

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.

WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000

FAX: (202) 393-5760

<http://www.skadden.com>

FIRM/AFFILIATE OFFICES

BOSTON  
CHICAGO  
HOUSTON  
LOS ANGELES  
NEWARK  
NEW YORK  
PALO ALTO  
SAN FRANCISCO  
WILMINGTON

BEIJING  
BRUSSELS  
FRANKFURT  
HONG KONG  
LONDON  
MOSCOW  
PARIS  
SINGAPORE  
SYDNEY  
TOKYO  
TORONTO

November 17, 2000

**Via Overnight Delivery and Facsimile**

Mr. Richard T. Erb  
Licensing Manager  
Bank Organization and Structure 3-8  
Comptroller of the Currency  
250 E St., S.W.  
Washington, DC 20219

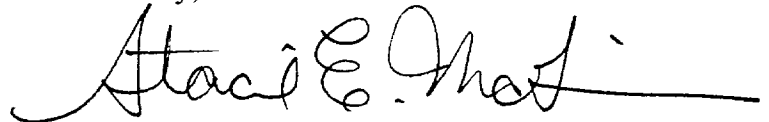
Re: Notice of Change in Bank Control filed by Citigroup  
Inc. to Acquire Associates National Bank (Delaware)

Dear Mr. Erb:

On behalf of Citigroup Inc. ("Citigroup"), please find enclosed one original and five copies of the response to the items noted in your November 16, 2000 letter.

Please do not hesitate to call the undersigned at 202-371-7905, or William J. Sweet, Jr. at 202-371-7030, if you have any questions regarding this response.

Sincerely,



Stacie E. McGinn

Enclosures

cc: Carl Howard  
Citigroup Inc.  
William J. Sweet, Jr.  
Skadden, Arps, Slate, Meagher & Flom LLP

**Response of Citigroup Inc. to  
Office of the Comptroller of the Currency  
Letter dated November 16, 2000**

- 1. Please confirm that the letter from Pamela P. Flaherty (including the attached letters from Sanford I. Weill and Robert B. Willumstad) to Julie L. Williams date November 7, 2000, is intended to be considered an amendment to the Notice of Change in Bank Control.**

This confirms that the Citigroup letter from Pamela Flaherty (including the attached letters from Sanford I Weill and the CitiFinancial letter from Robert B. Willumstad) to Julie L. Williams dated November 7, 2000 was intended to be part of the record in the Notice of Change in Bank Control. The voluntary initiatives were not intended to be legally binding commitments under the Notice, as they relate to the consumer finance business, which is not conducted through the banks that are the subject of the Notice. Citigroup and CitiFinancial are nevertheless committed to making the initiatives a part of CitiFinancial's business model. As the details of the initiatives are developed and implemented, it would be appropriate for regulators and community groups to judge CitiFinancial on its commitment to these initiatives and on its ability to execute the initiatives in an effective manner. Towards this end, Citigroup commits to the Office of the Comptroller of the Currency ("OCC") that it will report to the OCC on a periodic basis the progress of CitiFinancial in implementing each of the initiatives.

**2. Please clarify how Citigroup, through its marketing, its bank and thrift branches, its other office locations, and other procedures, offers prime as well as subprime products to low-and moderate-income and minority communities.**

Citibank<sup>1</sup> is the main delivery channel for Citigroup's "prime" real estate-secured products, and CitiFinancial is the primary channel for consumer finance products. Delivery systems for prime products to minority and low- and moderate-income ("LMI") communities include Citibank retail offices, toll-free telephone numbers, the Internet and brokers and correspondents.

As described in the November 7 response, fully 21 percent of Citibank's branches are located in majority minority<sup>2</sup> communities (compared with only 7 percent of CitiFinancial's loan offices). In addition, 18 percent of Citibank's branches are located in LMI census tracts (compared with 15 percent of CitiFinancial's branches).

For those potential customers who are not located near a Citibank branch (including those outside of the bank's assessment area), Citibank publishes a toll free number, which allows applicants to submit applications over the telephone and complete the application process by mail. Citibank's prime products also are available to all potential customers, regardless of location, through the Internet.

---

<sup>1</sup> As used herein, Citibank refers to Citibank, N.A. and its subsidiary, CitiMortgage, Inc. ("CitiMortgage"), Citibank (New York State), Citibank (Nevada), N.A. and Citibank FSB. The HMDA analysis includes Source One Mortgage Services Corporation, which was acquired by CitiMortgage in 1999.

<sup>2</sup> As used herein, majority minority communities are those in which minority populations make up 50 percent or more of the census tract.

Much of Citibank's lending is done through a wide network of responsible brokers who meet Citibank's high standards. In addition to this network, Citibank makes special efforts to establish relationships with brokers serving minority and LMI communities, as part of Citibank's fair lending program.

Increasing the number, dollar volume and percentage of prime loans – particularly home purchase loans – to minority and LMI communities is a significant objective for Citibank. Citibank has dedicated units that focus on delivering HMDA-reportable loans to LMI and minority individuals. Each Citibank market, for example, has a Community Investment Officer supported by a team of Community Mortgage Consultants who are compensated based upon the number of loans originated to these targeted individuals.

In 1998, CitiMortgage created the position of Director of Emerging Markets. This individual heads up a team comprised of product development specialists, credit/risk management staff, and individuals who interface with the community and our internal channels of distribution (broker, correspondent, corporate, and retail). The unit is charged not only with meeting Citibank's CRA obligations, but building a sustainable emerging markets business with the right programs, products, and sales effort.

The Community Mortgage Consultants and Emerging Markets staff implement a multi-faceted marketing approach that includes investments in strategic partnerships with non-profit and community groups, participation in government bond

programs focused on affordable mortgages, direct mail solicitations, and workshops and seminars, many of which are targeted to LMI and minority individuals and communities.

*Strategic Partnership with Fannie Mae.* To better understand community needs and reach under-served communities, Citibank has forged a number of strategic partnerships with leading non-profit and community development organizations. Most recently, CitiMortgage and Fannie Mae announced a new affordable mortgage lending partnership, under which CitiMortgage has committed to originate, and Fannie Mae has committed to purchase, \$12 billion in innovative and affordable mortgage loans. At the center of this partnership is the expansion and introduction of flexible mortgage initiatives that address the needs of LMI borrowers, minority home buyers, and new immigrants. The commitment will significantly increase CitiMortgage's affordable lending business and will transform the way the company serves emerging markets throughout the country.

Under the Fannie Mae partnership, flexible homeownership lending initiatives will be offered nationally through all CitiMortgage affiliates and their business partners, with concentrated marketing efforts in six major metropolitan areas, including the New York City/Tri-State area, the Baltimore/Washington area, Chicago, Miami/South Florida, Los Angeles/Orange County, and the San Francisco Bay Area.

To ensure the success of this new commitment, CitiMortgage and Fannie Mae will join forces with key national organizations to reach targeted markets. A formal partnership exists with the Local Initiatives Support Corporation, and new partnerships

are being forged with the National Association of Hispanic Real Estate Professionals , the National Association of Real Estate Brokers, and the National Urban League. These organizations, and others to be added throughout the five year partnership, will work with CitiMortgage and Fannie Mae to develop and implement marketing strategies to increase lending to minority home buyers and to promote homeownership in urban areas. CitiMortgage also will utilize its alliance with Revelation America, Inc. (an organization made up of 48,000 African-American churches nationwide) to provide homeownership opportunities.

Unique mortgage products to be offered under this initiative include:

**CitiAffordable Mortgage Program and CitiAffordable Purchase Assistance Program** – offer low down payment options and flexible qualifying criteria. These marquee CitiMortgage products take into consideration the fact that lower-wealth borrowers experience significant challenges in accumulating funds for down payment and closing costs.

**Community 100 Mortgage<sup>SM</sup>** – an affordable housing pilot available to borrowers with incomes at or below 100 percent of the area median. The Community 100 requires a 3 percent borrower contribution, which can be used towards closing costs. Sources of the 3 percent contribution can come from a variety of flexible sources, including grants and unsecured/secured loans from non-profit organizations, government agencies, or employers.

**HomeStyleR Rehabilitation Mortgages** – allow borrowers to obtain one mortgage loan for the purchase and the repair or renovation of a home, based on what the property will be worth after the work is completed.

**Timely Payment Rewards<sup>SM</sup>** – allows borrowers with past credit difficulties to obtain a mortgage rate up to two percent lower than credit-impaired borrowers typically pay. The mortgage rate is automatically reduced an additional one percent after 24 months of timely payments.

**Working Mortgage<sup>SM</sup>** – offers special down payment and flexible qualifying guidelines to borrowers who set up an automatic deduction of the mortgage payment that matches the timing of the borrower’s weekly or biweekly paycheck. This automatic deduction results in faster amortization of the mortgage, which accelerates the build up of equity.

**Flexible Qualifying Guidelines for New Immigrants** – allows working non-permanent resident immigrants to participate in a full array of flexible mortgage products. Considers alternative sources of qualifying income such as boarder income, cash-on-hand and part-time employment.

Other local partnerships include: The Spanish-Speaking Unity Council (San Francisco, California); Career Resources (Bridgeport, Connecticut); Little Haiti Housing (Miami, Florida); Marshall Heights Community Development Corporation (Washington, D.C. area); Neighborhood Housing Services of New York City; Neighborhood Housing Services of Chicago; and the Women’s Development Center (Las Vegas, Nevada).

*Government bond programs.* Citibank is an active participant in local (city and state) government bond programs that support affordable mortgages for LMI and minority borrowers. Across the country, we have originated loans through more than 50 such programs.

*Direct mail.* In order to provide easier access to credit, Citibank introduced by direct mail an unsecured home improvement loan targeted for LMI and minority communities. The product was well received and resulted in significant lending volume, having met a community need for unsecured credit while allowing borrowers to enhance their properties.

*Workshops and Seminars.* Citibank held over 600 seminars in 1999 and 500 seminars through September of 2000, serving thousands of individuals and customers in our markets. Financial centers in low- and moderate-income neighborhoods accounted for more than half of the workshops. Topics included first-time home buying, financial literacy, and debt management.

As a result of these efforts, Citibank's HMDA-reportable loans during 1999 to minority and LMI communities within the retail bank markets that comprise Citibank's CRA assessment areas significantly exceeded market averages. Results with respect to home purchase loans were particularly strong.

- In 1999, for example 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.

CitiFinancial products are distributed mainly through its network of loan offices, and marketing is conducted primarily through the use of direct mail. As part of the new initiatives announced November 7, CitiFinancial will be adopting several new programs intended to ensure that CitiFinancial customers who may qualify for prime credit are made aware of the availability of Citibank's loan products. First, CitiFinancial is committed to instituting a workable program to inform customers that approach 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), CitiFinancial will:

- initiate a pilot program through the CitiFinancial branch office network located in four states (Maryland, Missouri, New York and Virginia) that will identify applicants for whom a preliminary review indicates that they may qualify for a prime loan.
- Customers identified will be provided information on how they can access prime loans through other parts of the Citigroup organization.

Second, in order to recognize a good payment history of an existing borrower, CitiFinancial will design a loan program that rewards the borrower by reducing his or her interest rate.

Third, a new lending program (the “Graduation Loan”) will be designed by the combined company to provide consumer finance customers who 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. CitiFinancial will share the results of these new lending programs with its regulators (as well as the OCC).

**3. Please describe the type of disclosures that will be made available to consumers in connection with the financing and sale of single premium credit insurance.**

CitiFinancial has a strong sales practices compliance program particularly relating to the sale and financing of single premium credit insurance. 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, closing and post-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. See attached.

Second, CitiFinancial loan offices clearly 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.

These compliance procedures and disclosure materials will be implemented for the Associates consumer finance offices.

As noted in the November 7 announcement, CitiFinancial intends to enhance these disclosures. Understandably, however, few disclosure materials have been developed to date. CitiFinancial has begun sending a letter to all borrowers after closing reminding them of the insurance product they purchased and that the insurance coverage is optional. A copy of that disclosure letter is attached.

As a result of our initiative to offer customers the choice of monthly premium credit insurance, CitiFinancial will be filing for the appropriate approvals with state departments of insurance. Concurrently with these filings with state insurance regulators, we will be developing training materials and customer disclosures for implementation of this additional choice (besides the choice of no insurance and single premium credit insurance). Disclosures will include a description of the advantages and disadvantages of monthly versus single premium credit insurance. For example, customers will be advised that when the coverage term of single premium insurance is less than the financing term for the product, there will be a remaining principal balance related to the insurance. CitiFinancial will share the new disclosure program with its regulators (as well as the OCC) prior to implementation.

**4. Please clarify the limitations on points for refinanced and broker-sourced loans.**

A clarification of the limitations on points for refinanced and broker-sourced loans is provided in the chart below:

<u>Loan Type</u>	<u>Maximum Points</u> (Subject to state legal maximums)
1. Original Loan – No broker involvement	5 points
2. Original Loan – With broker involvement	
a. Test states (Maryland and Illinois)	3 points total for lender points and broker fees with no back-end compensation from lender to broker.
b. All other states	8 points total for lender points and broker fees with a cap of 2 points that lender may pay broker as back-end compensation. Lender points subject to 5 point maximum. For example, if broker charges 4 points; lender can charge up to 4 points. If broker charges 5 points, lender can charge up to 3 points.
3. Refinancing	
a. Within the first 12 months	5 points on new money
b. Within 13-24 months	3.5 points on loan amount
c. After 24 months	5 points

# Tab A

# OUR CUSTOMERS' RIGHTS

## INSURANCE AND OTHER SUPPLEMENTAL PRODUCTS

We offer credit life, accident and health and, in certain states, personal property and involuntary unemployment insurance, and other supplemental products.

- **Your purchase of any of these products from us is absolutely optional.**
- **Your purchase or your rejection of insurance or any other supplemental product will not be considered in the approval of your credit.**
- **You are entitled to have loan payments quoted without insurance and other supplemental products whenever a payment is quoted with such products.**

## Property Insurance

- **You are not required to carry casualty insurance on collateral except for automobiles, mobile homes or houses.**
- **You always have the option of using your own suitable insurance to cover such collateral.**

## COMPLAINTS

- If you purchase insurance or any other supplemental product from us, you are entitled to change your mind at any time. Any refund will be applied to the **principal** balance of the loan or given to you at our sole discretion.
- If you have any questions, wish to cancel insurance or any other supplemental product, or feel that this policy has not been followed, you may direct questions or complaints directly to our headquarters by calling Customer Service at 1-800-922-6235 between the hours of 8:00 AM and 5:00 PM Eastern Time.

**citi** financial

CitiFinancial  
300 St. Paul Place, BSPO5A  
Baltimore, MD 21202-2103

October 29, 2000

[REDACTED]  
LTI024

1-800-922-6235

[REDACTED]  
[REDACTED]  
[REDACTED]  
Dear [REDACTED]

Thank you for choosing us to help with your financial needs. We are delighted to have you as a CitiFinancial customer.

We want you to be a satisfied customer and to assure that, we take this opportunity to review with you the terms of your recent transaction and to answer any questions you may have. Your loan is in the amount of \$5,000.82 at 21.60% APR, with payments of \$138.62 per month for 60 months.

You also chose to provide security and peace of mind for your family by purchasing the following insurance plan, for the total premiums shown below. These premiums are included in the total amount of your loan.

<u>TYPE OF INSURANCE</u>	<u>PREMIUM</u>
Credit (Joint/Single) Life Insurance	\$ N/A
Credit Accident & Health Insurance	\$ N/A
Credit Personal Property Insurance	\$ 59.60
Involuntary Unemployment Insurance	\$ N/A

Please remember that this insurance plan was optional and was not required for you to get your loan.

You are a valued customer, and we want you to be completely satisfied with our products and services. If you have any questions on your loan or the protection you purchased, please be sure to contact your local CitiFinancial branch office or call us on our service hotline at 1-800-922-6235.

Thank you for your business.  
Sincerely,

*Richard J Carroll*

Richard J Carroll  
Chief Compliance Officer

citi financial