



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Conditional Approval #334
November 1999

October 30, 1999

Mr. Jeffrey A. Watiker
Vice President
Legal Affairs
Citibank, National Association
425 Park Avenue
New York, New York 10043

Re : Application Control No. 99-ML-08-0005

Dear Mr. Watiker:

This regards the application by Citibank, National Association, New York, New York ("Bank"), to expand the activities of an existing operating subsidiary, Citicorp Mortgage, Inc. ("CMI"), to act as agent in selling certain credit related insurance products. The application was filed in connection with the acquisition by CMI of Source One Mortgage Services Corporation ("Source One"). As discussed below, we approve the expansion of CMI's activities subject to the condition set forth in this letter.

I. Background

Source One is a mortgage company that is primarily involved in making, purchasing, selling, servicing, or warehousing residential mortgage loans or other extensions of credit, or interests therein, for its own account or for the account of others. Source One's activities also include acting as agent in selling the following types of credit-related insurance products: credit life, disability, and involuntary unemployment insurance, and force placed hazard and flood insurance. Source One sells these insurance products in connection with (i) mortgages Source One or its affiliates originate or purchase; and (ii) mortgages Source One services for nonaffiliated third parties.

A. Mortgage Activities

Source One's mortgage activities include making, purchasing, selling, servicing, or warehousing residential mortgage loans or other extensions of credit, or interests therein, for its own account or for the account of others. These activities are included within the activities described in 12 C.F.R. § 5.34(e)(2)(ii)(L) and therefore qualify for the preapproved notice procedures specified in the OCC's regulation.¹

B. Credit Life Insurance Activities

Source One also sells credit life insurance in connection with Source One's and its affiliates' loans. National banks have long been recognized to have broad authority to underwrite, reinsure, and sell as agent, credit-related insurance products, including credit life, disability, and involuntary unemployment insurance (collectively, "credit life insurance").² See Corporate Decision No. 98-28 (May 11, 1998) (the *Fleet Letter*) (authorizing underwriting and reinsurance of credit life, disability, and involuntary unemployment insurance); Corporate Decision No. 97-92 (October 17 1997) (the *Bank of America Letter*) (authorizing underwriting and reinsurance of credit disability and involuntary unemployment insurance); Interpretive Letter No. 277, *reprinted in* [1983-1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,441 (December 13, 1983) (authorizing underwriting and reinsurance of credit life insurance); Interpretive Letter No. 283, *reprinted in* [1983-1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,447 (March 16, 1984) (authorizing the sale, as agent, of credit life, disability, involuntary unemployment, and vendors single interest insurance); 12 C.F.R. Part 2 (Sales of Credit Life Insurance); and *IBAA v. Heimann*, 613 F.2d 1164 (D.C. Cir. 1979), *cert. denied*, 449 U.S. 823 (1980) (confirming the OCC's authority to adopt its credit life insurance regulation at 12 C.F.R. Part 2).

As discussed in the *Bank of America Letter* and the *Fleet Letter*, credit-related insurance products assist bank customers in meeting loan obligations when unfortunate circumstances, such as death, disability or unemployment, occur. Credit-related insurance products also enhance a lender's ability to receive repayment for its loans. The OCC has therefore found credit-related insurance products to be an integral part of credit transactions and thus part of, or incidental to, a bank's lending authority and

¹ Pursuant to 12 C.F.R. § 5.34(e)(2)(ii)(L), the activities of making, purchasing, selling, servicing, or warehousing loans or other extensions of credit, or interests therein, for the subsidiary's account or for the account of others, qualify for the preapproved notice procedures specified in the regulation.

² A national bank may establish or acquire an operating subsidiary to conduct, or may conduct in an existing operating subsidiary, activities that are part of or incidental to the business of banking, pursuant to 12 U.S.C. § 24(Seventh), and other activities permissible for national banks or their subsidiaries under other statutory authority. 12 C.F.R. § 5.34(d)(1). Underwriting, reinsuring, and selling, as agent, credit-related insurance is, therefore, permissible for a bank's operating subsidiary as well.

business of banking. Source One's sales of credit life insurance in connection with Source One's and its affiliates' loans are clearly permissible activities for national banks and national bank subsidiaries.

C. Other Insurance Activities

Source One sells, as agent, credit life insurance in connection with mortgages it services for nonaffiliated third parties. Source One also sells, as agent, force placed hazard and flood insurance on (i) mortgages Source One or its affiliates originate or purchase; and (ii) mortgages Source One services for nonaffiliated third parties. The Bank has requested a two-year transition period to establish the permissibility of these activities or to restructure the activities to bring them into compliance with national banking law. This transition period would enable the Bank to bring its newly acquired business into compliance, as necessary, within a commercially reasonable period, without incurring the disruption of an abrupt partial shutdown of Source One's insurance activities. The OCC has permitted such transitions in other contexts and finds this one to be reasonable.

II. Conclusion

The application to expand the activities of CMI is approved subject to the following condition, which is a condition "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818:

The Bank shall establish the legal permissibility of all its insurance activities, other than those the OCC has found permissible, or restructure the activities to bring them into compliance with law, within two years of the date of the Bank's acquisition of Source One.

Please feel free to contact Licensing Manager Richard Erb at (202) 874-5060, or Senior Attorney Asa Chamberlayne at (202) 874-5210, if you have any questions.

Sincerely,

/s/

Julie L. Williams
First Senior Deputy Comptroller
and Chief Counsel