that will be adopted by the combined company, discussed later in this document. Finally, companies like Citigroup have the experience and expertise in compliance programs and internal control systems that allow them to offer high levels of customer service and impose high standards for sales practices.

As demonstrated in the following paragraphs and the Notices, Citigroup's current activities and proposed initiatives within the consumer finance market are consistent with high standards of integrity and public interests.

Citigroup has furnished all requested information. Citigroup has furnished all information requested by the regulators in connection with the Notices and has not been advised by the regulators of any additional request.

The acquisition would have no negative effect on the deposit insurance funds. The deposits of each of the Banks are insured by the FDIC. Citigroup's rigorous compliance and supervision policies, and its substantial financial resources benefit the FDIC's insurance funds.

In sum, Citigroup's Notices meet the criteria for regulatory clearance under the CBC Act.

* * *

The following pages respond to the most frequently-expressed concerns of commenters, who represent a wide cross-section of views and interests. Citigroup believes that the current products and services of its subsidiary, CitiFinancial Credit Company ("CitiFinancial"), within the consumer finance market are necessary and valuable to customers and already contain consumer protections superior to CitiFinancial's competitors, on both an individual and collective basis. Despite its current leadership position and reputation within the consumer finance market, CitiFinancial has developed an innovative set of product enhancements that will provide even greater consumer protection and choice. Citigroup also anticipates that its successful implementation within the combined company of new initiatives within the consumer finance operations, described in Section III, will provide a model for best practices within the consumer finance industry. In adopting these measures, CitiFinancial has taken meaningful steps to take into account the issues raised by community groups that have expressed scepticism about the merger. Citigroup has considered all comments. While we have not embraced the entirety of the suggestions made by all commenters, we believe that the steps outlined below represent a responsible effort to address the substance of these comments.

II. Citigroup's consumer finance lenders have strong records of compliance and responsible lending.

A. Overview.

Following the close of the merger, Associates' domestic consumer finance branch office and broker business will be combined with Citigroup's consumer finance business, most of which resides within CitiFinancial. CitiFinancial's network of loan offices consists of several dozen subsidiaries engaged in consumer lending in about 1,150 loan offices in 48 states.[11] On or about January 1, 2001, it is expected that Associates' 750 full-service consumer finance branch operations will be converted to CitiFinancial loan offices.

In addition to CitiFinancial's loan office operations, CitiFinancial Mortgage Company, a new subsidiary of CitiFinancial, operates a modest wholesale loan business.[12] Associates' broker and correspondent loan operations will also be

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[11] Other subsidiaries of CitiFinancial include Travelers Bank & Trust, fsb ("Travelers Bank") and CitiFinancial Mortgage Company. Travelers Bank is engaged in a national mortgage loan program pursuant to which affiliates of the bank, including Primerica Financial Services ("PFS"), originate applications for first and second mortgage loans to Travelers Bank. Travelers Bank maintains approximately 20 agency offices nationwide to handle applications from these exclusive PFS sales representatives.

[12] Incorporated last year, CitiFinancial Mortgage Company was created as the vehicle to hold and operate the lending and servicing platform, including office facilities and physical plant, acquired from IMC Mortgage Company ("IMC"). CitiFinancial acquired only certain assets of IMC at that time.

(continued...)

combined with compatible units within CitiFinancial's indirect consumer finance business.

Many of CitiFinancial's practices are among the best in the industry. As described in the sections that follow, CitiFinancial has adopted policies, practices and compliance procedures within its loan office network that guard against fraudulent, abusive or high pressure sales tactics. As part of these policies and practices, CitiFinancial conducts a careful analysis of each borrower's creditworthiness and ability to repay. The effectiveness of this analysis is demonstrated by the fact that CitiFinancial's foreclosure levels are low; and, in accordance with policy, foreclosures occur only after exhaustion of other remedies. In addition to its retail operations, CitiFinancial has high standards for broker-sourced loans it originates ("broker loans") and for loans originated by correspondents that are acquired in loan pools ("correspondent loans"). CitiFinancial conducts careful reviews of the brokers and correspondents with whom it does business. Compliance with these policies and procedures is ensured through a comprehensive compliance program, described below.

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12 (...continued)
CitiFinancial also acquired certain servicing rights and assumed certain servicing obligations for loans originated and sold by IMC. IMC continues to exist as a separate and unaffiliated entity.

B. Sales Practices.

CitiFinancial’s loan offices have policies, practices and compliance procedures that guard against fraudulent, abusive or high pressure sales tactics, including so-called insurance packing, excessive refinancing or equity stripping. Once Associates' domestic retail branch offices become CitiFinancial offices, the sales practices within these offices will become subject to CitiFinancial's policies and practices, and will be subject to the oversight of CitiFinancial's compliance and audit procedures. Following is a description of the controls and consumer protections that currently apply to the CitiFinancial network.

CitiFinancial guards against credit insurance packing. The CitiFinancial loan offices currently sell credit insurance in accordance with policies and practices designed to ensure maximum consumer protection during the sales process. First, CitiFinancial customers are reminded throughout the loan process that purchasing credit insurance is optional and is not a condition to obtaining the loan. Borrowers are told several times – at the time of application, pre-closing and closing – about the voluntary nature of all credit insurance products. Moreover, all loans are closed in the loan office, where copies of the Customers Insurance Rights notice are prominently displayed in plain sight of the borrower – frequently on the closing table.

Second, CitiFinancial loan offices prominently disclose the terms of the insurance, including differences in the amount of the borrower's payments with and without purchasing the insurance. Loan agreements quote the payment with and without insurance and employees are trained and required to inform the borrower of both payment amounts.

Third, customers have 30 days within which they can change their minds, cancel the insurance and receive a full refund. After 30 days, they can still cancel the insurance and receive a refund of the unearned premium, as determined by state insurance regulations. CitiFinancial loan offices provide and prominently display a toll-free number that customers may call in order to cancel their insurance, without having to go through loan office personnel or anyone involved in the original loan transaction.

CitiFinancial protects against equity stripping. The determination whether to extend credit is based upon a borrower's creditworthiness and ability to repay the loan – not the equity available in the home. Creditworthiness and ability to repay are based upon empirically derived, statistically significant credit bureau scoring and proprietary models, among other factors. Equity is considered only after the initial credit worthiness qualification; and no loan is made if the credit worthiness qualification suggests the consumer may be unable to make the payments – regardless of the amount of equity in the home. CitiFinancial's low delinquency and foreclosure levels demonstrate that CitiFinancial's analytical approach is effective in analyzing the borrowers' willingness and ability to repay loans.

As additional assurance that borrowers will have sufficient funds to repay loans as they become due and the value of the home is not being relied upon to repay the loan, CitiFinancial loan offices do not make balloon loans or loans with negative amortizations.

CitiFinancial protects against excessive refinancing (so-called flipping). Customer charges for refinancing existing CitiFinancial loans are also limited, in order to remove incentives to engage in excessive refinancing. If a customer refinances a CitiFinancial loan within 12 months of the original loan, points are charged only on new money borrowed; for refinances within 13-24 months of the original loan, points are capped at 3.5 percent; and after 24 months, points are capped at 5.0 percent. There are no prepayment penalties on refinancings by CitiFinancial of any loan made by CitiFinancial or any Citigroup affiliate. CitiFinancial also discloses in its loan documents that it may be costlier to refinance than to have two separate loans.

As a further protection against flipping, CitiFinancial branch managers within loan offices are trained to ensure that all refinancings of CitiFinancial loans provide tangible benefits to the customer. There is no generally accepted definition of tangible benefit. CitiFinancial’s yardstick for tangible benefit is: (i) providing a lower interest rate, (ii) reducing the monthly payments, (iii) providing additional cash, or (iv) curing a default on an existing loan. In addition, the customer's ability to repay must be re-evaluated prior to approving the refinancing. Although Citigroup recognizes that this test, standing alone, might not be enough, when coupled with CitiFinancial's compliance and audit systems and a compensation system that takes into account compliance and the performance of loans that a loan office originates (described below), as well as the limits on points (described above), this test provides an effective safeguard.

C. Independent Brokers and Correspondents.

While it currently operates only a modest independent broker business, CitiFinancial holds the brokers and third party lenders with whom it does business to high standards. CitiFinancial performs thorough due diligence and background checks on independent brokers before entering into third party relationships. After acquiring certain assets of IMC, for example, CitiFinancial reviewed all of IMC's broker and correspondent relationships. CitiFinancial does business today with only 35 percent of the total number of brokers and only 45 percent of the number of correspondents approved by IMC. Prior to originating a loan from a broker or purchasing a loan from a correspondent, CitiFinancial examines the underwriting, pricing and documentation of the loan thoroughly. CitiFinancial limits fees and other charges paid to brokers and will not purchase loans that do not conform to CitiFinancial policies. After establishing relationships with brokers and correspondents, CitiFinancial monitors the resulting loans generated by these third parties, including foreclosure and delinquency rates, consumer complaints and incidents of regulatory violations. This review includes the review of HMDA-reportable loans for fair lending compliance using Fair Lending Wiz™. CitiFinancial discontinues relationships with independent brokers as appropriate when this monitoring reveals compliance violations or abusive sales practices.

D. Foreclosures and Collections.

As noted above, CitiFinancial makes loans based on a careful analysis of each borrower's creditworthiness and ability to repay. As a result of its careful underwriting procedures, CitiFinancial has low foreclosure levels.

Despite the careful evaluation of the borrower's ability to repay the loan, unanticipated factors, such as serious illness, death or disability, job layoffs, or divorce, may impact the borrower's ability to handle the loan payments. In these circumstances, CitiFinancial takes pride in the extensive efforts its employees take to work with borrowers who are having short or long term difficulty in handling their mortgage payments. Extending or deferring payments, adjusting the loan terms, and refinancing to bring the balance current are steps that CitiFinancial will consider to help a borrower who is making a bona fide effort to deal with his or her debt. Before initiating a foreclosure proceeding, the loan is reviewed by several levels of field management as well as the home office credit department to determine whether alternatives are available. In short, foreclosure is never the goal of lending for CitiFinancial.

Almost all of the loans CitiFinancial originates are held in its own portfolio and serviced by CitiFinancial. In these circumstances, CitiFinancial applies its own fair debt collection policies, described in the prior paragraph. In some instances, however, CitiFinancial affiliates, such as CitiFinancial Mortgage Company, are servicing mortgage loans originated by other lenders and/or held in securitization pools. In these circumstances, the servicing agreement by which CitiFinancial is bound specifies certain measures it is required to take to enforce the loan.[13] Within these contractual limits, CitiFinancial, in its role as servicer, nonetheless attempts to work with borrowers, including extending or deferring payments, adjusting the loan terms and refinancing to bring the balance current, in circumstances where it is appropriate to do so.[14]

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13 CitiFinancial acts as servicer and is bound by a related servicing agreement, in connection with certain loans originated by IMC and its former affiliates that were sold to securitization pools. As described in footnote 12, CitiFinancial assumed the servicing obligations with respect to the IMC loans.

14 As part of the new initiatives, described in Part III, CitiFinancial will also review all serviced loans and the circumstances under which they were made prior to commencing foreclosure actions and will make appropriate recom-

(continued...)

E. Compliance and Fair Lending Programs

CitiFinancial has a substantial compliance staff and infrastructure that ensures adherence to these protective policies and practices. The comprehensive compliance program includes, among other things, internal loan office audits and quality control reviews, customer complaint monitoring, and employee training. In addition to compliance staff activities, much of the discretion of loan office personnel to override policies is limited by CitiFinancial's proprietary software and loan origination system, Maestro.

1. Compliance Infrastructure and Monitoring

CitiFinancial has a comprehensive compliance infrastructure. Compliance is the primary responsibility of the Chief Compliance Officer, who reports to CitiFinancial's General Counsel and works closely with the Legal Department to oversee fair lending and corporate compliance matters. Implementation of the company's compliance program is the responsibility of the Compliance and Quality Control Department ("CQC"), under the direction of the Chief Compliance Officer.

Among its most important functions, CQC visits each CitiFinancial office (including offices of CitiFinancial Mortgage Company) each year and conducts internal reviews of compliance with CitiFinancial policies and specific legal

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[14] (...continued)
mendations to the trustee or owner of the loans.

requirements. These loan office audits include reviews of samples of loan files for compliance with consumer protection requirements. The results of these audits are reported to senior management. Performance on these compliance reviews is one of the factors considered during loan office personnel performance evaluations.

CQC monitors all customer complaints. The CitiFinancial Customer Service Department routinely communicates with compliance personnel regarding the nature and volume of complaints. Any complaint regarding abusive sales practices or fair lending is forwarded to the legal department for review and action. Senior management receives quarterly reports regarding customer complaints received during the period.

CitiFinancial maintains a toll-free number for use by employees who wish to report internal compliance violations. The number is prominently displayed throughout the CitiFinancial business units. All reports are taken anonymously, unless the reporting party wants to disclose his or her name. The CitiFinancial Chief Compliance Officer reviews the reports on all calls on a monthly basis.

CitiFinancial maintains a robust compliance training program for new and existing employees. During employee training, the Chief Compliance Officer emphasizes a host of compliance matters, including fair lending and ethical behavior. In addition to formal training sessions, compliance policies and procedures are regularly communicated to employees through bulletins and other internal releases.

Periodic reviews of CitiFinancial's policies and updates to reflect recent legal developments are an important responsibility of compliance personnel.

Finally, much of the work of ensuring that network loan offices adhere to policies and product specifications is done by CitiFinancial's loan origination system, Maestro. As described earlier, CitiFinancial bases its credit decisions on information obtained in the credit application on the customer's creditworthiness and ability to pay, as determined by empirically derived credit bureau score, a proprietary score and other factors. The application information taken by a loan office employee on the Maestro computer system is the same whether the application is received by telephone, by mail, by telefax or in person and regardless of the loan product. The Maestro system was designed to ensure that loan office employees collect all relevant information from all applicants, by prompting the employee to request or verify particular items. The system also prohibits employees from modifying criteria for consideration of a loan request or loan terms. After minimal information is obtained, Maestro electronically obtains and analyzes a credit report from Experian, Equifax or TransUnion (depending on which is the strongest credit bureau in the applicant's area). The employee then verifies all trades (creditors), balances and payments while speaking with the applicant, identifying debts to be consolidated in a bill consolidation loan, and adds any creditors mentioned by the applicant which are not listed on the credit report.

Following a credit approval decision, the applicant is contacted by telephone to set up a closing date and time and to review all the features of the loan. In this conversation, the loan office employee reviews the loan terms with the customer. The loan office employee will also offer optional credit insurance coverage to the borrower, explaining the nature of the coverage, the cost of the coverage and the monthly payment amount with and without the coverage included. If the applicant wishes to purchase the coverage, the loan documents are prepared for the closing to include the coverage. If the customer changes his or her mind at the closing, the loan documents are re-issued within a few minutes without the coverage included.

At the closing, which almost always occurs in the network loan office, a CitiFinancial employee reviews verbally the loan terms and any insurance coverage with the borrowers, before the actual loan documents are presented for signature. To the extent that (i) documents presented at the closing table do not reflect the borrower's understanding of the transaction or (ii) the borrower changes his or her mind regarding any aspect of the transaction (including, for example, the desire to obtain credit insurance), the loan documents can be revised quickly and efficiently on the Maestro system accessed from the loan office, and without the need for substantial delay or rescheduling of the loan closing. The borrower signs certain documents and signs acknowledgments of receipt for various disclosures. The borrower is given the opportunity to ask questions and always receives a complete set of all the documents and insurance forms he or she signed. The loan documents are written in "plain English" to the extent possible and include various federal and state disclosures.

2. Fair Lending

Policies. CitiFinancial is in the business of making sound consumer loans to qualified borrowers without regard to race, sex, color, national origin, religion, age, marital status, receipt of public assistance benefits or any other basis prohibited by law. By policy and practice, CitiFinancial does not discriminate in lending on any illegal grounds and will not tolerate discriminatory practices by any of its employees or by any broker or correspondent with which it does business. As a matter of course, CitiFinancial complies with all fair lending, consumer protection, and other federal and state laws and regulations concerning consumer lending. Some of the key laws in this area include the Fair Housing Act, the Equal Credit Opportunity Act, HMDA, the Truth in Lending Act, and the Americans with Disabilities Act.

CitiFinancial's Fair Lending Policy is simple and unequivocal:

> We do not discriminate. Credit decisions should be made without regard to race, sex, color, national origin, religion, age, marital status, or any other basis prohibited by law. Each of us bears the responsibility to implement this policy every day.

This policy is communicated to new employees and to all current employees via training programs, through policy statements to all field employees, and by senior management in communicating with employees in the field and headquarters operations.

Business Practices. Fair lending concerns are paramount in CitiFinancial's policies and procedures concerning every step in the consumer lending business cycle. In most cases, initial contacts with a prospective customer arise from responses to direct mail solicitation. Both preapproved or prescreened loan offers and invitation-to-apply offers are mailed to names obtained from various mailing list vendors. There is no consideration of prohibited discriminatory factors in the selection of names for mailing, and there cannot be such consideration, because there is no information available in the lists used relating to race, national origin, marital status or other prohibited discriminatory factors. Direct mail solicitation efforts produce applicants from diverse backgrounds without regard to prohibited discriminatory factors.

Monitoring. CitiFinancial's entire portfolio of real estate loans is tested on a quarterly basis for fair lending compliance through the use of Fair Lending Wiz™, software used by several federal and state bank regulators in their examinations. This testing includes matched pair testing and pricing analysis on our HMDA loans. CitiFinancial uses Fair Lending Wiz™ to test its largest correspondents on a monthly basis and its largest brokers on a quarterly basis. CitiFinancial does background checks on all brokers and correspondents for unusual or fraudulent activity prior to contracting with them. Customer satisfaction surveys are being done on a quarterly basis at CitiFinancial. The results of all fair lending testing are reported to senior management on a quarterly basis.

Management certifies that each loan office employee receives fair lending training through the CareerTrack training program. That training is regularly updated through CQC department issuances.

Compliance with fair lending laws is also tracked and tested through the loan office self-assessment program known as the Office of Supervisory Jurisdiction ("OSJ"). The OSJ is a series of questions to which each loan office manager and district manager must certify answers on an annual basis. CQC controls the program and tracks the results.

Training. CitiFinancial has implemented a comprehensive fair lending, ethics and compliance training program, which consists of a fair lending course and examination, and face-to-face training. Fair lending training videos for all CitiFinancial employees have been prepared and are regularly updated. Training programs address diversity and fair lending issues, including pricing practices, as well as ethical behavior and general corporate compliance matters, such as conflicts of interest.

3. Customer Satisfaction

CitiFinancial's research shows that the emphasis on customer service and on building long-term relationships with consumers within its network loan offices result in a high level of customer satisfaction. For products and services originated by CitiFinancial's loan office network, CitiFinancial's customers say that:

85 percent rate their satisfaction with CitiFinancial as above average;

85 percent would likely borrow from CitiFinancial again; and

88 percent would recommend CitiFinancial to a friend.

III. CitiFinancial proposes additional initiatives that address specific concerns raised by community groups.

As described in the preceding section, many of CitiFinancial's products and practices are among the best in the industry, but CitiFinancial will do more. In connection with the acquisition of Associates, CitiFinancial proposes to change certain products and procedures to strengthen consumer protections that are already built into its U.S. real estate-secured consumer finance lending office network. CitiFinancial will also make changes to its broker and correspondent loan channels. A description of specific changes that CitiFinancial proposes to make to the consumer finance operations of the combined company is included at Tab A.

The changes to the branch, broker and correspondent lending channels will apply across the board to all Citigroup domestic real estate-secured consumer finance lending, regardless of the legal vehicle in which it operates. The combined consumer finance business that results from this transaction will be the nationwide leader in providing valuable consumer finance products delivered under state-of-the-art compliance policies and systems.

IV. Citigroup is justifiably proud of its record of lending, services and investments within its banking markets.

A. Citigroup has made significant progress under its $115 billion commitment.

Tangible evidence of Citigroup's lending record is provided by the progress made by Citigroup under its $115 billion commitment made a little more than two years ago. At the time of the merger announcement of Travelers and Citicorp in 1998, Citigroup made an historic community commitment to continue its innovative work in its low- and moderate-income ("LMI") communities across the United States. Citigroup committed to $115 billion in lending and investing over the next 10-year period to LMI communities and households and to small businesses. At the time, this commitment represented more than twice the level of Citibank's domestic deposits of $56 billion. Our results to date demonstrate the benefits for our communities of bringing investing, insurance and banking together.

In just two years, Citigroup has increased its community lending and investing by nearly 65 percent. In 1998, Citigroup increased its lending and investing from $8.5 billion to $11.9 billion. By the end of 1999, Citigroup reached more than $14 billion in such lending and investing.

These results are driven by increases in every major lending category under the commitment. In the areas of mortgage, small business, and community development lending, those areas that are most important to community building, Citigroup increased its loan volume from $3.4 billion in 1997 to $5.1 billion in 1998, and more than $8 billion in 1999. Of special note are the results in affordable housing, economic development and provision of supportive services to neighborhoods – Citigroup exceeded $600 million in community development lending and investing in 1999, double its 1997 results.

In addition to increased lending in LMI neighborhoods and to LMI households, Citigroup has significantly increased its lending to African Americans and Hispanics since 1997. Specifically, total HMDA-reportable lending to African Americans increased from 2,639 loans in 1997 to 20,541 loans in 1999. For Hispanics Citigroup's increased HMDA-reportable lending activity is similarly impressive, going from 2,968 loans in 1997 to 25,523 loans in 1999.[15]

Furthermore, the pioneering structure of Citigroup has provided the opportunity for significant innovation in community development. Through its new Center for Community Development Enterprise, Citigroup has a "one-stop shopping" approach that enables it to make the lending and investing process easier, more innovative and less expensive. Housing bonds underwritten by Salomon Smith Barney, for example, may receive credit enhancement from Citibank, and

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[15] The analyses of HMDA reported lending to Hispanics throughout this Section IV excludes Puerto Rico, which is within Citibank's assessment area, because the large Hispanic population in Puerto Rico would tend to cause Citigroup's average lending results to Hispanics to be overstated.

CitiMortgage may provide mortgages to purchasers of LMI properties built with the bonds. Examples of the Center for Community Development Enterprise's activities include provision of a comprehensive financing package to support the development of Orlando Cepeda Place, the first affordable housing project to be built as part of San Francisco's Mission Bay Redevelopment Project. Orlando Cepeda Place will include 100 one-, two-, three- and four-bedroom apartments for very low-income residents, a child care center for 40 children, 15,000 square feet of common space, and a community room/computer education center. CCDE's financing package will include letters of credit for $30.1 million from Citibank, N.A., bond underwriting and marketing services from Salomon Smith Barney, and a $15,000 grant from the Citigroup Foundation.

B. Each of Citigroup's depository institution subsidiaries has at least a satisfactory rating under the CRA.

Other tangible evidence of Citigroup's success is provided by the fact that each of Citigroup's subsidiary banks has at least a "satisfactory" rating under the Community Reinvestment Act ("CRA"), with many receiving Outstanding ratings, as shown in the following chart:

Citigroup Inc. CRA Composite and
Individual Market Ratings by Bank Subsidiary

Institution	CRA Rating	Exam Year
Citibank (New York State)	Outstanding	2000
Citibank, Delaware	Satisfactory	2000
Citibank (South Dakota), N.A.	Outstanding	1999
Citibank (Nevada), N.A.	Outstanding	1999
Citibank, FSB	Outstanding	1999
California	Outstanding	
Connecticut	Outstanding	
Florida	Outstanding	
Illinois	Outstanding	
Mid-Atlantic	Outstanding	
New Jersey	Outstanding	
Texas	Outstanding	
Citibank USA (formerly known as The Travelers Bank USA)	Outstanding	1999
Travelers Bank and Trust	Satisfactory	1999
Universal Bank, N.A.	Satisfactory	1999
Universal Financial Corp.	Satisfactory	1999
Citibank, NA	Satisfactory	1998
Metropolitan NY	Satisfactory	
Puerto Rico	Satisfactory	
Virgin Islands	Satisfactory	
Guam	Satisfactory	

Citigroup's goal is to achieve outstanding ratings in all of its markets.

C. Citigroup's HMDA-lending and branch locations are consistent with the fair lending laws.

At least two commenters have alleged that the HMDA lending record and branch locations of Citigroup suggest that Citibank[16] avoids lending in predominantly minority areas, while Citigroup's consumer finance subsidiary, CitiFinancial, targets predominantly minority communities. In attempting to prove this allegation, the commenters rely upon HMDA denial disparity rates within particular geographic markets (many of which are outside of Citibank's CRA assessment areas). Moreover, the commenters compare lending results between different Citigroup companies, without taking account of differences in the credit standards of these companies, and look only at a particular type of HMDA lending (i.e., refinance loans) without considering other relevant types of HMDA lending (e.g., home purchase and home improvement). As described below, this methodology was designed to reach a particular result and fails to consider the complete picture, which is one of significant lending achievement by Citigroup.

1. HMDA denial disparity rates, used by the commenters, have limited value in measuring a bank's lending results.

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16 As used in this Section IV, Citibank includes Citibank N.A. and its subsidiaries, CMI and Source One Mortgage Corporation, Citibank (New York State), Citibank (Nevada) N.A. and Citibank, FSB.

HMDA denial disparity rates compare minority denial rates (i.e., the percentage of loan applications by minorities that are declined) with similar denial rates for non-minorities. There is almost universal agreement among federal supervisory and enforcement agencies and statistical experts that HMDA data generally and denial disparity rates, in particular, have limited value as an indicator of discrimination.[17] HMDA data does not give a complete picture of the lending process and excludes vital pieces of information about the applicant used in the underwriting process, such as cash to close, verification of funds used for the downpayment, verification of employment, loan-to-value ratio, and past credit history. In addition, experts have recognized that higher denial rates for minorities than for non-minorities can result where a lender is actively encouraging minorities to apply for credit.

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[17] See Interagency Policy Statement on Lending Discrimination, March 8, 1994, reprinted at 59 Fed. Reg. 18266 (April 15, 1994) ("HMDA data alone do not prove lending discrimination. The data do not contain enough information on credit-related factors ... to prove discrimination."); and Horne, Evaluating the Role of Race in Mortgage Lending, FDIC Banking Review, Vol. 7, No. 1 (Spring/Summer 1994).

2. HMDA Lending

As described below, a comprehensive analysis of Citigroup's overall results, both on a national basis and within Citibank's CRA assessment areas, reflects a strong record of loans to minorities and LMI individuals and communities. In contrast, the commenters' selective analyses, such as citing HMDA loans within particular geographies (many of which are outside of Citibank's CRA assessment areas), presents an incomplete view of Citigroup's actual results.

National Results (Total US). Citigroup's[18] HMDA-reportable loans to African Americans and Hispanics are impressive. In 1999, Citigroup booked 20,541 HMDA-reportable loans to African Americans, representing 9 percent of its total HMDA-reportable loans, and 5,257 home purchase loans to African Americans, representing 6 percent of its home purchase loans. This compares favorably to the performance of all other lenders across the country who collectively posted an average of 5 percent of HMDA-reportable loans to African Americans and 5 percent of their HMDA-reportable home purchase loans to African Americans.

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[18] For purposes of this Section IV, Citigroup reference to HMDA-reportable loans include HMDA-reportable loans by all affiliates. Citigroup conservatively has excluded from all numbers in this Section IV transactions between Citigroup affiliates, which are required to be reported under HMDA but do not represent additional loans to communities.

In 1999, Citigroup booked 25,523 HMDA-reportable loans to Hispanics, representing 11 percent of total HMDA-reportable loans, and 9,774 home purchase loans to Hispanics representing 12 percent of all home purchase loans. This compares favorably to the performance of all other lenders across the country, which collectively posted 5 percent of their loans to Hispanics for all HMDA-reportable loans and 6 percent of lending to Hispanics for home purchase loans.

Results in CRA Assessment Areas. With regard to its loans to minorities, in 1999, Citibank exceeded market averages for HMDA-reportable loans within the retail bank markets that comprise the CRA assessment areas for Citibank. In 1999, African Americans represented 12 percent of Citibank's total HMDA-reportable loans and 8 percent of home purchase loans in those assessment areas. This compares favorably to an overall market average of 7 percent for all HMDA-reportable loans and 7 percent for home purchase loans.

Hispanics represented 22 percent of Citibank's total HMDA-reportable loans in 1999 and 21 percent of home purchase loans within its total U.S. assessment areas. This compares favorably to an overall market average of 10 percent for all HMDA-reportable loans and 12 percent for home purchase loans.

Similarly, Citibank exceeded market averages in providing HMDA-reportable products in LMI census tracts and to LMI households within its CRA assessment areas. In 1999, 28 percent of Citibank's total HMDA-reportable loans were booked in LMI census tracts and 27 percent to LMI households. These figures are above the market average of 16 percent for loans in LMI census tracts and 20 percent for loans to LMI households. With regard to home purchase loans, 16 percent of Citibank loans were located in LMI census tracts and 27 percent to LMI households. These figures, too, are above the market average of 15 percent for loans in LMI tracts and 21 percent to LMI households.

Loans within majority-minority census tracts. A comparison of Citibank's and CitiFinancial's[19] loans within majority-minority census tracts[20] demonstrates that Citibank has a substantial amount of loans within minority neighborhoods.[21] This refutes the commenters' allegations that Citigroup has largely left areas with substantial minority populations to CitiFinancial.

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19 For purposes of this Section IV, CitiFinancial includes CitiFinancial Company (DE); CitiFinancial Corporation (including affiliates with this name in 2 states); CitiFinancial Equity Services, Inc.; CitiFinancial Mortgage Company; CitiFinancial of Virginia, Inc.; CitiFinancial of Mississippi, Inc.; CitiFinancial Services, Inc. (including affiliates in 10 states); and CitiFinancial, Inc. (including affiliates in 7 states), i.e., our branch and independent broker-based business.

20 As used herein, majority-minority census tracts are those tracts in which minority populations make up 50 percent or more of the population of the tract.

21 The following analysis reviews lending within majority-minority census tracts, rather than to minority households. Many of CitiFinancial's applications are taken by telephone, and accordingly race information is not collected for HMDA purposes.

In absolute numbers, Citibank had 37,841 total HMDA-reportable loans in majority-minority census tracts in 1999, compared to only 4,654 total HMDA-reportable loans for CitiFinancial in such areas. While Citibank's size and loan capacity is substantially larger than CitiFinancial's, these numbers – showing 8 times as many Citibank loans in minority areas than CitiFinancial – belie the commenters' allegations that Citibank avoids lending in minority areas. Moreover, in 1999, fully 21 percent of Citibank's total HMDA-reportable loans were in majority-minority census tracts, compared to only 18 percent of CitiFinancial's total HMDA-reportable loans.[22]

The fallacy of the commenters' allegations is also shown by an analysis of the HMDA numbers in the MSAs where Citibank and CitiFinancial combined have made the largest number of loans in majority-minority census tracts. If it were true that Citigroup "steers" people of color to CitiFinancial, then CitiFinancial would be expected to have made more loans in majority-minority census tracts than Citibank. Analyzing the top five Metropolitan Statistical Areas ("MSAs") where Citibank and CitiFinancial combined have most of their HMDA-reportable loans to minority communities (i.e., New York, Los Angeles, Chicago,

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[22] As further evidence loans in minority areas are not steered to CitiFinancial, on a nationwide basis CitiFinancial accounted for 11 percent of Citigroup's overall HMDA-reportable lending in 1999 but only accounted for 10 percent of Citigroup lending in majority-minority census tracts.

Miami and Washington, D.C.) it is clear that Citibank, and not CitiFinancial, is the primary lender in each market, as shown in the following chart:

Top 5 MSAs in HMDA Lending to Majority-Minority Census Tracts

Total HMDA-Reportable Loans In Majority-Minority Census Tracts (1999)	Citibank	CitiFinancial	Combined
New York	7906	17	7923
Los Angeles	7351	63	7414
Chicago	3735	125	3860
Miami	3757	62	3819
Washington, D.C.	1610	123	1733

The commenters have conducted their analyses using only HMDA refinance loans. While a review of total HMDA loans (which includes, for example, home purchase loans) presents the most complete picture of the extent to which Citibank books loans within minority communities, even if only HMDA-reportable refinance loans are considered, Citibank has many more loans in minority communities than CitiFinancial. The following chart analyzes the top five MSAs where Citibank and CitiFinancial combined have most of their HMDA-reportable refinance loans to minority communities (Los Angeles, Chicago, Washington, D.C., San Jose, and Detroit):

Top 5 MSAs in Refinance* Lending to Majority-Minority Census Tracts

Total HMDA-Reportable Refinance Loans In Majority-Minority Census Tracts (1999)	Citibank	CitiFinancial	Combined
Los Angeles	1028	61	1089
Chicago	681	123	804
Washington, D.C.	478	123	601
San Jose	463	3	466
Detroit	273	100	373

* Includes conventional and government originations and purchases.

In sum, a review of available loan data demonstrates that Citibank has sizable numbers and proportions of loans in minority communities.

3. Branches

There also is no support for allegations by some commenters that Citigroup's branches for its "prime" channel, Citibank, are located predominantly in non-minority areas, while lending offices of CitiFinancial are located predominantly within minority areas.

Citibank has nearly 400 bank branch facilities located in ten states and the District of Columbia, primarily in major cities, such as Metropolitan New York, Miami, Washington, D.C., San Francisco, Los Angeles, Las Vegas and Chicago. Twenty-one percent of these facilities are located in majority minority census tracts and 18 percent are located in LMI census tracts. By comparison, CitiFinancial has approximately 1150 lending offices in 48 states. Approximately 7 percent of these offices are located in majority-minority census tracts and 15 percent are located in LMI tracts.

Census Tract of Branch or Lending Office	**Citibank**	**CitiFinancial**
Minority	21 %	7 %
LMI	18 %	15 %

One commenter also repeats charges made in 1998 in connection with the Travelers/Citicorp merger, that "Citigroup's banks have closed numerous branches in LMI areas and communities of color." The commenters' allegations are directed principally at Citibank, N.A.'s branch closings in Metropolitan New York. The response that Citigroup made to these charges at that time remains true, today:

> In 1995, Citibank began a major project to reconfigure, consolidate and update its New York distribution system, investing more than $125 million in people, training, premises and ATMs. Its decision to close or convert a location is based on numerous criteria including overlapping Citibank branch markets, the proximity of competitors' branches, customer transaction and commuting patterns, financial reviews, share of market, real estate considerations, the demographic profile of the neighborhood served, and community impact. This careful review process requires that actions do not disproportionately impact low- and moderate-income communities.
>
> During the two-year effort, there were no branch closings in low-to moderate-income census tracts, no conversion to [Citicard Banking Centers] in low-income census tracts and only four conversions in moderate-income tracts. In fact, the percentage of branches located in low- and moderate-income census tracts actually increased. . . .

The changes to the New York branch network have been reviewed by the OCC during the CRA examination in October 1996. Over 90 percent of the changes to the New York network took place during the period under review. Their comments were as follows:

> Branch closings or consolidations since the last evaluation have not negatively impacted the New York Community. Citibank services were readily accessible to all segments of its communities. Traditional branch office locations were supplemented by a variety of alternative, automated delivery systems.
>
> Citibank's branches serve more than just the census tracts in which they are located. By geocoding deposit and loan accounts, management was able to determine the census tracts that form the actual service areas of each branch, and thereby ascertain how many low- and moderate-income tracts were actually serviced. This type of analysis indicated that Citibank's servicing of the various income geographies in the community was consistent with area demographics.

Since the 1998 merger, we have made only modest changes to the retail bank branch distribution system. Since September, 1998, Citibank has opened 15 new branches and closed (or relocated) 14 branches across the country. None of the closed branches were in low-income tracts and only two were located in moderate-income tracts. At the same time, Citibank added a branch location in a low-income tract as well as a branch in a moderate-income tract. Additionally, no branches were closed in majority-minority census tracts and four branches were opened in majority-minority census tracts.

D. Citigroup has strong fair lending policies, procedures and compliance programs that apply to all business units.

Fair Lending Program. Fair treatment of all applicants is integral to Citigroup's ability to gain and maintain its clients' trust and confidence, and fundamental to its plans to grow its business. Citigroup's management and employees, from the Chairman's office throughout the company, are accountable for the quality of service Citigroup provides its clients and for complete fairness in the way it interacts with them. Citigroup knows that fair treatment is a legal requirement for every aspect of its lending and knows that it is essential to its ability to expand the company and to succeed in diverse markets. Citigroup's fair lending policy notes among other things:

- Individuals who apply to us for loans want loans. They deserve a fair, equitable, and customer-friendly response. Everyone involved -- marketing, sales, service and underwriting -- should be helpful to all credit applicants. If we cannot grant a loan request, the applicant should understand why and feel that our reasoning was fair, honest and open; and

- There is no place for discrimination in our business. Our credit decisions must be based on objective criteria that are viewed to be clear and acceptable. We will periodically re-examine our lending criteria in local markets to expand the eligible customer base, consistent with safe, sound lending practices and business goals.

At least annually, consumer business senior management and the Senior Vice President, Global Community Relations report to the Public Affairs Committee of the Board of Directors on Citigroup's fair lending performance and future plans.

Self Monitoring and Training. Fair lending performance assessment is an integral part of Citigroup's fair lending program. Fair lending self-evaluation occurs in multiple ways, including, for example, independent compliance reviews, fair lending self-assessments conducted by business line managers with the assistance of business fair lending experts, mystery shopping conducted to test front line service to customers, comparative file analyses and corporate audits. Each of these activities is designed to identify practices or behaviors that might be contrary to Citigroup's commitment to fair lending and its fair lending policy. No one process is more important than another, as each can be instrumental in helping Citigroup do a better job of strengthening policies and procedures, developing better products to serve our diverse client base and providing customer friendly service. All of this has resulted in attracting and retaining more minority customers. Citigroup ensures that staff understands their fair lending responsibility by providing fair lending training that is appropriate to each individual's job functions.

Regulatory Review. Citigroup's business units are examined for compliance with fair lending laws on a regular basis. The exam reviews internal audit procedures used to test for fair lending as well as credit policies and procedural guidelines to ensure that they do not contain areas that could cause disparate treatment. The examiners are on record through CRA public evaluations as having found no discriminatory practices at any of Citigroup's banking affiliates.

Tangible Results. Citigroup's record of loans to minorities evidences the effectiveness of its fair lending program. Total HMDA-reportable loans to African Americans increased from 2,639 loans in 1997 to 20,541 loans in 1999, while total HMDA-reportable loans to Hispanics increased from 2,968 loans in 1997 to 25,523 loans in 1999.

E. Citigroup has initiated other programs designed to improve financial literacy and thereby increase consumer knowledge about the credit-granting process.

Citigroup has robust community building programs, working closely with major not-for-profit organizations across the nation to solve new and emerging social issues. Citigroup's Community Development Program focuses both on the challenge of building communities in which people really want to live and the challenge of providing financial tools to help individuals build better lives for themselves and their families. Citigroup focuses on affordable housing, economic development and building family assets. For example, with the Enterprise Foundation, Citigroup developed the Child Care Initiative. The program provides low-cost financing for nonprofit daycare providers across the United States. Citigroup's innovative financing package includes a significant grant, a subsidized line of credit for predevelopment expenses and a commitment to undertake broader financing as projects come on line.

One of the most valuable resources Citigroup offers its communities is its financial management expertise. Citigroup sponsors ongoing consumer education programs designed to educate people on financial matters and help them use that knowledge to develop and protect their assets. Through products, services, educational programs, volunteerism and philanthropy, Citigroup is creating better-educated consumers, helping individuals achieve economic self-sufficiency and strengthening local economies. Examples include:

- Financial education seminars available free of charge through Citibank financial centers (branches) on topics such as Buying a Home, Financial Planning, Essentials of Investing and Debt Management. Since July 1999, more than 2,000 seminars have been offered in Citibank financial centers across the country.

- Personalized financial analysis products like Citibank Citipro and Primerica Financial Needs Analysis, available free of charge to any customer or potential customer to help them understand and address their most pressing financial needs.

- Salomon Smith Barney's Young Investors Network which helps young people to learn about financial planning and saving through a web site that offers free personalized financial plans, educational tools such as an online dictionary of financial terms and college cost calculator, and a simulated investment portfolio.

- Grant support totaling more than $10 million annually and employee volunteers to work with not-for-profit partners operating community based financial literacy and/or home ownership counseling programs such as the Neighborhood Reinvestment Corporation, YWCA, Junior Achievement and National Academy Foundation.

- To provide basic credit education to consumers, CitiFinancial developed a brochure, "Your Path to Good Credit," that is distributed through its branch offices, community functions, high schools and colleges. Branch managers give presentations on the topic and the brochure serves as an important take-home.

- Leadership role in helping low income people to develop assets through support of Individual Development Account (IDA) programs that help participants save for a home, start a small business or obtain higher education. Support includes more than $2.5 million in grants, employee expertise and technical assistance, and a specialized financial product used by non-profit partners to manage IDA accounts with minimal costs.

- Leadership role in helping low income people protect their assets through Travelers Property and Casualty's sponsorship of the National Insurance Safety Task Force (NITF). The NITF's Home Safety Partnership program is educating homeowners on protecting their homes from losses due to water, fire and theft.

- To celebrate the tenth anniversary of the purchase of Commercial Credit (now CitiFinancial), the Port Discovery Museum received a grant of $1 million. The grant sponsored an exhibit called The Money Show that explains financial concepts to children age 6-12.

- CitiBusiness Resource Network "Ask the Experts" a consultative/advisory service which allows business owners to receive quick and accurate answers to a variety of questions on topics such as hiring employees and growing the business. Questions are reviewed and answered within 48 hours of receipt by a third-party panel of experts including internationally recognized business consultants, entrepreneurs and directors of highly successful companies.

- A new program in development at CitiFinancial includes two new brochures, “Everything You Always Wanted to Know about Credit but Didn’t Know to Ask (Strategies to Help You Understand and Use Credit Effectively)” and “Shopping for Loans (What You Need to Know).” These will be used in community outreach programs.

V. Other issues raised in public comments.

A. The CRA records of the parties are not considered and public hearings are not provided for under Change in Bank Control Act.

As discussed in Section I, some commenters have expressed concern that the CRA records of Citibank and the Banks are not part of the statutory criteria considered by the federal regulators. Citigroup is, through its bank and thrift affiliates, profoundly committed to the CRA, as the lending record and CRA ratings of those institutions demonstrate. However, the provisions of the CRA direct federal regulators to take into consideration the CRA rating of a bank only in connection with each of six types of applications; and notices under the CBC Act are not among the six types listed.[23] In addition, the statutory criteria under the CBC Act do not include consideration of the "convenience and needs" of a bank's community.[24]

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23 See 12 U.S.C. § 2902(3). The six types of applications are chartering a federally-regulated bank, providing insurance to a newly-organized bank, establishing a branch, relocating a branch or home office, approving a bank merger and approving the acquisition by a bank holding company of a "bank" as defined in the Bank Holding Company Act ("BHC Act"). None of the Banks is a "bank" for purposes of the BHC Act, because each limits its business to retail credit card lending or operating an industrial loan company and therefore may be owned by a company such as Associates, which is not a bank holding company.

24 The "convenience and needs" factors, which are found in the Bank Merger Act and in Section 3(c) of the BHC Act, neither of which applies to this acquisition, has historically been interpreted to encompass CRA factors.

In addition, some commentators have expressed concern that the OCC and FDIC have not held public hearings. Neither the CBC Act nor the agencies' regulations implementing the CBC Act provide that federal regulators may conduct public hearings.[25] This contrasts with the regulations of the Federal Reserve, which provide that the Federal Reserve may grant a hearing in connection with any application under the BHC Act.[26] It has been noted by various commenters that prior to the enactment of the Gramm-Leach-Bliley Act (the "GLB Act"), the acquisition of Associates would have been subject to the prior approval of the Federal Reserve under Section 4(c)(8) of the BHC Act. While this is true, even under that statutory provision, which addresses non-bank acquisitions, the CRA was not a relevant

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25 While the OCC will consider a request for a hearing in connection with other applications, no such right is provided for under the OCC's CBC Act regulation. Compare 12 C.F.R. § 5.11(a) with 12 C.F.R. § 5.50(f). Likewise, under the FDIC's rules, there is no hearing provision for filings submitted to the FDIC under the CBC Act. See 12 C.F.R. § 303.80 et seq.

26 In 1998, the Federal Reserve held public hearings in connection with its consideration of the application by Travelers Group Inc. ("Travelers") under Section 3 of the BHC Act to acquire Citicorp's banking subsidiaries. Unlike that 1998 transaction, however, no prior approval is required from the Federal Reserve Board under Section 3 of the BHC Act for the Associates transaction, because each of Associates' Banks is exempt from the definition of "bank," as that term is defined in the BHC Act. 12 U.S.C. § 1841(2)(c)(2)(F) and (H).

consideration; and the Federal Reserve Board has acknowledged as much on many occasions.[27]

Citigroup's proposed acquisition of Associates is structured in a straightforward manner that does not reflect any effort to evade the requirements of law or any particular application. Moreover, the standards applicable to the agencies' consideration of the Notices are clear. It is a basic precept of administrative law that administrative agencies must limit their consideration to the factors set forth in the statutes that authorize their consideration of such notices.[28]

B. Financing activities of Salomon Smith Barney in the consumer finance loan sector are conducted only after appropriate due diligence.

Salomon Smith Barney ("SSB") underwrites and provides loans to a small number of companies that originate and purchase consumer mortgages. Prior

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27 See Mitsui Bank, Limited, 76 Fed. Res. Bull. 381, 384 (1990). ("While the CRA is expressly applicable to applications by bank holding companies to acquire banks under section 3 of the BHC Act, the CRA by its terms does not apply to applications by bank holding companies to acquire nonbanking companies under section 4(c)(8) of the BHC Act. The Board has interpreted the CRA in this manner since 1979.") In addition, the Federal Reserve has rarely granted hearings in connection with the acquisition of a nonbanking company, including the acquisition of industrial loan companies and credit card banks, such as those at issue here. See, e.g., Banc One Corporation 83 Fed. Res. Bull. 602, 606 (1997).

28 Western Bancorp v. Board of Governors, 480 F.2d. 749, 753-54 (10th Cir. 1973);

to doing business with any of these companies, SSB meets with the company's management and staff, reviews its business plan and reviews its practices and policies for loan underwriting, originating, processing and servicing. SSB views the reputation of the lender as being of critical importance and has refused to do business with lenders whose business plans or practices raise reputational issues. This review helps ensure that issuers and their securities will perform, and is essential both for compliance with the securities laws and the need to maintain confidence of investors in SSB as an underwriter.

Consistent with these principles, in future reviews of consumer finance companies SSB will specifically focus on practices and products that have been associated with predatory lending. SSB commits not to do business with or for lenders who do not show a clear commitment to avoiding predatory lending practices. SSB will review each lender's policies and practices for avoiding fraudulent or otherwise inappropriate sales practices and for monitoring loans purchased from brokers or correspondents. SSB will also review the product features of loans in the lender's portfolio. SSB will not do business with a lender if, in SSB's view, taking into account these and other relevant factors, the lender has not shown a high degree of commitment to preventing predatory lending practices.

C. CitiFinancial has taken appropriate measures to ensure compliance with the federal HMDA.

Some comments were made regarding CitiFinancial's HMDA-reporting. CitiFinancial complies with the data collection and reporting requirements of HMDA. HMDA requires the collection of certain government monitoring information, such as race, sex, national origin, by asking a loan applicant for this information when the application is taken or by making visual observation of the applicant if the applicant refuses to provide the information. The information is required in connection with applications for purchase money mortgage loans, refinancing of purchase money mortgage loans and home improvement loans. CitiFinancial does not make purchase money loans or home improvement loans. The only loans it makes that are subject to HMDA are first mortgage refinances which may be refinances of purchase money loans. HMDA makes it clear that collection of government monitoring information is not required when the application is taken by telephone.[29] In the case of CitiFinancial's network loan offices, a majority of the applications for loans are received by telephone and there is no face-to-face contact with the applicant until the loan closing. As a result, a large percentage of CitiFinancial's HMDA-reportable loans do not include race data.

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[29] The fact that the *closing* takes place in person does not change this result. Official Staff Commentary to Federal Reserve System Regulation B, Paragraph 4(a)(7), paragraph 3. FRRS ¶ 6-282.

CitiFinancial continues to improve its HMDA data collection systems and procedures. In this regard, CitiFinancial has modified its HMDA-compliance practices in response to suggestions by its regulators, even where not required to do so under applicable law or regulations. For example, in connection with its 1997 acquisition of the consumer finance offices of Security Pacific Financial Services, CitiFinancial, in response to a suggestion by the New York State Banking Department, developed a systematic way to track the number of its applications received via telephone.

D. Citigroup is experienced in operating credit card units and has policies and procedures to assure compliance with consumer protection laws.

Following the merger, Associates' credit card operation, which includes the Banks, will be combined with Citibank's card operations. Citibank's Cards business offers products such as MasterCard® and VISA® credit cards across North America. Citigroup is the largest issuer of credit cards in the United States, with 42.1 million accounts and $79.1 billion in managed credit card receivables in the United States as of June 30, 2000. As a leading credit card provider, Citigroup has the necessary scale, resources and commitment to the credit card business to ensure continuity of high quality service to its customers. Citigroup customers benefit from the advanced products and technology being offered in the credit card arena. As a leading and innovative issuer of credit cards, Citigroup has substantial experience in the credit card business and in complying with the consumer and bank regulatory requirements of a cards business.

Like all Citigroup business units, the Cards business has appropriate compliance personnel, policies and procedures to comply with the various rules and regulations under which it operates. Compliance is the direct responsibility of each line manager, subject to review by more senior business management. Working together, the compliance officer of each senior operating business and management have developed a comprehensive compliance program.

Key elements of the compliance program include development of an annual compliance plan by the compliance team members and the affected business units, which is reviewed and approved by management. The plan outlines the activities that are to be completed during that year. These activities include the monitoring of business activities, including monthly, quarterly or annual reviews of specified marketing, lending, credit or reporting processes. The compliance organization within the Cards business maintains a matrix of applicable laws and regulations, that is used as part of the self assessment process. The compliance organization also participates in the development of new products and revisions to old products involving both the business and systems development. The Cards business is also subject to internal and external audits and examinations, including those conducted by its supervisory banking agencies. Compliance personnel also monitor customer complaints for allegations suggesting possible compliance violations.

Some commenters mentioned a recent class action brought against Citibank (South Dakota) N.A. in U.S. District Court for Central District of California. Similar class action lawsuits have been filed in several jurisdictions against many of the largest credit card issuing banks – including Bank of America, Capital One Bank, Chase Manhattan Bank, Direct Merchants Credit Card Bank (which owns Metris), First Union Direct Bank, First USA Bank, Household Bank (Nevada), N.A., and MBNA America Bank – challenging their credit card payment processing policies and practices. The lawsuits allege, among other things, that the banks failed to credit some cardholders' credit card payments as of the day received, resulting in the imposition of excess finance charges and/or late fees or penalties. The lawsuits specifically challenged the banks' practices of requiring credit card payments to be received by a certain cut-off hour in order to be processed as of that day.

The case involving Citigroup, *Schwartz v. Citibank (South Dakota) N.A.*, focused on Citibank (South Dakota)'s requirement that card payments be received by 10:00 a.m. in order to be credited as of that day.[30] Citigroup's Cards

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[30] No. 2:00 cv 00075 (C.D. Cal, filed Jan. 4, 2000). Class action lawsuits were originally brought in both Texas and California, and the cases were consolidated as part of the settlement.

business[31] also agreed as part of a settlement to move its cut-off time from 10:00 a.m. to 1:00 p.m. The Cards business agreed to create a settlement fund of $18 million, most of which will be distributed automatically to cardholders and to make a cash payment of approximately $9 million for attorneys fees and costs. In addition, the Cards business agreed to provide educational mailings to its credit card customers and post information on its Internet website regarding the methods by which customers can pay their statements. The Cards business values the change in cut-off time, as well as the educational mailings and internet education sites, at approximately $18 million. As noted above, the issues raised by the litigation have been satisfactorily resolved and concerned only a small part of Citigroup's Cards business.

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[31] The settlement involves Citibank (South Dakota) N.A., Universal Bank N.A. and Universal Financial Corp.

Tab A

citigroup

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Chairman and
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November 7, 2000

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Donna Tanoue
Chairman
Federal Deposit Insurance Corporation
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Washington, D.C. 20429

Honorable Ladies and Gentleman:

Consumer lending is critically important to helping individuals achieve their economic dreams. Understanding the opportunity CitiFinancial has to lead the industry and set the highest standards in the consumer finance lending market, Citigroup today submitted a filing in connection with its pending acquisition of Associates First Capital Corporation, which outlines changes CitiFinancial will be making to the policies in place.

Each of you has recognized that, if done well, the consumer finance marketplace provides important access to credit to key segments of our communities. We thoroughly agree. We believe equally strongly that this business must be conducted in a highly ethical and reputable fashion.

Today, CitiFinancial is outlining enhancements that will supplement its existing policies and will offer additional consumer protections and benefits to customers throughout the industry. My colleagues at CitiFinancial and The Associates developed these initiatives following a review of their own policies and products, as well as numerous meetings with many community representatives and legislators to solicit their views.

We prize our long-standing reputation for service to customers and communities and we recognize that CitiFinancial's position as the soon-to-be largest consumer finance company in the U.S. gives it the opportunity to play an even more important and valuable role in communities in which it does business. While many of our products and practices are among the best in the industry, we are proud to do more.

Sincerely yours,

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citi financial

CitiFinancial
300 St. Paul Place
Baltimore, MD 21202

November 7, 2000

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Re: CitiFinancial Real Estate-Secured
Consumer Finance Lending Initiatives

Dear Ladies and Gentleman:

Citigroup Inc. ("Citigroup") has agreed to acquire Associates First Capital Corporation ("Associates"). We expect the acquisition to be completed shortly. The Associates acquisition will help Citigroup further expand its international activities, its commercial lending business and its credit card portfolio. It will also make CitiFinancial the leading consumer finance lender in the United States, by combining Associates' domestic consumer finance branch office and broker business with and into its consumer finance business.

The consumer finance business served by CitiFinancial provides important access to credit for segments of our communities that do not qualify for prime credit. Regulators universally recognize that this is an important market that must be served, and served well. As Superintendent Elizabeth McCaul of the New York State Banking Department has acknowledged, while consumer finance lending can be abused, there is an important role for responsible lenders to play:

> [T]he sale and approval of loans that are too expensive for the consumer, that contain unnecessary and unjustified fees and other costs, and that result in homeowners losing equity and ultimately possession of their homes [must be prevented]. . . . [We will] . . . make sure that families have access to the credit they need to pursue the American dream of home ownership. Sub-prime lenders can help provide credit and liquidity to members of the consumer market that otherwise might have difficulty obtaining homeowner loans.[1]

Likewise, Chairman Donna Tanoue of the Federal Deposit Insurance Corporation has said that responsible and well-capitalized lenders have an important contribution to make:

> We are convinced that a well-managed, appropriately capitalized consumer lending program can meet the credit needs of a broad spectrum of borrowers – including those with subprime credit histories and do so in a safe-and-sound manner.[2]

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1 Remarks by Elizabeth McCaul, Superintendent of the State of New York Banking Department, Neighborhood Housing Services 2000 Gala in NYC Speech on October 24, 2000.

2 Remarks by Donna Tanoue, Chairman, Federal Deposit Insurance Corporation Before America's Community Bankers, Orlando, Florida, November 2, 1999.

Importantly, CitiFinancial, which has served consumer finance customers for over half a century, has exemplary business practices and thorough compliance systems. CitiFinancial recognizes that, like its other businesses, the consumer finance business always must be conducted in a highly ethical and reputable fashion. CitiFinancial prizes its long-standing reputation for service to its customers and communities.

We condemn predatory practices such as "packing," "equity-stripping" and "flipping," and our track record with our customers and regulators demonstrates that we excel at satisfying customers. We condemn targeting low- and moderate-income and minority customers for high cost credit, and our record demonstrates that we make our credit products available to customers, including low- and moderate-income and minority individuals, through any sales channel for which they qualify.

In response to criticisms that have been leveled at the proposed transaction, Citigroup and CitiFinancial have sought out and met with numerous community group representatives and legislators throughout the country to solicit their views on appropriate practices in the real estate-secured consumer finance business. While these groups have been critical of certain practices of Associates, they have also expressed views at odds with certain long-established practices in the industry, which include some practices followed by CitiFinancial.

Citigroup and CitiFinancial take these views seriously, as each wishes to maintain its reputation of integrity and continue to ensure customer satisfaction. Business environments are dynamic and practices and products that have been widely accepted in the past may need to be carefully re-examined as the views of regulators, legislators and concerned citizens evolve. The pending transaction presents an opportunity for CitiFinancial to consider how to improve its current business, and in the process, spearhead changes in the industry that will benefit consumers.

It is important to recognize that this review is not required for the approval of pending applications. The standards applicable to Citigroup's pending applications for approval of various aspects of the acquisition do not compel CitiFinancial to change or even review its business practices and products. They require regulators to assess the competitive impact of the transaction and financial or managerial aspects of Citigroup.[3]

Based on an extensive review, CitiFinancial agrees with the publicly expressed views of regulators and others that the fundamental value provided by the consumer finance business is sound, and believes that it can operate the combined consumer finance business of CitiFinancial and of the Associates in a highly ethical and reputable manner. Many of CitiFinancial's products and practices are among the best in the industry, but CitiFinancial will do more. We will change certain products and procedures to strengthen consumer protections that are already built into

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[3] In this regard, the Department of Justice gave Citigroup early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. In addition, on October 18, 2000, Citigroup received the approval of the South Dakota Banking Commission to acquire Associates' South Dakota credit card bank. In its order the Commission stated: "The Applicant currently operates a national credit card business through a South Dakota subsidiary, Citibank (South Dakota), N.A. Citibank (South Dakota), N.A. has a strong record of service to its local community and the state and has been an innovator within the state in community development loans that support the development of affordable housing and micro loans for entrepreneurs in rural areas. As a result of this effort, the bank earned from its primary federal regulator the highest rating possible among banks for its role in meeting community credit needs. The Bank also has a good record of community service, lending and investment, and the Applicant has committed to continue this record following the acquisition. The directors and senior executive officers of the Applicant and the Bank are persons of good character."

CitiFinancial's U.S. real estate-secured consumer finance lending through its branch office network-based lenders. CitiFinancial will also make changes for broker-sourced loans it originates ("broker loans") and for loans originated by correspondents that CitiFinancial acquires in loan pools ("correspondent loans"). While these businesses will primarily be conducted by CitiFinancial, the changes to the branch, broker and correspondent lending channels will apply across the board to all Citigroup U.S. real estate-secured consumer finance lending, regardless of the legal vehicle in which it operates.

In addition, CitiFinancial will set up a special review process for all foreclosure actions to assure that no borrower inappropriately loses his or her home.

When enhanced by the initiatives outlined below, the combined consumer finance business that results from this transaction will be the nationwide leader in providing valuable consumer finance products delivered under state-of-the-art compliance policies and systems. This transaction will therefore have tangible benefits for the public served by the combined company. The presence of CitiFinancial branches in many communities throughout the nation will also indirectly benefit other consumer finance customers who today may have few alternatives to dealing with unscrupulous lenders. As Comptroller of the Currency John D. Hawke, Jr. stated:

> We must target not just the predators themselves, but conditions that allow them to flourish. That means encouraging responsible competition in the same markets in which the predators operate.[4]

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4 Remarks by John D. Hawke, Jr. Comptroller of the Currency. National Community Reinvestment Coalition Annual Convention. Washington, D.C. March 21, 2000.

Therefore, CitiFinancial will make the following operational improvements to the combined U.S. real estate-secured consumer finance business following the acquisition:

I. ACCESS TO LOWER COST CREDIT

CitiFinancial is committed to providing consumer finance customers that may qualify for lower cost credit the opportunity to seek such credit within the Citigroup family or to earn reduced rates on a consumer finance loan. Citigroup has long been committed to ensuring that all customers, including low- and moderate-income and minority individuals, as well as individuals that reside in low- and moderate-income and minority neighborhoods, have access to credit through any sales channel for which they qualify. CitiFinancial also ensures that real estate-secured consumer finance customers' credit records with CitiFinancial are shared with credit bureaus, so that customers can benefit from improvements to their credit performance.

In order to expand access to lower cost credit to all of our customers, CitiFinancial will change its products and procedures so that all qualifying customers of the combined company will have the opportunity for lower cost credit. These changes will ensure not only that CitiFinancial customers will have access to lower cost credit products, but that low- and moderate-income and minority customers will have an opportunity to apply for prime credit for which they qualify or, if they qualify only for consumer finance products, that they have an opportunity to lower the cost of their credit.

We will introduce three new programs:

- **Referral Up**
  CitiFinancial is committed to instituting a workable program to inform customers that approach our CitiFinancial branch offices (but appear to qualify for a prime loan) of their options. While customers will still be free to choose a consumer finance loan with moderate documentation and prompt processing (compared to the more document-intensive and time-consuming conventional loan process), we will change our consumer finance practices as follows.
  - To determine how (not whether) to implement a workable program, we will initiate a pilot program through the CitiFinancial branch office network located in four states (Maryland, Missouri, New York and Virginia).
  - The program will identify applicants for whom a preliminary review indicates that they may qualify for a prime loan.[5]
  - Customers identified will be provided information on how they can access prime loans through other parts of the Citigroup organization.

- **Freedom Loans**
  - Associates' Freedom Loan product rewards a borrower who pays punctually. CitiFinancial has no such loan product.
  - In order to recognize the improvement in the credit rating of such a borrower, CitiFinancial will design a loan program similar to the Associates Freedom Loan.

- **Graduation Loans**
  - A new lending program (the "Graduation Loan") will be designed by the combined company to provide consumer finance customers who

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[5] District of Columbia residents will be eligible for the pilot. CitiFinancial serves the District of Columbia (in which it has no branches) through its offices in Maryland and Virginia.

achieve prime credit status, the ability to refinance into a conventional mortgage loan with a member of the Citigroup family.

- Through the Graduation Loan product, CitiFinancial customers will be further encouraged to become customers of a Citigroup prime lender.

II. SALES PRACTICES

Developing and implementing effective controls on sales practices is the foundation of any ethical business. CitiFinancial has a lengthy and positive history of implementing such controls. Consistent with this background, as part of the CitiFinancial initiatives, CitiFinancial has reviewed its current business sales practices safeguards for its consumer finance business and has initiated upgrades to its sales practices policies as follows:

- **Consumer Finance Merger**

  - Branch Office Network – CitiFinancial will merge the consumer finance offices of Associates with and into its CitiFinancial branch office network. The combined branch business will use the CitiFinancial loan origination system ("Maestro") and the product design and compliance systems of CitiFinancial. Maestro is an all-in-one loan underwriting, documentation and compliance system that minimizes the opportunity to make loans that do not comply with the law or vary from company policies.
  - Broker Business – CitiFinancial will merge the broker and correspondent business of Associates with and into CitiFinancial. The combined business will operate under the limits now in place, together with the new safeguards outlined below.

- **Compliance Programs**

    - Compliance and Audit Program Review – In order to implement the initiatives outlined below, CitiFinancial will review its existing consumer finance compliance programs, including compliance manuals, training programs and compliance and audit examinations and functions to identify appropriate modifications. The review will include CitiFinancial's fair lending policies and compliance program. CitiFinancial will, with the assistance of its independent auditors, implement compliance modifications that result from that review. CitiFinancial will utilize a combined U.S. consumer finance compliance staff of 130 professionals to implement and enforce the compliance modifications that result from that review. The compliance program will continue to be backed-up by an 800 number for employees to report anonymously suspected unethical behavior and compliance issues.
    - Customer Satisfaction – As an additional compliance safeguard and customer satisfaction measure, CitiFinancial will introduce a special 800 number for customers to deal with complaints and problems. The number will supplement existing customer service telephone numbers.
    - Training – All consumer finance employees will receive updated training on compliance issues, including fair lending compliance, within the six month period following the acquisition.
    - Compensation – Currently the incentive compensation arrangements for CitiFinancial branch office employees take into account a variety of factors in addition to the origination of our products, including branch expense efficiency, delinquency, customer service, performance on compliance reviews and overall quality of branch operations. The component of branch office compensation based upon compliance results will be reviewed to ensure that a negative compliance finding has an appropriately negative impact on employee compensation.

- Mystery Shoppers – As an additional safeguard to its current compliance procedures, CitiFinancial will implement a "mystery shopper" program administered by a third party in its branch office network further to ensure that compliance procedures are followed.

III. PRODUCTS

Much criticism has been leveled at various products, or product features, in the consumer finance industry. Public examples of misconduct, which involve individual consequences to which no reasonable person could fail to be sympathetic, involve bad sales practices and product design features which sometimes enable bad sales practices to occur. Therefore, it is critical to look at both sales practices and product design to ensure the appropriate conduct of business. The following discussion of specific product issues must be read in light of CitiFinancial's strong history and culture of compliance and the sales practices initiatives outlined above.

- **Single Premium Credit Insurance**

  Perhaps no other insurance product today involves as many criticisms as does single premium credit insurance. Critics complain that the product is unnecessary, adds to the amount financed and puts the borrower in jeopardy of losing equity in the borrower's home. In addition, the term of the loan can exceed the term of the insurance. On the other hand, this product is approved by the insurance departments in nearly all states, is sanctioned by state credit laws and has long been offered by the consumer finance industry as well as banks, credit unions, thrifts, and retailers.

  Like many other companies in this industry, CitiFinancial has long offered single premium credit insurance. Single premium credit insurance can be a valuable product when sold to customers with the right needs, using clear and conspicuous disclosures, and obtaining informed consent. Prepaid single premium credit insurance for persons who may not be able in a particular month to continue coverage under a monthly premium plan can ensure that a person would not lose his or her home in the event of the death, disability, or unemployment of the insured or his or her spouse. At the same time, insurance policies can be misunderstood and sold inappropriately. CitiFinancial will continue to ensure that borrowers understand the choices they have and the benefits and costs of various options. In addition, we believe that the level of discussion has evolved to the point that it is proper for CitiFinancial to change its current credit insurance product features.

- Full Choice - When originating a real estate-secured loan, CitiFinancial branch offices historically have offered customers the choice of the loan without credit insurance or taking it with insurance paid in a single premium at the time of the closing. Going forward, whenever CitiFinancial branch offices offer single premium credit insurance, customers who choose credit insurance will be offered the additional choice of monthly premium credit insurance. Thus, customers will be able to choose no insurance, monthly premium insurance or single premium insurance.
    - Reflecting the industry-leading nature of this change, CitiFinancial will have to secure the approval of most state departments of insurance to create a monthly premium credit insurance product. We expect to file for such approvals promptly.
- Refunds - Customers can today receive a complete refund of single premium credit insurance within 30 days by using several user-friendly methods, including calling an 800 number, and can receive a partial refund of the unearned premium after 30 days. CitiFinancial will change the method of calculating such partial refunds of the unearned premium for new loans to the more generous actuarial method of calculation, in those states where it is not already being used.

- Greater Disclosure - In addition to our existing industry-leading disclosure standards,[6] CitiFinancial will change its operating procedures to:
  - Provide to each borrower that purchases single premium credit insurance a letter in plain English following the closing that will again describe the nature and cost of the product and provide a user-friendly means of canceling the product.
  - Review our disclosure materials to ensure that customers are clearly educated about their insurance alternatives and the differences between those alternatives sufficiently to provide informed consent.

- **Pre-Payment Fees**

While pre-payment fees protect a lender during the period needed to recover the acquisition cost of a loan, critics suggest that pre-payment fees prevent a borrower from upgrading his or her credit status, "locking in" consumers to higher rate loans. Recognizing this criticism, CitiFinancial will continue its

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6 Current Disclosure Standards: Borrowers at CitiFinancial branch offices are told three times -- at the time of application, at pre-closing and at closing -- about the voluntary nature of all credit insurance products. All loans are closed in the branch, where copies of the Customers Insurance Rights notice are clearly and conspicuously displayed in plain sight of the borrower -- frequently on the closing table. CitiFinancial prominently discloses the terms of the insurance, including differences in the amount of the borrower's payments with and without insurance, and employees are trained and required to inform the borrower of both payment amounts. During the loan closing process, loan documents reflecting the decision to purchase credit insurance are not presented to the borrower until the borrower has reconfirmed that he or she wishes to purchase credit insurance. If the borrower states that he or she has changed his or her mind, new loan documents without credit insurance are prepared within a few minutes.

current practice of not charging pre-payment fees for CitiFinancial customers refinancing with CitiFinancial or any member of the Citigroup family, and will change the products offered by our branch office network as follows:

- Full Choice: We will provide each branch office customer a choice between a product with a pre-payment fee (with a lower interest rate) and a product without a pre-payment fee (but with a higher interest rate).
- Limits on Fees: CitiFinancial branch offices will voluntarily limit pre-payment fees to a maximum of three years, from a five-year maximum today.
- Greater Flexibility and Encouragement to Improve the Borrower's Credit: To ensure that customers with improving credit histories are not "locked in" to higher rate mortgages, CitiFinancial will design new products to be offered through its branch office network programs described in Section I in more detail:
  - A consumer finance product which rewards customers whose credit improves.
  - A new "Graduation Loan" program that will enable consumer finance borrowers whose credit improves to prime standards to refinance directly to a conventional home mortgage with a Citigroup affiliate.

- **Arbitration**

Critics allege that the arbitration forum can be inconvenient or disadvantageous when customers are required, for example, to attend proceedings at a distant location or to pay substantial fees for an arbitration hearing. When used properly, however, mandatory arbitration allows customers and lenders to settle their differences in a more efficient and convenient forum and has frequently been accepted by courts as an effective alternative to a crowded court system.

To ensure that customers are not disadvantaged by arbitration, CitiFinancial will change our arbitration provisions for all real estate-secured consumer finance loans nationwide to the arbitration standards established by the New York State Banking Department pursuant to Part 41 of the General Regulations of the Banking Board. Pursuant to that rule, arbitration clauses will comply with the standards set forth in the Statement of Principles of the National Consumer Dispute Advisory Committee, which provides that consumers should, among other things, be afforded:

- Proceedings conducted at a location which is reasonably convenient to both parties with due consideration of their ability to travel and other pertinent circumstances. In fact, CitiFinancial provides that arbitration proceedings be conducted in the customer's county of residence;
- An arbitrator empowered to grant whatever relief would be available in court under law or in equity;
- Clear and adequate notice of the arbitration provision and its consequences;
- Reasonable access to information regarding the arbitration process, including basic distinctions between arbitration and court proceedings, related costs, and advice as to where the customer may obtain more complete information regarding arbitration procedures and arbitrator rosters; and
- Notice of the option to make use of applicable small claims court procedures as an alternative to binding arbitration in appropriate cases.

In addition:

- CitiFinancial pays all fees (both its own and those of its customer) for the first day of arbitration (the usual length of most arbitrations); and

  - All customers of the combined company who are already covered under other arbitration agreements will be able to take advantage of these more favorable provisions.

- **Reliance on Ability to Repay**

  Lenders who rely on the value of a borrower's home rather than the borrower's ability to repay ("equity-based lending") can set the borrower up to lose the equity in the borrower's home, especially when a predictable default occurs. We always determine whether to extend credit based upon a borrower's creditworthiness and ability to repay the loan – not the equity available in the home.

  - Creditworthiness and ability to repay is determined through the use of objective, empirically derived, statistically significant credit bureau scoring and proprietary models, among other factors.
  - CitiFinancial's low foreclosure levels demonstrate that this analysis is effective.
  - As an additional assurance that borrowers will have sufficient funds to repay the loans, CitiFinancial branch offices do not, and will not, originate loans with:
    - balloon payments or;
    - negative amortization.

- **Protections Against Inappropriate Refinancing**

  Customers encouraged to refinance frequently, or to refinance into loans that are more onerous ("flipping") can lose equity through payment of unnecessary fees or trade more favorable for less favorable loan terms. On the other hand, refinancing can provide benefits to a customer whose change in circumstance warrants reassessment of the customer's loan. We will continue to place restrictions on refinancings to guard against flipping.

- Point Limits - Points, which critics view as a principal incentive for flipping, are limited to the new money portion of a refinancing during the first 12 months after a loan. During the second 12 months, points are capped at 3.5%. After the first 24 months, points are capped at 5%.
- Tangible Benefit Test - As a backstop to the limits on points, we also require that our refinancing of our own loans must provide a tangible benefit to borrowers. There is no generally accepted definition of tangible benefit. Our yardstick for tangible benefit is: i) a lower rate; ii) smaller monthly payments; iii) additional cash; or iv) curing defaults. CitiFinancial understands that even loans that meet one of the factors in this test could result in no or little actual tangible benefit. However, when coupled with CitiFinancial's compliance and audit systems and a compensation system that takes into account compliance and the performance of loans that a branch office originates, as well as the limits on points described above, this test provides an effective safeguard. The effectiveness of these limits and internal controls working together is demonstrated by CitiFinancial's low delinquency level and high customer satisfaction rating.
- New Refinancing Protections - To add additional safeguards against inappropriate refinancing we will:
    - Review anti-flipping procedures and implement any appropriate additional safeguard.
    - Implement a policy to ensure that the CitiFinancial branch office network does not refinance below-market rate loans by non-profits or certain other programs. If such loans are inadvertently refinanced, the customer will be made whole.
    - Adopt programs to provide customers whose credit improves alternatives to consumer finance products.

IV. BROKER SOURCED LOANS

Deeply-felt criticisms are leveled against the real estate mortgage broker industry, a segment of the business with which CitiFinancial has had relatively little involvement. Many of the most egregious examples of inappropriate lending activities can be traced to brokers who take advantage of unsuspecting consumers. While we hope that the majority of brokers are honest and act in the best interests of their customers, even if only a small percentage of brokers engage in misconduct, steps to counter inappropriate broker activity are required. Over the last year, CitiFinancial has been implementing standards to ensure that this business is conducted consistent with the high standards to which Citigroup businesses are held. In addition to these current safeguards, the compliance program for the combined consumer finance business will be improved to add new requirements to the existing protections for broker-sourced loans and, where relevant, correspondent loans.

- **Current Safeguards** – CitiFinancial will continue to:
    - Perform thorough due diligence and background checks on brokers and correspondents before we agree to do business with them.
    - Not use home improvement contractors as a source of real estate-secured loans.
    - Terminate relationships with any broker or correspondent who fails to adhere to CitiFinancial policies and procedures.
    - Examine underwriting, pricing and documentation prior to originating any broker loan or purchasing any correspondent loan, including the borrower's ability to repay.
    - Utilize the same cap on points for 12 and 24 months used by the CitiFinancial branch office network for refinancings of our loans, as described above in Section III.
    - Utilize the same tangible benefit test used by the CitiFinancial branch office network for refinancings of our loans, as described in Section III.

- **The Broker Test Project** – In response to concerned citizens and community group representatives (such as Martin Eakes, the Chief Executive Officer of Self-Help Credit Union) who contend that unilateral CitiFinancial leadership in broker compensation can alter market practices, CitiFinancial will undertake a significant and potentially far-reaching test project for independent brokers.

    - To examine the dynamics of this market, CitiFinancial will test in Illinois and Maryland:

        - Limiting, either directly or through loan proceeds, the total of lender and broker fees paid by the borrower to 3% to explore the impact on business and our customers. In this test, CitiFinancial will not pay any form of compensation to the broker, including back-end lender paid compensation.
        - CitiFinancial's test loans will have no prepayment fees (but will have higher interest rates).
        - The test brokers will also be subject to the other limits described below, including prohibitions on balloon payments, negative amortization, and refinancing of below market-rate, non-profit loans.
    - Brokers will be subject to the code of conduct and monitoring.
    - We will share the results of this test with our regulators, community representatives and others who have expressed an interest in this subject.

- **New Safeguards** – In addition to the current safeguards and the Broker Test Project, CitiFinancial will add additional safeguards to its broker and correspondent practices:

    - Code of Conduct – CitiFinancial will require that brokers and correspondents sign and adhere to a new CitiFinancial code of conduct if they wish to do business with us.

- Monitoring – We will monitor broker and correspondent loans that CitiFinancial books to identify inappropriate sales practices. For example, we review such loans for compliance with the fair lending laws. We will refuse to do business with brokers and correspondents who demonstrate a pattern of problematic loans.
- Broker and Lender Fees – CitiFinancial will limit what customers are charged. We will not make loans where the customer will pay more than 8% in broker and lender fees combined, including a limit on back-end lender paid compensation to 2%.
- Negative Amortization Loans – CitiFinancial will not make any broker loans or purchase any correspondent loans with negative amortization.
- Balloon Payment Loans – CitiFinancial will not make any broker loans with balloon payments. For any loan that CitiFinancial purchases, CitiFinancial will voluntarily offer to waive the balloon feature on a basis advantageous to the borrower.
- Additional Broker Measures – In addition, the broker and correspondent business will be subject to those initiatives described in connection with the CitiFinancial branch office network discussed in Sections I, II and III above, which are listed below:

    - Review and implement compliance improvements;
    - Changes to credit insurance products, if offered;
    - Products with and without pre-payment fees will be available through brokers;[7]
    - The three year limits on pre-payment fees will be applicable to loans available through brokers.[7]
    - A prohibition on refinancing below market loans by nonprofits and certain other lenders;

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[7] This will not apply to correspondent loans that we purchase.

- The benefits of loan products that reward a customer's improved credit, as described above, will be available through independent brokers;[7] and
- The arbitration clause changes will be available through brokers.[7]

V. FORECLOSURE REVIEW

In recognition of the strong expressions of concern by concerned citizens following the acquisition, CitiFinancial will:

- Create a specially-trained unit to review foreclosure actions to ensure that no borrower inappropriately loses his or her home through foreclosure.
- Review foreclosures on loans by CitiFinancial and Associates, whether made through a branch office, broker, or correspondent, and take appropriate action.
- The unit will also review consumer finance real estate-secured loans which are serviced, although not owned, by CitiFinancial, and will make appropriate recommendations to the trustee or investor.

VI. SUMMARY

Consumer lending is critically important to help individuals achieve their economic dreams. As Comptroller of the Currency, John D. Hawke, Jr. has observed, if done well, there is no financial product with a greater potential for good.[8] At the same time, this segment of the lending business is deserving of the increased scrutiny it has recently received. As the soon-to-be largest consumer finance company in the United States, CitiFinancial recognizes our leadership responsibility and we aspire to help this industry set high standards. We believe that the fundamental value provided by the consumer finance business is sound and that we play an important and valuable role in the communities in which we do business. We are committed to operating the combined business in a highly ethical and reputable manner. While many of CitiFinancial's products and practices are among the best in the industry, we are proud to do more.

Sincerely yours,

Robert B. Willumstad

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8 Remarks by John D. Hawke, Jr. Comptroller of the Currency. Neighborhood Housing Services of New York. New York, New York May 5, 1999. Comptroller Hawke stated "I know of no financial product with greater potential for good – or for abuse – than subprime loans. Potentially, they offer first-time borrowers a chance to build a credit history, and repeat borrowers a chance to rehabilitate a blemished history. Under the right conditions, subprime loans can provide entry – or reentry – into the financial mainstream – but only if they're marketed and used responsibly."

cc: Board of Governors of the
Federal Reserve System
Office of Thrift Supervision