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Comptroller of the Currency  
Administrator of National Banks

**LIMITED PURPOSE**

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Washington, DC 20219

**Public Disclosure**

**May 24, 1999**

**Community Reinvestment Act  
Performance Evaluation**

**Citibank (South Dakota), N.A.  
Charter Number 16971  
701 East 60th Street  
Sioux Falls, South Dakota 57117**

**Office of the Comptroller of the Currency  
Large Banks Division  
250 E Street, SW  
Washington, D.C. 20219**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Citibank (South Dakota), N.A., Sioux Falls, South Dakota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 24, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout the Performance Evaluation. The definitions are intended to give the reader a general understanding of the terms, not a strict legal definition.

**Affiliate** - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Assessment Area (AA)** - Must consist generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

**Benefit to Assessment Area** - An activity benefits the assessment area if (i) the activity benefits areas within the assessment area, (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area, or (iii) the bank has received prior supervisory office approval that the activity may be considered as benefiting the assessment area.

*Note: With regard to subsection(iii), the supervisory office may grant approval if the following four criteria are present: (a) the bank has a more than negligible amount of CD activity that directly benefits the assessment area, or is to a program or organization that benefits a statewide or regional area that includes the assessment area, (b) there are relatively few unmet needs within the bank's assessment area that are within the capabilities of the bank (due to such factors as the income level and distribution among assessment area population; the limited capacity of the assessment area to absorb additional CD activity by the bank; the legal restrictions on the bank's activities; and the activities of other institutions in the assessment area), (c) the investment responds to a clear need in the area that it would benefit, and (d) the area benefited by the investment is either within the same state as the bank's assessment area, or is within a region nearby or adjacent to the bank's assessment area.*

**Census Tract (CT)** - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

**Community Development (CD)** -Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Limited Purpose Institution** - An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

**Income Levels** - These relate to individuals, families, households, or the census tracts in an MSA.

**Low** - An income level that is less than 50% of the median income.

**Moderate** - An income level that is at least 50% and less than 80% of the median income.

**Middle** - An income level that is at least 80% and less than 120% of the median income.

**Upper** - An income level that is 120% or more of the median income.

**Low- and moderate- income (LMI)** - geographies (e.g., census tracts and block numbering areas) which have, and individuals who have, low- or moderate-incomes.

**Managed Assets** - The total assets managed or serviced by the bank, including any off-balance sheet assets. Off-balance sheet assets generally consist of loans the bank originates, or purchases, and subsequently removes from financial statements through an asset securitization and sale to a trust. In some instances, the loans are sold directly to a third party through a participation agreement with the originating bank retaining servicing rights.

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above and below it.

**Metropolitan Statistical Area (MSA)** - Area defined by the United States Office of Management and Budget (OMB). MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Tier I Capital** - The total of common shareholders equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Total Assets** - Total bank assets as defined by the Consolidated Report of Condition and Income.

**Total Operating Income** - Interest income plus noninterest income as defined by the Consolidated Report of Condition and Income.

## SCOPE OF THE EXAMINATION

In evaluating the bank’s performance under the CRA, we reviewed the level and nature of Citibank’s community development lending, qualified investments and community development services. At the bank’s option, we also considered community development activity provided by its affiliates. At the prior examination dated June 20, 1997, we rated the bank “Outstanding Record of Meeting Community Credit Needs.” The following table summarizes the scope of this evaluation.

Time Period Reviewed	June 20, 1997 to May 24, 1999	
Financial Institution		Products Reviewed
Citibank (South Dakota), N.A., Sioux Falls, S.D.		Community development loans, investments, grants, and services.
Affiliate(s)	Affiliate Relationship	Products Reviewed
Citicorp North America, Inc.	Holding company affiliate	Investments
Citigroup Foundation	Holding company affiliate	Grants and contributions
Salomon Smith Barney	Holding company affiliate	Investments
Citibank EBT Services	Holding company affiliate	Community development services
CitiHousing, Inc.	Bank Subsidiary	CDC investments and services

CitiHousing, Inc. is a proprietary Community Development Corporation, which is a bank subsidiary. It supports the bank’s CRA investment efforts by promoting affordable housing efforts. CitiHousing is funded by the bank, and is financially sound.

## CRA RATING

This institution is rated: **“Outstanding record of meeting the community credit needs.”**

Primary factors supporting the bank’s overall rating include:

- < Citibank has a very high level of community development loans and investments totaling \$97 million;
- < many of the investments are not provided by private investors;
- < the bank extensively used complex and innovative methods to structure community development loans and investments; and,

< Citibank has been exceptionally responsive to credit and community development needs in Sioux Falls and outside its assessment area.

## DESCRIPTION OF INSTITUTION

Citibank (South Dakota), N.A. (Citibank) is one of several banking subsidiaries of Citigroup, Inc. The other banking subsidiaries are Citibank, N.A.; Citibank (Nevada), N.A.; Citibank (New York State); Citibank (Delaware); Citibank, FSB; Universal Bank, N.A.; Universal Financial Services Corp.; Citicorp Trust, N.A. (Florida); Citicorp Trust, N.A.; Travelers Bank, USA; and Travelers Bank and Trust, FSB. As a result of a recent merger with the Travelers Group, the corporation provides a broad array of financial services throughout the United States and the world. Citigroup is the largest financial services company in the world, and in addition to its banking services, it offers insurance, securities brokerage, and investment banking products.

Citibank's charter entitles it to provide full banking services. Management's business strategy limits its activities to the issuance of credit cards on a nationwide basis. Because of its narrow product line, Citibank applied for a limited purpose designation as permitted under the CRA. On January 26, 1996, the OCC approved Citibank's application for limited purpose designation. Citibank, consistent with its size and resources, is able to help meet the credit needs of its entire assessment area. The bank has no financial or legal constraints that would affect its ability to serve the community's lending, investment, or service needs. The parent holding company provides additional investment expertise and instruments that qualify as CRA investments.

Citibank is the second largest issuer of credit cards in the United States with more than 25.5 million open accounts throughout the country and \$49 billion in receivables. The bank has one office located in Sioux Falls, South Dakota and employs more than 3,200 people, which makes it the second largest employer in Sioux Falls and third largest in South Dakota. The facility functions as a credit card operations center (issuing credit cards, processing customer billing statements and payments, providing customer service for its cardholders). Citibank has a small retail branch, which is almost exclusively used by employees. The branch is open to the public and offers deposit products, but their availability is not marketed in the community. The bank formed a community development corporation, CitiHousing, Inc., which has paid-in capital of \$10 million. CitiHousing was formed to facilitate the development of affordable housing for LMI families.

As of March 31, 1999, Citibank had total assets of \$14.3 billion. Credit and charge card receivables represented practically all of the bank's \$13 billion in gross loans. The bank manages \$14.2 billion in credit card receivables that have been securitized. Earnings from operations in 1998 resulted in net income of \$430 million.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is the Sioux Falls, SD MSA, which includes Minnehaha and Lincoln Counties. Sioux Falls has a population of 120,000 and is the largest city in the state. The MSA has a population of approximately 165,000, which represents 22 percent of the state's population. Demographic information about the assessment area is contained in a table in the Appendix. The local economy is very robust and the population has increased rapidly since 1990 as businesses have relocated to the area because of its favorable economic climate. Although the cost of land has increased in the last three years, it is readily available to accommodate economic expansion. Unemployment is very low, although migration to Sioux Falls by job-seekers from rural areas continues to fill employment gaps. The health care industry, retail trade, and financial services are the largest employers. Agriculture also remains a significant part of the local economy. Sioux Falls is the largest medical center in the region and the largest retail center between Minneapolis and Denver.

Local data indicate that only 6 percent of the homeowners and 6 percent of renters pay more than 30 percent of their income for housing costs. U.S. Department of Housing and Urban Development (HUD) studies indicate that there is a need for low-income housing, single family and rental housing rehabilitation, and an emergency mobile home repair program. Priority non-housing community development objectives are to accommodate the expansion of capital facilities as the city boundaries grow. Over \$123 million has been requested from HUD to finance the capital improvement program over the next five years; over 80 percent of these funds will be spent on street and related utility improvements.

After reviewing a representative sample of public evaluations for local banks, we determined that the identified credit needs are home ownership opportunities for LMI persons, affordable housing for senior citizens and other families with special needs, and maintaining the affordability of expiring HUD-subsidized rental housing.

During the examination, we also reviewed community contact forms that representatives of the OCC, Federal Reserve Banks, and Federal Deposit Insurance Corporation had recently prepared. There were six such contacts with representatives of city agencies and local community development organizations. We met with a representative of the city planning department. The issues identified by those groups parallel those identified by the bank: single and multifamily affordable housing issues; and small business access to capital and technical assistance. Community groups indicated that Citibank has been proactive in soliciting their input and providing feedback on various community development strategies, and in providing funding for various developmental programs.

We concluded during this evaluation period that the market potential for multifamily housing had been met by Citibank's lending and investment efforts in the prior evaluation period. Consequently, the bank has shifted its lending and investment focus to single family affordable housing. In its role as a leading developer of affordable housing, Citibank has continued to set high building standards, which exceed

local codes, and ensures that developers adhere to them.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE**

### **Summary**

During this evaluation period, Citibank had a very high level of qualified investments and community development loans, combined they totaled \$97 million. We considered the bank's performance strong because: on an annualized basis these dollars represent 3.25 percent of the bank's tier I capital; 12.93 percent of the bank's total income; and 1.8% of the bank's managed assets. Citibank made extensive use of innovative and complex projects in which the bank took the initiative to create affordable single-family housing. The bank was consistently a leader in responding to community development needs, especially in the areas of affordable housing and micro business lending. Due to its limited purpose designation, Citibank can receive credit for qualified investments and grants, which it or one of its affiliates made outside of the Sioux Falls assessment area, because of Citibank's strong record of helping to meet the credit needs within its assessment area.

### **Community Development Loans**

Citibank's community development lending totaled \$22 million during this evaluation period. Within its Sioux Falls assessment area, the bank made six community development loans for \$6 million, four loan commitments for \$9 million, and three letters of credit for \$6 million. This \$21 million in lending supported the development of affordable housing. Citibank originated one loan for a state wide development fund in the amount of \$1 million, which impacts the bank's assessment area. The fund lends to small businesses. After reviewing the public evaluations of several limited purpose banks of comparable size and scope of operations, we determined that Citibank's level of community development lending is substantially above that of peer credit card banks.

The bank is a leader in developing affordable single family housing, which was identified as a primary need. An example of a very complex and innovative project is a new development which involves the collaboration of the city, the South Dakota Housing Development Authority (SDHDA), a local contractor, the bank, and CitiHousing, a community development corporation subsidiary of the bank. Developing the project required extensive negotiations and very creative financing. By using letters of credit to support bonds rather than making direct investments in bond funding, the bank lowered the costs of the project, enabled the use of a first time homebuyer program and a flexible purchase assistance program of one of the bank's affiliates. This type of financing is not routinely provided by private investors. The project is developing 50 new single family homes with appraised values of \$90,000, but priced at \$81,500, which qualifies as moderate-income housing. An additional 31 lots in the development were sold to other contractors to construct more expensive homes. The development is located in a desirable and growing area on the outskirts of the city. To maintain a high investment grade rating on bonds issued by SDHDA, Citibank issued a direct pay letter of credit in the amount of \$4.5 million.

SDHDA issued another bond issue to fund the permanent loans upon the sales of the homes, under its first time home buyer program. The bank enhanced the bonds by providing the Citigroup CitiAffordable Purchase Assistance Program (CPAP). Under the CPAP, the purchaser may obtain a loan for as little as \$500 down. CPAP is imbedded in the bond indenture, which makes the bonds unsalable in the open market. To make the bonds marketable, as required by the SDHDA, Citibank issued a back-up letter of credit in the amount of \$1.3 million. To date, 36 homes have been sold. Because of the subsidies, there are limits to the amount of appreciated value in the homes that the homebuyers can keep. This limitation is gradually phased out over ten years. Two other phases of this development are being planned. No other local limited purpose bank has taken the lead in developing affordable single family or multifamily housing.

CitiHousing, acting as the only affordable housing developer in the city, used the financing methods to lower the price of the homes to approximately 10 percent below appraised values. It also lowered the costs of the project by committing to purchase from SDHDA any homes not sold within 90 days of completion. This unique commitment permitted the developer to construct 50 homes at one time, effecting substantial construction efficiencies and cost savings, which reduced the selling price of the houses. All these devices ultimately created lower costs for the LMI homebuyer.

The bank provided \$3 million in bridge loans to equity funds, of which \$1.8 million is outstanding. These loans provide gap financing during the construction phases of the projects to cover construction costs until capital contributions are made by investors. Citibank is also one of the investors. Previously these loans financed 381 units of affordable, multifamily housing in Sioux Falls. Another 42 units were created during this period from funding provided during the prior evaluation period.

The bank loaned \$1 million to a local charitable organization that serves more than 100 clients who have cerebral palsy. These clients receive government assistance, which pays their care expenses and a small stipend. The proceeds of the loan were used to refinance three group homes that provide housing for 45 LMI clients. The bank also made a \$45,000 bridge loan to purchase a new house for one of the clients through an affordable housing program.

Citibank loaned the South Dakota Development Corporation \$1 million, with no interest, to start a statewide microloan fund for small businesses, which offers credit at 3 percent interest in amounts of \$1,000 to \$20,000. The program, the only one of its kind in the state, offers access to working capital for retail merchants and manufacturers. A major goal is to help rural communities remain viable. As an example of its leadership, Citibank initiated this program and is the sole provider of funding for this identified credit need.

During the prior evaluation period Citibank made a permanent loan of \$150 thousand (41 percent of the pledges made by 18 local banks and companies) to a fund that is revitalizing downtown Sioux Falls. The fund provides direct loans, loan guarantees, interest buy downs, and other assistance to businesses located downtown. The current outstanding loan balances total \$467,000 and the bank is an active

participant. Indicative of the bank's leadership, a community contact has stated that Citibank has been the notable exception among local banks in supporting the fund. The fund has started a second drive, and the bank contributed an additional \$200,000 to the fund.

### **Community Development Investments**

During the evaluation period Citibank's qualified investments totaled \$75 million and consisted of Low Income Housing Tax Credits (LIHTCs), deposits in other banks, mortgage backed securities, and charitable contributions. About 25 percent of the qualified investments directly benefit Sioux Falls or a broader regional area. The bank continued its leadership role in the development of LMI housing in its assessment area and actively supported affordable housing in a broader region and throughout the United States. The bank also demonstrated leadership by providing the means for local full service banks to make loans for affordable housing.

During this evaluation period affiliates invested \$13.5 million in LIHTCs to help produce affordable housing on behalf of the bank. These investments were made through large national intermediaries. The portfolios include \$4 million in regional investments for South Dakota; the balance benefitted other sections of the United States, reflecting the national activities of Citibank. Through one affiliate, Salomon Smith Barney, Citibank is credited with \$9 million of various LIHTC investments, and Citicorp North America, Inc. made another \$4.5 million in tax credit investments on behalf of the bank.

During previous evaluation periods the bank invested \$10 million in CitiHousing, which in turn made LIHTC investments in local affordable housing equity funds and projects in the bank's assessment area. The current amount outstanding for these investments is \$3.3 million. Approximately \$100,000 additional was invested during this evaluation period. CitiHousing is both the general and a limited partner for three of these equity pools. Demonstrating its leadership role and responsiveness, Citibank participates in at least half of the local tax credit projects. Also, during the previous evaluation period, the bank purchased an entire SDHDA bond issue of \$11.5 million to finance LIHTC projects. The current outstanding balance is \$10.9 million.

During this evaluation period the bank began a program for community development lending by depositing \$11.7 million in ten banks throughout South Dakota; two banks in the assessment area have \$2.6 million of these deposits. This responds to local community demands for credit which otherwise could not be funded by local intermediaries. The deposits are certificates of deposit, with maturities up to five years at a rate of 5.5 percent. The deposit agreements specify that the deposits will be used to fund CRA qualified loans and investments. To date the funds have been used to provide home purchase mortgages for LMI individuals, loans to small businesses and farms, and other qualified loans and investments.

The bank also is credited with \$926,000 in mortgage backed securities purchased by Citicorp North America, Inc. These are targeted to LMI affordable housing for projects in South Dakota. One

security, for \$694,000 is for a multifamily project. The remaining portion is \$232,000 of mortgage backed securities, which were packaged from home purchase loans made in South Dakota by Citicorp Mortgage, Inc.

Citibank also received credit for Citicorp North America, Inc.'s \$2.2 million investment in a program which builds houses for low-income families who are ineligible for conventional financing, of which \$110,000 was allocated to South Dakota. The investment proceeds are used to purchase notes secured by mortgages, thus, providing liquidity that can be reinvested in these communities.

Citibank and its affiliate, Citigroup Foundation, made a significant amount of CRA-qualifying grants, donations, and in-kind contributions during the evaluation period totaling more than \$48 million in the assessment area, South Dakota, and other areas in the United States

The most substantial qualified grant is the financial support Citibank provides to nonprofit Consumer Credit Counseling Service (CCCS) agencies. This activity benefits the residents of Sioux Falls, a broader region including South Dakota, and LMI individuals throughout the country. The dollars Citibank contributes to CCCS agencies fund consumer education and credit counseling services in communities across the United States, and during this evaluation period the contribution amounted to \$46.3 million.

The bank has made \$1.7 million in direct grants and contributions. Of these, \$900,000 were in the bank's assessment area. Among the more significant grants were \$175,000 to two Sioux Falls schools located in moderate-income areas for software programs associated with job training. This popular program is now being expanded statewide. Another program in Sioux Falls received \$100,000 to promote small business development in a designated redevelopment area. This fund also helps develop LMI housing in the central business district. In addition, it made in-kind contributions of computer equipment to schools which serve LMI individuals.

### **Community Development Services**

Citibank demonstrated high response to the assessment area's need for community development services. Citibank responded to the community's need for the development of affordable housing by providing administrative leadership in establishing equity pools and single family development projects. During previous evaluation periods Citibank demonstrated leadership in forming equity pools used for the development of affordable, multifamily housing projects. For the local area these were innovative and complicated managerial challenges. These were the only such equity pools in South Dakota, and they were used primarily for projects in Sioux Falls. The bank continues to be very involved in the administration of the equity pools and management of the underlying investments. CitiHousing serves as the general partner of the funds, as well as a limited partner. As general partner CitiHousing provides services such as identifying projects for investment, preparing prospectuses for investors, making disbursements to developers, developing construction standards, providing investors with annual financial reports, and providing oversight of the underlying housing projects to ensure proper

maintenance and continued eligibility for LIHTCs.

Continuing its leadership role, during this evaluation period CitiHousing, as the general partner, provided the administrative infrastructure to analyze and plan the building of new affordable single family homes, more fully described among the community development loans. There was a substantial amount of negotiation with state and city governments, a local contractor, and other Citigroup entities.

Through the participation of its officers and employees in CRA-qualified community and civic activities, Citibank demonstrates it is sensitive to community economic development needs. Officers of the bank are active participants on boards and provide advisory services to the community development organizations in the area. Throughout the assessment area, employees serve on boards and committees of community organizations that help provide community development services, such as housing rehabilitation and assistance to people in need.

Citibank EBT Services, an affiliate, provides an electronic debit card program to distribute food stamp benefits to North and South Dakota recipients. Known as The Dakotas Project, this was the first EBT contract approved to extend beyond a single state. Citibank EBT Services was awarded this contract in 1995. This is an example of Citigroup's technological skills providing a response to the U.S. Treasury Department's initiative to pay benefits electronically. In South Dakota, this program began in 1996 and has more than 33 thousand cardholders in the two states. Of these, 17,000 cardholders are in South Dakota. In total, the bank is serving 2.1 million cardholders nationally, for which no other affiliate is receiving credit.

### **FAIR LENDING**

We conducted a concurrent fair lending examination of credit card loans. The credit card accounts were selected by a random sample of customers' requests for Diners Club charge cards. The sample comprised applicants over the age of 62 whose applications were denied, and those under the age of 62 who were approved. The results of the examination did not indicate any acts of illegal discrimination. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Fair lending policies, procedures, training programs and internal assessment efforts are satisfactory.

## APPENDIX

### DEMOGRAPHICS TABLE

<b>Demographic Information for Full-Scope Assessment Area: Sioux Falls, S.D. MSA #7760</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	33	0	21	58	21	0
Distribution of Families by Geography	36,631	0	15	65	20	0
Owner-Occupied Housing by Geography	34,014	0	13	65	22	0
Businesses by Geography	5,872	0	37	53	10	0
Farms by Geography	184	0	13	80	7	0
Family Distribution by Income Level	36,636	16	20	28	36	0
Median Family Income	=\$34,923	Median Housing Value Unemployment Rate (Apr-30-99)			=\$57,234	
HUD Adjusted Median Family Income for 1998	=\$48,500				= 1.4%	
Households Below the Poverty Level	= 9%					

Source: 1990 U.S. Census and 1998 HUD updated MFI.

### BANK DATA TABLE

The following table represents annualized data rounded to thousands for calendar years 1997 and 1998.

<b>Citibank (South Dakota), N.A.</b>	
Tier I Capital	1,487,000
Total Income	375,037
Qualified Investments and Community Development Loans	48,500
Managed Assets	27,200,000