citigroup

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington, DC 20552
Attention: No. 2004-53

Re: No. 2004-53 RIN-1550-AB48; Community Reinvestment Act – Proposed Change in the Definition of "Community Development"; Proposed Change in the Calculation of Assigned Ratings

Dear Sir or Madam:

Citigroup, Inc. ("Citigroup") is a financial services holding company with a variety of depository institution subsidiaries that are subject to the Community Reinvestment Act ("CRA"), including three federal savings banks that are regulated by the Office of Thrift Supervision ("OTS"). We write in response to OTS's request for comment on its proposal to: (i) revise the definition of "community development" under the CRA; and (ii) reduce the regulatory burden of the CRA by providing flexibility to large retail savings associations to focus CRA efforts on the CRA needs of the communities they serve (the "Proposal"). We appreciate the opportunity to comment on the Proposal.

In General

Citigroup strongly supports the CRA and believes that the current statute and regulations are working well. Accordingly, although we generally favor regulatory initiatives designed to alleviate regulatory burden on financial institutions, we recommend that the OTS not make the proposed changes in the CRA regulations at this time. In this case, we believe that the existing regulations already strike the appropriate balance between regulatory burden and the obligations of depository institutions under the CRA.

In taking this position, we are mindful that strong regulatory oversight and transparency in CRA ratings have served as effective tools in encouraging lending, services and investment by thrifts in low- and moderate- income ("LMI") communities nationwide. The continual and sustained industry-wide increases in lending; services and investments in LMI areas that have occurred since the regulations were last revised demonstrate that the current regulations are achieving their objectives. Thrift institutions, in particular, have been important instruments for change due to their historic role as home lenders. We have no reason to believe these trends will not continue.

Below we give more detailed comments on why we recommend not making the proposed changes.

Proposed Changes to the Definition of "Community Development" under the CRA

We believe that the current definition of "community development" under the regulations works well. Although we agree with OTS's goal of encouraging thrifts to offer more banking services in rural areas, we believes that there are already sufficient incentives to lend, invest and provide banking services in rural communities.

The proposal also solicits comment on the possible expansion of the definition of "community development" to include (i) community services targeted to individuals in areas affected by natural or other disasters or other major community disruptions; and (ii) activities that revitalize or stabilize areas affected by natural or other disasters or other major community disruptions. Although we agree that it is important for financial institutions to play a role in responding to such events, we believe that the current regimen wherein the OTS identifies certain natural or other disasters for inclusion under the CRA already works well. In such cases, Citigroup, and other responsible depository institutions, have been leaders in trying to restore order and basic financial services to the affected areas. The motivator for our actions was not to obtain CRA credit but rather to fulfill our responsibility to our customers, our employees and our communities at such times.

Proposed Changes to the Ratings Assignment Process under the CRA

The Proposal asks whether savings associations should have a choice of weights for the lending, service, and investment tests within the large retail institution test. While we commend the OTS for attempting to reduce the burden on thrifts by making the CRA regulations more flexible, we fear that adoption of the proposal could, in practice, have the reverse effect. Under current regulation, Citigroup sets clear and measurable annual goals for its businesses involved in providing loans, investments and services in its CRA assessment areas. We monitor performance on a regular basis and review results with senior management and the respective boards of directors. Adjusting the weighting, after the fact, would decrease the accountability and could cause repeat "what if" scenarios designed to pass the test.

As noted in the Proposal, regulators currently have significant flexibility to consider performance context when evaluating CRA performance of an institution as described in Q&A 21(b)(4)–1. "Examiners will take into account statutory and supervisory limitations on an institution's ability to engage in any lending, investment, and service activities." This flexibility is well documented in the public evaluations published by OTS and other federal regulators on a regular basis.

Allowing savings associations to choose their own point values would make comparisons between institutions more difficult. For example, it would be harder to assess the relative value of two savings associations' identical CRA ratings where one savings association was evaluated based solely on its lending and investment record and the other based solely on its lending and services record. Under the current point system, by contrast, comparison between the CRA records of different savings associations is more meaningful because all savings associations are held to the same ratings standard.

In some assessment areas, where there are large numbers of highly competitive banking institutions, availability of credit is not the primary concern. In these areas, innovations in service delivery and creative investments are often relatively scarce. In order to make such communities strong, thrifts need to conduct activities such as financial education seminars for consumers, technical assistance for community-based organizations and investments in small business investment corporations, credit unions and others. If there is to be a change to the weighting of the various tests, we believe that these activities are often as important as lending and should be given equal weight.

Accordingly, we recommend standard weighting of the tests for all institutions in advance of an exam. The transparency of a standard weighting for all institutions helps regulators, community groups, media and the public evaluate the relative performance of large retail institutions. Although this transparency has sometimes been painful for Citigroup, we believe that it supports an important public purpose, and has encouraged us and other large retail institutions to improve our overall CRA performance.

Conclusion

Thank you for the opportunity to comment. OTS is to be commended for attempting to reduce the regulatory burden on thrifts. However, Citigroup believes that the existing regulatory structure has been effective in providing lending, investments and services to LMI communities and families. Accordingly, we urge OTS to leave the existing framework intact. Please direct any questions regarding our letter either to me at (212) 559-2938, to Jeff Watiker of my office at (212) 559-1864, or to Jeff Jaffee of our CRA and Fair Lending Unit at (718) 248-4146.

Sincerely yours,

Carl Howard

Carl Howard

Cc: Jeff Watiker
Jeff Jaffee
Viola Spain