



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Corporate Decision #2000-21 December 2000

DECISION OF THE COMPTROLLER OF THE CURRENCY ON THE NOTICE BY CITIGROUP INC. OF ITS INTENT TO ACQUIRE A CONTROLLING INTEREST IN ASSOCIATES NATIONAL BANK (DELAWARE), NEWARK, DELAWARE OCC CONTROL NUMBER 2000-ML-11-0001

NOVEMBER 30, 2000

Introduction

On September 18, 2000, Citigroup Inc. (“Citigroup”) filed with the Office of the Comptroller of the Currency (OCC) a Notice of Change in Bank Control pursuant to the requirements of 12 U.S.C. 1817(j) and 12 C.F.R. 5.50 with respect to Associates National Bank (“Associates NB”). (The Notice, as supplemented by additional material filed with the OCC November 7, 17, and 28, 2000, is referred to herein as the “Notice.”) The Notice was prompted by Citigroup’s planned acquisition of Associates First Capital Corporation (“AFCC”), a diversified, multinational company engaged in consumer, commercial and lease financing and insurance with \$93 billion in total assets as of September 30, 2000. Associates NB, a \$493 million asset, wholly owned subsidiary of AFCC, is an insured limited purpose bank engaged in credit card issuance and lending and represents approximately one half of one percent of AFCC’s total assets.

The OCC recognized the Notice as technically complete as of September 18, 2000. As required by regulation, notice of the filing was published on September 15, 2000 initiating a twenty-day public comment period that expired on October 4, 2000. As discussed in detail below, the OCC received numerous public comments and requests for public hearings on the proposed transaction. In response to requests to extend the comment period, we extended the comment period until October 18, 2000. However, the OCC has continued to accept comments from the public subsequent to the close of the comment period. Also as discussed in detail below, the OCC did not conduct public hearings. On November 16, 2000, the OCC extended the Notice’s review period by thirty days to permit an adequate review of all relevant issues and public comments.

The OCC’s role in reviewing a notice under the Change in Bank Control Act (“CBCA”) is limited by statute and pertains only to Associates NB, not to AFCC. The CBCA provides

specific grounds under which an agency may *disapprove* a proposed acquisition. The CBCA imposes a statutory timeframe of 60 days for consideration of a notice with the discretion to extend the review period 30 more days. The review period may be extended two additional periods of not more than 45 days each in limited circumstances. If the agency does not disapprove the notice on the basis of one of six factors within the statutory timeframe, the acquisition may proceed. Thus, the review process and standard under the CBCA are different from other corporate applications involving acquisitions and mergers. Notably, the Community Reinvestment Act (CRA) does not apply to CBCA notices.

Disapproval Factors

The specific factors for disapproving any notice of Change in Bank Control and our findings with regard to each factor relative to Citigroup's Notice are as follows:

1. The proposed acquisition of control would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States.

See discussion under #2 below.

2. The effect of the proposed acquisition of control in any section of the country may be substantially to lessen competition or to tend to create a monopoly or the proposed acquisition of control would in any other manner be in restraint of trade, and the anticompetitive effects of the proposed acquisition of control are not clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Consumer credit card services are the sole business of Associates NB and are a significant line of business engaged in by Citigroup. Credit card services encompass the marketing and issuance of credit cards, extension of credit to card holders, and the processing of credit card transactions. Associates NB and Citigroup subsidiaries also securitize their card receivables and subsequently service those portfolios for third parties.

The OCC and the Federal Reserve Board have recognized that the market for credit card services is national in scope. Credit card companies compete in soliciting and serving customers throughout the United States. This national market is highly competitive and unconcentrated and will remain so if the proposed acquisition of Associates NB is consummated. The nationwide population of credit card issuing depository institutions is extensive, and there are numerous alternative card lenders in the national marketplace. As a result, the acquisition of Associates NB by a direct competitor is not viewed as monopolistic or significantly anticompetitive.

As further evidence of the absence of a significant impact on competition, the Federal Trade Commission posed no objection to Citigroup's Hart-Scott-Rodino notice for the overall acquisition of AFCC which encompasses not only Associates NB but other AFCC owned credit card lending banks.

Accordingly, we have concluded that Citigroup's acquisition of Associates NB will not create a monopoly or have a significantly adverse effect on competition among insured depository institutions.

3. The financial condition of any acquiring person is such as might jeopardize the financial stability of the bank or prejudice the interests of the depositors of the bank.

Citigroup is an \$805 billion diversified financial holding company which operates on a global basis and is subject to oversight by numerous regulators. Its lead bank, Citibank, N.A., has assets of \$369 billion, total risk-based capital of \$36 billion. In the most recent examination, the OCC found the bank to be well-capitalized and well-managed. Based upon our supervisory knowledge of Citibank, N.A., of the other national bank subsidiaries of Citigroup, and of Citigroup, we have concluded that Citigroup's financial condition would not jeopardize the stability of Associates NB or prejudice the interests of its depositors.

4. The competence, experience, or integrity of any acquiring person, or of any of the proposed management personnel, indicates that it would not be in the interest of the depositors of the bank, or in the interest of the public, to permit that person to control the bank.

Based upon all the information in the record and our supervisory experience with the management of Citigroup in connection with the operation of Citibank, N.A., and the other national bank subsidiaries of Citigroup, we have concluded that the competence, experience, and integrity of Citigroup does not indicate that it would be contrary to the interests of the depositors of Associates NB or the public, for Citigroup to control Associates NB.

5. An acquiring person neglects, fails, or refuses to furnish the OCC all the information it requires.

Citigroup has provided all requested information.

6. The OCC determines that the proposed transaction would result in an adverse effect on the Bank Insurance Fund or the Savings Association Insurance Fund.

Based on Citigroup's financial and managerial resources noted above, we have concluded that Citigroup's acquisition of Associates NB would not result in an adverse effect on the deposit insurance funds.

Summary of Comments Received and Citigroup's Response

During the course of our review of the Notice, the OCC received over 150 comment letters from community organizations, individuals, and members of Congress raising numerous concerns in connection with the broader transaction of which this application is a small part. Among the most frequently cited concerns were: AFCC and Citigroup's bank and non-bank subsidiaries engage in predatory lending practices; AFCC and Citigroup's subprime subsidiaries actively market their high-cost loans to low- and moderate-income people, areas, and minorities;

Citibank, N.A. and CitiMortgage branches are disproportionately located in affluent, non-minority areas whereas CitiFinancial (Citigroup's nonbank subprime subsidiary) and AFCC's branches are located predominately in low- and moderate-income and minority areas; Citigroup subsidiaries have a record of violating certain laws; and Salomon, Smith and Barney, a Citigroup subsidiary, is engaged in financing, underwriting, and securitizing loans by subprime lenders. Many of the comments received expressed concerns with the "Needs to Improve" CRA rating of Associates NB and the numerous lawsuits filed against AFCC and its subsidiaries, including Associates NB.

Citigroup stated that it recognized the importance of the public concerns and voluntarily pledged in its written submissions to take certain actions to improve the lending policies and procedures applicable to its consumer finance operations. In particular, Citigroup stated that it is committed to ensuring that all customers, including low- and moderate-income and minority individuals, and those that live in low- and moderate-income and minority areas, have expanded access to lower cost prime credit products. During the review period, Citigroup met with numerous community organizations and legislators throughout the nation. As a result of these discussions, Citigroup indicated that it would implement several "Initiatives" within its consumer finance real estate secured loan business, which is primarily conducted through CitiFinancial, including the following items:¹

- Test a "referral up" program in four states before introducing a nationwide program. Under the pilot program, a prime credit borrower that applies for a loan product at a Citigroup subprime affiliate office will be "pre-qualified" for a prime loan and provided information on to apply for such a loan through other Citigroup subsidiaries.
- Introduce new lending programs. One program (similar to Associates' "Freedom Loan") will reward a borrower with timely payments by granting interest rate reductions. Another program (called the "Graduation Loan Program") will offer customers who achieve a prime credit status the option of refinancing into a conventional real estate secured loan.
- Offer the option of monthly premium, single premium, and no credit life insurance. CitiFinancial will also provide consumers a "user-friendly" means of canceling single premium credit life insurance and related disclosures.
- Offer flexibility to a borrower to choose a product with or without a prepayment fee. CitiFinancial also will reduce from five years to three years the term during which prepayment fees will be payable on its loans, unless a shorter period is required by state law.
- Prohibit balloon payments and negative amortization. CitiFinancial will continue to prohibit balloon payments and negative amortization in loans it originates and will extend this prohibition to loans from brokers. In addition, CitiFinancial will prohibit the refinancing of

¹ Citigroup Inc.'s initial response dated November 7, 2000 was supplemented by additional clarifications on November 17, 2000 and November 28, 2000. Those three letters contain a complete listing of Citigroup's initiatives whereas this decision document contains only a partial listing. Copies of Citigroup Inc.'s responses are currently available on the OCC's Website (go to: www.occ.treas.gov).

below-market rate loans by non-profits.

- Test a limitation on broker fees. Under a pilot in two states, CitiFinancial will cap lender and broker fees at 3% and eliminate prepayment fees.
- Implement procedures to review home foreclosure. CitiFinancial will establish a unit specifically trained to review pending and potential foreclosure actions and to take other action as it deems appropriate such as modifying the loan terms, refunding points or credit life insurance premiums, and deferring payments until the borrower is able to resume payments.
- Review and revise existing CitiFinancial compliance programs. This review will include fair lending and compliance and examination policies and procedures in order to identify improvements and enhancements. CitiFinancial will also introduce an independent mystery shopper program beginning in December 2000 at all CitiFinancial offices and beginning in 2001 at all former Associates offices.
- Reporting to Credit Bureaus. Citifinancial also stated it will provide information on customers' payment records to credit bureaus to enable subprime borrowers to benefit from improvement in their credit performance.

Although the OCC does not supervise the activities of CitiFinancial, Citigroup has pledged in the Notice that it will report to the OCC on a periodic basis the progress of CitiFinancial in implementing these initiatives. The OCC will retain regulatory authority over Citigroup's national banking subsidiaries, including Citibank, N.A., and Associates NB and certain subsidiaries of those banks. The OCC will take the comments submitted in connection with this Notice into consideration where they are relevant to the OCC's evaluation of the performance of Citibank, N.A. and Associates NB under the Community Reinvestment Act (CRA) and when reviewing corporate applications involving those banks that are subject to CRA.

Request for Hearings

Many of the commenters requested the OCC to extend the 20-day comment period and to hold public hearings. On October 4, 2000, the OCC extended the comment period by two weeks, to October 18, 2000. We also extended the review period an additional 30 days and continued to accept comments.

While neither the CBCA nor our regulations provide for public hearings on notices filed under that Act, the OCC did carefully consider whether to conduct a public hearing. One significant factor the OCC considers in determining whether to hold public hearings on filings that are subject to hearing provisions is whether hearings are needed to establish a sufficient record upon which it can make an informed decision. In connection with this Notice, an OCC official participated on the panel at the public meeting conducted by the New York State Banking Department on November 10, 2000. The OCC also reviewed the transcripts of that meeting and of the meetings held by state authorities in South Dakota and Missouri.

A number of community-based organizations also contacted the OCC to provide additional perspectives on their concerns. To follow-up on issues raised in connection with its review, the OCC by letter dated November 16, 2000, requested Citigroup to clarify: how it, through its marketing, its bank and thrift branches, its other office locations, and other procedures, offers prime and subprime products to low- and moderate-income and minority communities; the types of disclosures that will be made available to customers in connection with the financing and sale of single premium life insurance; and the limitations on points for refinanced and broker-sourced loans.

Based on the information received and available to the OCC from all sources as noted above, we have determined that a record of the issues that must be evaluated under the applicable review standards has been fully developed and that hearings would not add measurably to the relevant information already received. Accordingly, the OCC has determined not to conduct public hearings in connection with this Notice.

Conclusion

Based upon the Notice filed by Citigroup, and for the reasons set forth above, we do not object to the acquisition of Associates NB by Citigroup under 12 U.S.C. 1817(j).

/s/

Julie L. Williams
First Senior Deputy Comptroller
and Chief Counsel

Date: 11-30-2000