Pamela P. Flaherty Comments for the Federal Reserve Public Meeting Thursday, June 25, 1998

Thank you. My name is Pamela Flaherty. As John Reed explained, I am responsible for Citibank's community involvement.

This merger breaks new ground in its combination of insurance and banking services. While many of our community partners are excited by the opportunities this suggests, some are concerned that this will somehow diminish Citibank's community commitment. Nothing could be further from the truth.

I want to make three points this morning:

1. Our lending record is good and improved dramatically in 1997, particularly in terms of lending to low and moderate income consumers and to minorities.

2. We provide a broad range of products and services and access to consumers of all income levels. And,

3. We intend to do even more in the future, as evidenced by our community commitment.

Let me first address lending. In the eight areas around the country where we serve the local retail banking market, we have a strong record of lending to all segments of the community. In 1997 in those markets, we provided $9 billion of credit to low and moderate income consumers, to small businesses and to organizations engaged in community economic development.

We are particularly proud of our commitment to our local neighborhoods. Since their emergence thirty years ago, we have partnered with local community development organizations, combining their knowledge of local community needs with our human and financial resources.

Today our program is significantly expanded and Citibank's community development lending supports affordable and special needs housing, small business and economic development, health and human services, as well as the educational and cultural activities in LMI communities. New community development lendingoriginations in 1997 in all US Citibank markets totaled $238 million versus $146 million the year before -- up 63%. Of the 1997 lending, 42% was in metropolitan New York, Citibank's largest US marketplace. Here in NY our lending commitments have doubled over the last two years to $100 million in 1997.

We employ a comprehensive strategy based on building strategic partnerships with nonprofit, government and other financial partners to respond to the specific needs of local communities. In addition to lending, Citibank employs a range of investment tools. In 1997, our Community Investment portfolio totaled $67MM, while we made $26MM in grants to community and educational programs.

Citibank has also long provided the financing that addresses small business credit needs. In 1997, nationwide, Citibank lent approximately $1.9 billion to small businesses, a total of more than 13,000 loans. We are especially proud that 10,000 of these loans were for less than $100,000—the loan size most often needed by small businesses. What's more, 29% of the dollars lent were in LMI census tracts. In New York we provided $768 million in credit to small businesses. 35% of our loans were for less than $25,000. And 30% of the dollars lent were in LMI census tracts.

Communities are also stabilized through home ownership. As early as 1978, Citibank began to reach out to LMI families eager to purchase homes through our Stretch Mortgage piloted in Brooklyn -- the first 10% down-payment product in New York. Until 1991, Citibank was a leader in mortgage financing, but the economic downturn in the early 90's and the collapse of the real estate market forced us to restructure and cut back on our lending. We regained momentum in 1996 and 1997.

In 1997, Citibank made 53,000 HMDA-reportable loans for a total of $9.5 billion – almost a 50% increase from the prior year. Our lending to LMI consumers and communities grew even faster, at $1.2B – nearly doubling.

During 1997, Citibank also dramatically increased its lending to minorities with $1.5 Billion in HMDA-reportable lending. Lending to African-Americans doubled as did lending to Hispanics.

Let me now turn to access to financial services. Citibank has made a deep commitment to the use of technology to increase choice and convenience for all customers. We introduced the first ATMs in 1977. Since then, we have expanded the use of telephone access as well as PC banking.

Our data on customer usage patterns show that across all income levels, customers increasingly perform their financial transactions outside a branch — on the phone, through a PC or at an ATM. Customers who live in low- and moderate-income census tracts do not differ significantly in their usage from the rest of our customers. Our data show that these customers perform 76% of their transactions outside a branch (versus 80% for all customers) and 25% on the phone or the PC (versus 30% for all customers).

Because consumers use the branch less frequently, the quality has to be uniformly great. Our branches have been recently upgraded with better training for our people, better and more user friendly technology and longer hours.

Two years ago, in New York we closed a number of branches and converted several to Citicard Banking Centers, while renovating and upgrading the remaining branches. When we started this process, 16% of our branches were located in LMI census tracts. Today, 22% of our branches are located in LMI tracts.

And we continue to open different kinds of specialized "stores" like our new manned Electronic Banking Facility on Burnside Avenue in the Bronx, a loan store in Harlem, both of which will open this summer, and a Retirement store in Oakland, California.

Electronic Benefits Transfer is another innovation which has opened a new opportunity for us to serve low-income people. The most important benefit for EBT recipients may well be the ability to participate in the mainstream world of electronic banking and payments systems.

We're encouraging customers to use technology and alternative access points in two ways — pricing and education. In NY, we eliminated fees for our ATMs, PC banking, and telephone bill payment.

With regard to education, we have multi- lingual hosts to assist in-branch customers and a unit of full-time educators who give seminars on banking, credit and technology. Each year we conduct roughly 400 seminars onsite, with nonprofits and at schools across New York.

We also support a number of nonprofit organizations dedicated to improving education and job skills training through technology in our schools including Classroom, Inc.; CitiTech; and Junior Achievement.

Finally, let me talk about our 10 year $ 115 Billion lending and investment commitment. Our Citigroup commitment is a national pledge that responds to our community partners by focusing on lending and investing, financial literacy and insurance. We will execute the commitment by working with our community partners. We will also aggressively market these products ourselves. We seek to increase this lending in all our markets, being responsive to each of them individually. We will report publicly on how we're doing on annual basis.

Citigroup built its pledge through conversations with some 300 community organizations across the country. They told us they wanted to ensure that we would remain an active partner through community development lending and investing; increasing our small business and mortgage lending; expanding our work in financial literacy; and offering greater access to insurance.

Our pledge was also designed as a challenge to our business. To meet our targets, we must grow the areas our community partners are particularly concerned about — mortgages, small business and community development lending— at an average annual rate of 8-10% over the ten year period, and social investing must average over 12% growth per year. We believe this pledge is a very aggressive commitment.

The commitment is more than numbers and growth rates; it includes insurance for the first time, as Chuck Prince described. It also addresses Financial Literacy, a critical need of consumers of all income levels.

Let me close by saying that we believe we have done a great job of meeting the credit and convenience needs of the communities where we accept deposits, as required by CRA. And beyond that, we also believe we have met the test of being an excellent corporate citizen in <u>all</u> the communities where we do business.

But we intend to do more. We intend to use the resources of the combined company to improve the financial lives of all customers as well as the communities in which we operate. We will do this primarily through our business – offering quality banking services, loans, insurance and investments – and participating in the financing of community improvements. We will also continue to innovate to expand access to financial services and information so individuals and families of even modest means can improve their economic well being.

We have listened to our community partners – those organizations with which we work every day in our communities. Many of them are speaking at this meeting and we thank them. We intend to continue to listen to them and to work with them.

Thank you for your time this morning.

Testimony of Mayor Dannel Malloy - Federal Reserve Bank of New York

June 25,1998

I am Mayor Dannel Malloy. I would like to begin by thanking you for the opportunity as the Mayor of Stamford, Connecticut to testify on behalf of Citibank. Stamford is the Connecticut headquarters for Citibank. Since the bank opened its first of seven branches only four years ago, I have been impressed with the Bank's commitment to be a major community force in Stamford and within the State of Connecticut.

As the Mayor of the 4th largest city in Connecticut with the 3rd largest concentration of Fortune 500 corporate headquarters in the country - I know first hand that corporate partners like Citibank are vital to continued urban growth. If Citibank's current activities are a reflection of broader available resources that result from the Citicorp/Travelers Group merger, then I can only look forward to stronger partnerships with the proposed Citigroup in Stamford and throughout the State.

To illustrate the depth of the Bank's commitment to the community, I would like to highlight **three key areas** of creative initiatives that Citibank has lead.

FIRST KEY AREA - EDUCATION

Citibank and the City of Stamford share a personal commitment to the excellence of public education for children of all ages.

Citibank has partnered to spearhead TWO Stamford School Readiness Programs. These programs promise that all Stamford children will have an opportunity to be ready to learn before entering school. The initiatives are:

1. The Hillandale Child Development Center . - This will be the first program in the state to fully integrate state-of-the-art learning strategies with health, nutrition and parenting modules in a child care environment for pre-school children.

2. Success By 6 - Citibank is a key member of the Leadership Council. Success-By-6 will ensure that all children enter kindergarten with the foundation needed to prepare them to succeed in school.

In addition to the above educational activities Citibank:

* Adopted the Hart Magnet School Read-A-Loud program
* Received major awards for Junior Achievement of Southwestern Connecticut
* Funded Connect'96 - Established Internet access for both Stamford High Schools.
* Developed and implemented a summer associate program with The Urban League of Southwestern Connecticut.

SECOND KEY AREA- HUMAN AND SOCIAL SERVICE.

Two examples of leadership:

1. Citibank helped plan and fund with the City of Stamford, United Way and Infoline, The Infoline Referral Center. The center is a unique staffed "storefront" operation offering community agency information, access to caseworker services and job shopping through a Department of Labor kiosk. The referral center is the

result of the partners concern that people moving from welfare -to-work needed a place to connect with local, regional and statewide agencies that can help them become self-sufficient.

2. Sheryl Adkins Green , Citibank F.S.B. President will serve as Chair of the United Way of Stamford 1998-99 fundraising campaign which will raise over $2 million for local agencies. This is another example of the personal commitment Citibank's senior management demonstrates.

THIRD KEY AREA - ACCESS TO CREDIT FOR LOW-AND MODERATE-INCOME AREAS AND HOUSEHOLDS.

Citibank is an active lender in all Stamford neighborhoods. The Bank has made substantial inroads into the Enterprise Zone with small business loans to help retain jobs and help businesses grow. Additionally, the leadership of the Community Development Loan Program is well recognized.

The bank became a pacesetter two years ago for new Connecticut banks when it committed $1 million to the Housing Development Fund for affordable housing in the City and directed more than $2 million in community development investments to Bridgeport, Norwalk and Stamford. Citibank loans have extended to statewide initiatives including a $2 million loan for the Connecticut Preservation Loan Fund and an approval to fund $3 million for a Child Care Loan Fund this month.

Citibank knows that money alone cannot build neighborhoods. Therefore, in 1995 the bank helped establish a Fairfield County Local Initiatives Support Corporation office located in Bridgeport.

I would like to conclude my testimony with Benefits of the proposed Merger for the community of Stamford and the State of Connecticut.

Unlike the traditional in-market bank merger that I have seen in Connecticut where physical locations overlap and savings are achieved by consolidation, the formation of Citigroup is different. This merger will not eliminate available resources as other mergers have; rather the combination will greatly increase the value and convenience for customers through offering access to a broader range of high quality financial services and products, all from one convenient location in Stamford and other Connecticut sites.

Additionally, the wide range of products and services offered by the combined company will add breadth and depth to the career opportunities in Connecticut. The stronger company will bring more jobs.

As I stated at the beginning of my testimony, I believe that the merger of Citicorp and Travelers Group will only enhance the Bank's deep commitment of human and financial capital to Stamford and the State of Connecticut.

Thank You.

STEPHEN B KAUFMAN
Assemblyman 82nd District

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ALBANY

CHAIRMAN
Election Law Committee

COMMITTEES
Judiciary
Housing
Insurance
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June 25, 1998

I am Assemblyman Stephen B. Kaufman and I represent the 82nd Assembly District in the Bronx. My districts' boundaries Co-op City, Throggs Neck, Eastchester Gardens, Westchester Square and Castle Hill Avenue.

I am here today to tell you that Citibank has demonstrated again and again its commitment to the social and economic well-being of the Bronx, and as the borough undergoes a renaissance in many of its neighborhoods, Citibank has been there to play a major role.

Citibank has focused its resources, technical assistance, leadership and grants to foster business development, home ownership, comprehensive economic development and educational programs for schoolchildren, high school students, and college students, as well as welfare to work participants.

Citibank fervently seeks to ensure that the unique needs of senior citizens are not only met, but also exceeded through superior service and customer satisfaction. In fact, Citibank's work with legislators like myself and community leaders led to innovative and creative initiatives that have resulted in safer, more convenient alternatives to accomplish their banking.

Room 742, Legislative Office Building, Albany, New York 12248, (518) 455-5296
2910 Bruckner Boulevard, Bronx, New York 10465, (718) 829-7452
177 Dreiser Loop, Room 12, Bronx, New York 10475, (718) 320-2220

For example, while responding to the need for greater education around direct deposit and familiarity with using the phone for banking. Citibank also discovered and responded to the need for transportation services and protection against con games.

In response to concerns expressed by seniors in the Pelham Manor/Co-op City area, Citibank offered to present its consumer education series to seniors on a range of issues from how to use ATM's and PC banking; how to access basic checking; how to call into its phone service and speak with a representative; and how to protect themselves from con games. Citibank consumer educators worked one-on-one with seniors to teach them what to watch for and how to protect themselves. From one of these sessions with seniors at Co-op City's Einstein Loop Senior Center, Citibank learned of seniors' concerns over access to their branch and a discomfort with direct deposit.

As a result of this meeting, when the Citibank branch closed in Co-op City, Citibank set up a free shuttle bus so seniors could continue to bank with Citibank at another branch. The shuttle bus also allowed time for the seniors to do shopping at a nearby mall. Through this initiative, every participant in the shuttle bus program is signed up for direct deposit, showing that seniors will respond when you take the time to work with them. Through the consumer education program, Citibank also worked one-on-one with senior citizens who travel often to Puerto Rico and Florida. Many seniors were not aware that Citibank offers free bill payment services through its 1-800 service

line. In one instance, a senior was able to avoid surcharges on her rent when she was in Puerto Rico by having Citibank pay her bills. Overall, Citibank consumer educators have conducted over 600 seminars in English and Spanish, 20% of which were conducted in the Bronx in senior citizen centers, schools, hospitals and local businesses.

Beyond the bricks and mortar of its branches, however, Citibank uses the strength of its human resources to invest time, leadership and technical assistance to community groups and residents. In my own district, Citibank staff has volunteered for the 45th Precinct's "Night Out Against Crime" and other health fairs in Co-op City and Throggs Neck assisting in the creation of KidCare ID Cards for hundreds of area schoolchildren. Citibank has also co-sponsored with me a wonderful summer bus trip for senior citizens who were treated to an all day picnic and barbecue. Citibank staff spent the entire day with me at the barbecue pit, cooking and making sure that over 150 seniors had a great day to remember. This is surely dedication to the community.

Staff at the Citibank branch on Castle Hill Avenue found out I was sponsoring a teddy bear drive for the physically and emotionally abused children who are brought into the Montefiore Child Protection Center and immediately took up my cause and collected over 200 teddy bears for the children. These are the kind of wonderful people who are the backbone of this institution. Citibank has worked hand-in-hand with many community associations in my district on numerous different issues. Citibank has also participated in Read Aloud programs in schools in my district and has also

taken part in a clothing drive for people making the transition from welfare to work. In my community, Citibank has surely made a difference.

In the Bronx last year, through its Partnership in Progress program, Citibank committed $150,000 to three creative and innovative community development corporations for the creation of affordable housing, commercial stores and community revitalization.

For 25 years, Citibank has had a long standing commitment to improving the quality of life in the communities it serves. It is clear from these activities in my Assembly district and also those throughout the Bronx that Citibank demonstrates its pledge to CRA by providing access to the highest quality financial services and products, making them available to everyone regardless of where they live or how much they earn. I look forward to continuing my office's strategic partnership with Citibank to effect positive change in the Bronx.

<u>Travelers' Application to Acquire Citicorp Assurance Co.</u>

Teichman: We are on the record at this time. It's about 10:05 a.m., Thursday, June 4, 1998. We're here in regards to the application of Travelers to acquire control of Citicorp Insurance Company. My name is Mike Teichman. I am the Deputy Attorney General that represents the Department of Insurance. Our hearing officer for this matter is Tony Meisenheimer. And, with that, Mr. Hearing Officer, I'm going to turn it over to you. There are some folks that did enter the room. I'm going to say again, please sign your name on the pad that's going around.

Meisenheimer: Good morning, as Mr. Teichman said, I am Tony Meisenheimer, and I have been appointed by Commissioner Williams to act as the hearing officer in today's proceedings. As you know, the purpose of this hearing is to address pursuant to Section 5003 of the Insurance Code the application of Travelers to acquire indirect control of Citicorp Association. Citicorp Assurance Corporation. In order to focus on the issues raised and matters presented at today's hearing, I would like to review the standards the Department must apply in reviewing this application. Pursuant to Section 5003d, the Commissioner is instructed to approve proposed changes of control unless after a public hearing she finds 1) that the financial condition of any acquiring party is such that it might jeopardize the financial stability of the insurer or prejudice the interests of the policyholders, or 2) that as a result of the proposed changes of control, the insurer may be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is currently licensed, 3) the competence, experience and integrity of those persons who would control the operation of the insurer are such that the merger would not be in the interests of the policyholders and of the public, or 4) the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets, or consolidate or merge it with any person, or make material changes in its business or corporate structure or management, are unfair to policyholders or not in the public's interest; 5) there is any evidence that the proposed change of control may substantially lessen competition in the state or create any monopoly in the business of insurance in this state or elsewhere or the insurer has failed to file adequate information in compliance with Title 18, Delaware Code, Section 5003(a), or 6) the plan is likely to be hazardous or prejudicial to the insurance-buying public. Now, we're going to stick to these six (6) things today, I hope, in keeping this hearing on course. Before we begin evidence, does anybody want to make any motions?

Ed Welch: Your Honor, Ed Welch from Skadden Arps, if I could just take a moment, we represent Travelers. I'd like to introduce my partners here, Bob Sullivan from our New York office, and Jerry Hirsch. They're here with me today. And also from LeBeauf, Lamb, Don Henderson is here as well. Don's in the back over there. He's counsel for Citicorp. He's present as well. Your Honor already has our Form A, and I know that along with all the exhibits Mr. Henderson is going to be forming – handing out some biographical affidavits so Your Honor will have those as well. I suppose we ought to formally move the admission of the Form A just so that we've done that. Now, my colleague here will be handing out some other exhibits. Why don't you go ahead and do that.

Teichman: Mr. Welch, let me just interrupt you for one second. My understanding is that there was going to be some motions regarding the order of witnesses that you all wish to present?

Welch: Happy to do that, yes.

Teichman: Let's get to those kinds of issues before . . .

Welch: Fair enough. What we have in mind, Your Honor, in terms of presentation that we think would work this morning would be the following: 1) we'd like to call Mr. James Michener, who is the senior vice president and general counsel for Travelers Property & Casualty. At the conclusion of this testimony, we propose to call Mr. Charles Prince, the senior vice president and general counsel of the Travelers Group. At the conclusion of that witness, we'd like to call Ms.

Mulholland, general counsel, Citicorp Insurance Group. Our thought, Your Honor, was that it made sense, of course, to get our whole presentation on the table. Each of these witnesses will be addressing different components of the various standards that Your Honor made reference to. So our thought was if we could get our presentation on the table and then perhaps at that point open it up to cross-examination, we thought it might make a little bit more of an orderly proceeding. And that way, we have no intention, by the way, whatever, of trying to limit cross-examination of witnesses as appropriate, but we did think that if the whole presentation got out, it might make it easier for our colleagues who wish to examine them to do so in an effective and perhaps more efficient, timely basis. So I would make the motion at this time that we be permitted to put those witnesses on and to go forward and complete that testimony and have whatever cross Your Honor deems to be appropriate.

Meisenheimer: Are there any objections to this?

Lee: I think we'd prefer to cross-examine them. I don't know, I think there's a danger in . . . we'll take notes, but I think if we find it easier, given that the burden is actually on them to actually ask questions as the evidence comes in, we're not going to stop them as they make their presentation, but I think it would be easier for us to actually ask questions, rather than call them back up and go back to what they were saying. I don't see it that they have more than enough . . .

Meisenheimer: We do need to do this one way or the other, so . . .

Lee: I guess in one sense, the, your statement, the statement that there's no objection to cross-examination as appropriate. My fear is that all this evidence will go in and then as soon as we begin to ask questions, there will be some already prepared motion to limit cross-examination. If we know, in fact, it's going to be as fairly liberal based on the standards, we're more than willing to be accommodating on the order of the witnesses.

Welch: I don't think we have any . . . we certainly 1) we don't have any pre-prepared motion of any sort. If I did, I'd mention it at this time. I don't think we can make any motion to limit cross. If we do it after an orderly presentation of all three witnesses that we wouldn't make if we were doing it one by one. I just think it will make it easier for you all to hear the whole story and for the hearing examiner to hear the whole story as well. That' all. There's no, there's nothing more to it than that.

Teichman: Gentlemen, please direct your comments to the hearing officer.

Meisenheimer: If you would direct them to me. And what we're going to do is have each one of your people get up to three (3) and then you'll have an opportunity after their presentation, of each one, to do a cross-examine. Okay? I think that will keep it much more orderly.

Rangan: Can I also request copies of written testimony that are being read so we can follow it along while it is being read?

Meisenheimer: That's not a problem.

Teichman: Yes, if there are copies available, I have no idea whether ---

Welch: Actually, Your Honor, we did not prepare extra copies for testimony.

Meisenheimer: Okay, so we're not going to be able to do that.

Teichman: But that stuff will be made part of the record and it's available.

Meisenheimer: Right, it will be part of the record available to be reviewed.

Lee: Just, I guess I'm not sure if it's in the form of a motion as you obviously just brought that in myself. We both asked for discovery, this was denied by your Order. Obviously, we object to that. We think that that we're prejudiced in this hearing being limited to the Form A. I guess that's already in the written record.

Meisenheimer: Right, we've already addressed that.

Meisenheimer: It was just pointed out to me that we do need to address the issue probably of how long we're going to keep this hearing open to get additional information in, the record open. So what I'm going to rule on right now is that we will leave the record open for five (5) days which

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will give you a chance to submit information which will give you a chance to review the affidavits and the biographicals.

Teichman: Anything that's submitted to, as part of the record, anything that's introduced into evidence will be available for review.

Lee: I mean, and again, this is not, in thinking about it, I think that part of the order on denying discovery that it was hard to imagine the relevance of the questions that we were asking to the application. I think that if it's possible to at least, I understand that on a recent application that the five (5) days is sort of standard? We hope, I mean, again, if as things develop if we have not shown the relevance of the information that we were requesting, then I, we would have these five (5) days. But I think, you could say, I anticipate conceivably at the end of it, depending on how it develops, conceivably making, moving that that be reconsidered and that discovery, post-hearing discovery be allowed. I don't know, you know, the standard. You could then--- but I think it remains to be seen.

Meisenheimer: I'll entertain any motion.

Lee: Okay. Great.

???: The one point I did want to make, Your Honor, was with respect to the biographicals, I understood Your Honor to have ruled on that and to have made clear that the biographicals would not be made part of the record. That's the state of Your Honor's rulings at this time. Not part of the public record, that is. Certainly, it's part of the record for Your Honor.

Meisenheimer: That's an issue of discovery. But it's not an issue of what is introduced here today. That will be public record available.

???: Let's go off the record for a minute.

Teichman: It's about 20 minutes after 10:00 a.m. and we're back on the record.

Welch: Your Honor, we do have some exhibits I'd like to hand up to Your Honor at this time.

Meisenheimer: Well, really, we're at a point. We're still doing the motions. Are there any other motions? Other than what you're proposing?

Teichman: They're ready to start with their case.

Lee: As you said, you're willing to entertain motions. This is not the last call on motions?

Meisenheimer: Right.

Welch: We're going to hand up to the Court right now and the record should reflect that we're doing so, two (2) copies of our exhibits as well as copies to Mr. Lee and Ms. Rangan. Your Honor, these exhibits outline our basic presentation to be used by each of our witnesses as a guideline essentially to their testimony. And as I say we would formally move their admission at this time.

Teichman: Let me interrupt you for a minute, Mr. Welch. This one, what I've got is one package here it's a booklet. Is this the only actual physical exhibit you wish to introduce into evidence?

Welch: At this time, that's correct. Subject to our comments earlier about having the Form A filed and submitted to the Commission, which in turn commenced this proceeding.

Teichman: Well, I'll mark it for identification as Travelers Exhibit #1. And Mr. Hearing Officer, is it your desire to -

Meisenheimer: Are there any objections? Then I move that it be marked as Exhibit #1.

Welch: Just to clarify, I understand the documents have been admitted as exhibits.

Lee: Yes. So in terms of the objections, obviously, what we're going to try to do is to ask them questions about this.

Teichman: The question the hearing officer asked is specifically is there an objection to moving this thing into evidence.

Lee: Right.

Teichman: There are none?

Lee: There are none given with the understanding, obviously, that we ask questions about it.

Meisenheimer: At the end of his presentation.

Lee: Sure.

Welch: Your Honor, if there's nothing further at this time, we call, propose to call Mr. James Michener, Senior Vice President and General Counsel of Travelers Property/Casualty Corporation as our first witness.

Teichman: Mr. Michener, sir, do you have any objections to taking an oath?

Michener: No.

Teichman: Sir, will you raise your right hand? Sir, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Michener: I do.

Teichman: Go ahead and state your full name and position for the record.

Michener: James M. Michener. I'm a senior vice president, general counsel, and secretary of Travelers Property/Casualty Corp.

Welch: Mr. Michener, what is your current occupation, sir?

Michener: As I said, I'm senior vice president, general counsel, and secretary of Travelers Property/Casualty Corp. which is a publicly traded insurance holding company approximately 83% of the company is owned by Travelers Group and its subsidiaries. And I have been authorized to speak on behalf of Travelers Group at this proceeding.

Welch: In what insurance businesses are the company and its subsidiaries engaged, Mr. Michener?

Michener: We are engaged in most forms of property/casualty insurance for individuals and commercial entities. We do business in all fifty (50) states, Guam, Virgin Islands, Puerto Rico, and Canada.

Welch: Now how long have you been working for the company and in what positions have you been working?

Michener: I've been with the company and its predecessors since 1977 and I've held a number of positions in the corporate legal department.

Welch: Okay. Could you describe for the hearing examiner your responsibilities at the company?

Michener: As the general counsel, I am responsible for overseeing and advising of the legal affairs of the company. My duties include regulatory compliance overseeing the preparation of company filings, government affairs, inner company and third party agreements, and the supervision of litigation.

Welch: All right. Now I'd like to turn for just a moment if we could to the Travelers Group's proposed merger with Citicorp. Mr. Michener, what has been your involvement with that transaction?

Michener: I am the individual with overall responsibility for the insurance-related matters of the transaction, including the regulatory approvals.

Welch: Okay. And could you also briefly describe for the examiner the structure of the Travelers Group's proposed merger?

Michener: I'd be happy to. This would be a good chance to refer to the exhibits. And I would refer the hearing officer to Exhibit #1. Exhibit #1 is a simple description of how the transaction will be accomplished. The first item, Travelers Group, will form a new subsidiary which we'll call Newco. And this will act as the acquisition subsidiary for the acquisition of Citicorp. In a second step, Citicorp will merge into Newco. In a third step, Newco will change its name to Citicorp. And as a final matter, Travelers Group will change its name to CitiGroup. As a

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result of these steps, Citicorp will become a direct, wholly-owned subsidiary of Travelers Group and all of Citicorp's subsidiaries will become indirect subsidiaries of Travelers Group. Citicorp Assurance is one of those current Citicorp subsidiaries that will become an indirect subsidiary of CitiGroup after the merger. And then if we could go on in more detail, I would look at a number of other exhibits. Why don't we go to Exhibit #2.

Teichman: Let me interrupt you just for clarity with the record. You, what you're describing as Exhibit #2 is #2 within what has been marked as Exhibit #1. Is that right?

Michener: That is correct.

Teichman: Thank you, sir.

Welch: Just for the record, the lower right-hand corner of each page has the exhibit numbers that Mr. Michener will be referring to and I'd appreciate you pointing out that obviously, we had marked this as a single exhibit, and the references he'll be making will be to the lower right corner.

Teichman: Mr. Welch, I'm going to ask you to keep your voice up a little bit. The machine's having trouble. The farther you are from the microphone, the louder you have to be.

Welch: All right. Go ahead Mr. Michener. I think we're directing the attention of the hearing examiner to Exhibit #2.

Michener: Yes, Exhibit #2 is a description of Travelers Insurance Holding Company system prior to the acquisition of Citicorp and the second page of that Exhibit #2 provides more detail in the current structure of Travelers Holding Company system.

Welch: Okay. I'd like to then turn your attention to Exhibit #3.

Michener: This is a description of Citicorp's pre-merger insurance holding company system and you'll note that Citicorp Assurance, the company that we're discussing today, is shown in the bottom central part of that exhibit and it's ownership chain up to Citicorp is shown on the exhibit chart. For simplicity's sake we have eliminated some of the intermediate holding companies on the Citicorp side.

Welch: And then next I would like to bring the hearing examiner's attention to Exhibit #13.

Michener: And this is a description of the Travelers Group post-merger insurance holding company system and as you will see at the top of the chart, the Travelers Group will remain there. Its name will be changed to CitiGroup, and the Citicorp Companies will be added as an additional chain of companies and that's shown on the right-hand side of the chart. Citicorp Assurance is shown in the lower right-hand corner and as it was before the merger, it will continue to be a subsidiary of Citicorp Life Insurance Company.

Welch: So this is the post-merger structure of the organization? The prior exhibits were the pre-merger structure?

Michener: Yes, that is correct. And as these exhibits illustrate, the end result of the transaction is that Citicorp and all of its subsidiaries, including the insurance subsidiaries, will become an additional chain of companies held by Travelers Group.

Welch: Now Mr. Michener, what overall benefits does Travelers Group believe that it will derive by, from the merger with Citicorp?

Michener: Travelers Group believes that the financial services industry today, including the insurance industry, is being driven by three (3) forces. These are consolidation, globalization, and conversions. Indeed, it is hardly possibly to pick up a newspaper over the last several years and not see some evidence of this in the financial services industry. In this environment, Travelers Group believes that it's crucial for the company to expand into new markets, establish a global presence, and to compete vigorously for new customers through a diversified product base. And the merger with Citicorp and Travelers Group will enable Travelers to do this. First, the merger will create the world's leading financial services company in terms of asset base and market capitalization. Second, as a result of Citibank's global presence, the merger will provide Travelers Group with access to new markets worldwide. Finally, the merger will allow Travelers Group to provide a full range of consumer financial services, including banking investment services, insurance, and asset management.

Welch: All right, now Mr. Michener, I'd like to turn for just a moment to the Form A filing relating to the proposed acquisition of control of Citicorp Assurance. Are you familiar personally with that filing?

Michener: Yes, I am.

Welch: And once again, you've touched on this earlier, but are you familiar with where Citicorp Assurance stands within Citicorp's overall organization? Let's talk about that for a moment.

Michener: Yes I am familiar with that and I'd like to suggest to the hearing examiner that we look at Exhibit #3 again which we looked at before. This is a schematic of Citicorp's present pre-merger insurance holding company structure. And as you, as the chart shows, Citicorp Assurance Company is a subsidiary of Citicorp Life Insurance Company which is an Arizona insurance company. In turn, that company is a subsidiary of Citibank Delaware which is a Delaware banking corporation. That company is owned by Citicorp Holdings, Inc. which is a Delaware business corporation which is finally owned by Citicorp, which is the parent company which is publicly held.

Welch: All right, now what about Citicorp Assurance's insurance activities? Are you familiar with the scope of those activities?

Michener: Yes, I am.

Welch: And could you please describe for the hearing officer what type of business Citicorp Assurance is licensed to write?

Michener: It is licensed to write certain property/casualty lines in the state of Delaware and its business consists entirely of insuring or reinsuring certain risks of Citicorp and its affiliates.

Welch: Okay. Now to be specific about that, what types of business does Citicorp Assurance currently actually write?

Michener: First of all, Citicorp Assurance does not sell insurance to the general public. It only has corporate policyholders and only insures or reinsures the exposures of affiliated companies.

Welch: Okay.

Michener: And it writes only two (2) types of business. First, it provides contractual liability insurance to Citibank, N.A., a national bank subsidiary of Citicorp located in New York. Second, Citicorp Assurance provides reinsurance on coverages underwritten by unaffiliated companies, American Security Insurance Company and Standard Guaranty Insurance Company for Citibank South Dakota, N.A. which is another national bank subsidiary of Citicorp located in South Dakota. As a result, the company functions in essence like a captive insurer and does not market its products to the general public in Delaware or elsewhere.

Welch: Okay. Mr. Michener, let's take a moment and look at Exhibit #4. With that exhibit in mind, I'll ask you what is the percentage Citicorp Assurance writes of the property/casualty market in Delaware.

Michener: Well first, as the hearing examiner knows, the property/casualty market consists of a number of lines of insurance, and in most of those lines of insurance, Citicorp Assurance market share is -0-. The only line in which it writes is called "other liability" which is a miscellaneous liability line. And in that line it's market share is less than 1% as shown on the Exhibit #4.

Welch: All right. Now how competitive, Mr. Michener, is the market in Delaware of property/casualty insurance?

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Michener: The insurance market in Delaware, as in the rest of the country, is highly competitive and divided among a number or companies. Citicorp Assurance's share of that market, as we discussed, is very small.

Welch: All right. With that in mind, let's go on to Exhibit #5 if we could, identified in the lower right-hand corner of the page. With that exhibit in mind, let me ask you, Mr. Michener, will the acquisition of control of Citicorp Assurance substantially lessen competition in Delaware or tend to create a monopoly?

Michener: Well the short answer is no with respect to the property/casualty business that is written by Citicorp Assurance, we have just discussed that, and as I mentioned, its market share is extremely small. Citicorp has other companies that are not the subject of the hearing today that are licensed in Delaware, and I believe the only one is Citicorp Life Insurance Company. Exhibit #5 shows the markets in which Citicorp Life Insurance Company and Travelers write the same lines of business in Delaware. And as you will see from the chart, both Travelers and Citicorp Life Insurance Company have very small market shares in the lines of business that they write, like annuity, accident & health, and deposit. And of course, when you add those two small market shares together, you wind up with also a small market share of the combined company after the merger. And just to go through them one by one, in the life insurance area the combined market share will be approximately 1%, the market share and annuity will be approximately 1/3 of 1%. . .

Welch: That's the second column on the page, is that right?

Michener: Yes. The life is in the first column, and I'm referring to the percentage shown in the bottom box under the life column. And then if we would move to the annuity column, also in the bottom box, the market share percentage is approximately 1/3 of 1%. The moving on to accident and health, the lower box showing the combined market share is approximately ½ of 1%, and similarly with deposit insurance which is a type of life insurance, the market share is approximately ½ of 1% on a combined basis.

Welch: Okay now, following completion of the merger, will Citicorp Assurance be able to satisfy the requirements for the issuance of a license to write the line or lines as the case may be for which they are presently licensed?

Michener: Yes, it will. I am not aware of any aspect of the transaction which would jeopardize Citicorp Assurance's continued ability to qualify for its present licenses.

Welch: Let me turn to another topic for a moment. Does Travelers Group have a regulatory compliance program?

Michener: Yes, we have an extensive one.

Welch: And has any license or permit of any Travelers Group Insurance subsidiary ever been revoked or suspended, Mr. Michener?

Michener: No.

Welch: And to conclude, if we could, what effect will the merger have on the ability of the state insurance departments, including the Delaware Department of Insurance, to regulate an insurance company doing business in their states?

Michener: I think the merger will have no adverse effect on that ability to regulate the insurance companies. The merger between Travelers Group and Citicorp will result in a holding company structure that will be regulated along functional regulation lines so that insurance banking securities activities will continue to be regulated by the same regulators that regulate them now. So in sum, I think it will have no adverse effect or really any effect on the ability of the Delaware Insurance Department or other insurance departments to regulate insurance activities.

Welch: All right, thank you very much. Mr. Examiner, we have no further questions of this witness at this time. Now, at the conclusion of the presentations of our witnesses, I think we would like to recall Mr. Michener and have him kind of sum up. But subject to that, we have no further questions at this time.

capitalization. Second, as a result of Citibank's global presence, the merger will provide Travelers Group with access to new markets worldwide. Finally, the merger will allow Travelers Group to provide a full range of consumer financial services, including banking investment services, insurance, and asset management.

Welch: All right, now Mr. Michener, I'd like to turn for just a moment to the Form A filing relating to the proposed acquisition of control of Citicorp Assurance. Are you familiar personally with that filing?

Michener: Yes, I am.

Welch: And once again, you've touched on this earlier, but are you familiar with where Citicorp Assurance stands within Citicorp's overall organization? Let's talk about that for a moment.

Michener: Yes I am familiar with that and I'd like to suggest to the hearing examiner that we look at Exhibit #3 again which we looked at before. This is a schematic of Citicorp's present pre-merger insurance holding company structure. And as you, as the chart shows, Citicorp Assurance Company is a subsidiary of Citicorp Life Insurance Company which is an Arizona insurance company. In turn, that company is a subsidiary of Citibank Delaware which is a Delaware banking corporation. That company is owned by Citicorp Holdings, Inc. which is a Delaware business corporation which is finally owned by Citicorp, which is the parent company which is publicly held.

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Welch: Okay. Mr. Michener, let's take a moment and look at Exhibit #4. With that exhibit in mind, I'll ask you what is the percentage Citicorp Assurance writes of the property/casualty market in Delaware.

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Welch: All right. Now how competitive, Mr. Michener, is the market in Delaware of property/casualty insurance?

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Prince: Yes.

Welch: Let me turn for a moment if I could to the background on Travelers Group itself. Could you provide a brief background of Travelers Group?

Prince: Well, there is a great deal of public information about Travelers Group and its various subsidiaries because a number of our companies are public filers under the FCC system, so there are annual reports and so forth for a number of our companies a number of which are attached, I believe, to the Form A, that are widely available. If I can, I would try to direct the Hearing Examiner's attention to a couple of pages of Exhibit #1 that have already been referenced to try to point to a couple of significant points. The Travelers Group itself is a widely held, publicly traded, diversified financial services company. If I can start, please, with page 6 of Exhibit #1, you will see that at the end of last year at the end of 1997, Travelers Group had total assets of approximately $386.5 billion dollars and a stockholders equity of about $21 billion dollars. If I could ask you to turn now to Page 7 ---

Meisenheimer: Excuse me, would you refer to that as Exhibit #7 of Exhibit #1? Just for clarification.

Prince: All right – one of these versions will be right. Exhibit #7 of Exhibit #1. You'll see that we're in four (4) primary businesses. The consumer finance business, the investment services business, property/casualty insurance, and life insurance.

Welch: All right now, Mr. Prince. The first one of those businesses you mentioned is consumer finance services, could you describe that for the Hearing Examiner, please?

Prince: Of course, if I could ask you to turn to Exhibit #8 of Exhibit #1. There you'll see that the consumer finance business is operated through a commercial credit company and its various subsidiaries and they provide consumer lending services, credit card services, and various credit-related insurance services among their other activities.

Welch: All right now the other, the next business that you mentioned is investment services, could you describe that for the Examiner, please?

Prince: That's on the next, exhibit, Exhibit #9 of Exhibit #1. You'll see that the investment services business is offered principally through Solomon & Smith Barney Holdings. It provides investment banking and trading, retail brokerage, mutual fund, and investment management services.

Welch: All right, now can you summarize the third business of Travelers Groups operations which I think you identified as property/casualty business?

Prince: Yes, that's on the next page. Exhibit #10 of Exhibit #1 and this is the Travelers Property/Casualty business that Mr. Michener described. As you can see, it's 83% owned by Travelers Group, the group of companies offer a wide array of commercial and personal lines of coverage principally in the U.S. They are licensed in all 50 states, the District of Columbia, and certain other jurisdictions. And the principal companies are rated at least A or Excellent by A.M. Best which means that they have excellent financial strength and a strong ability to meet their ongoing obligations to policyholders.

Welch: All right. The final business that you mentioned was life insurance services. Can you summarize that business for the Hearing Examiner?

Prince: On Exhibit #11 of Exhibit #1, we talk about our two (2) life insurance operations, the Travelers Insurance Company and its subsidiaries in the Primerica Financial Services group of companies. These life insurance companies are also licensed and operated in all 50 states and the District of Columbia, Guam, and certain other jurisdictions, and all of these companies are rated A or Excellent by A.M. Best.

Welch: All right, let me change topics on you for a moment, if I could. What, in terms of the merger itself, now what consideration will Citicorp shareholders receive in the merger?

Prince: In connection with the merger, each outstanding share of Citicorp common stock,

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???: Actually, in hearing the flow, additionally we'd objected to having three in a row go, but I think it might be better having three go, subject to being able to recall which of the three that we want. As it turned out, you were correct.

Welch: Well, we get one right every now and then. Your Honor, at this time, we will call Mr. Charles O. Prince.

???: Just, before you begin, I guess I'm qualified at least as to that witness, we didn't see any reason to break the flow. That doesn't mean, we may after this witness, but—

???: Quite candidly, I don't think there is a problem, but why don't we just go forward.

Prince: I'll try to do as good a job.

[laughter]

Teichman: Sir, can I get you to raise your right hand? Sir, state your name please.

Prince: Charles Prince.

Teichman: Sir, do you swear to tell the truth, the whole truth and nothing but the truth so help you God?

Prince: I do.

Teichman: And go ahead and state your name for the record.

Prince: Charles Prince.

Teichman: We just did that, didn't we? And your title, too.

Prince: My title is executive vice president and general counsel of Travelers Group.

Welch: Mr. Prince, how long have you held the position that you have just identified for the hearing examiner?

Prince: I've been the general counsel with Travelers Group or its predecessors since early in 1983 and I also will serve as co-general counsel of CitiGroup after its formation.

Welch: And would you briefly describe for the examiner your duties and responsibilities in that capacity?

Prince: In my current position I have responsibility for several of the administrative functions of the combined company. The legal department, government relations, and corporate security.

Welch: Now in this capacity, one or more of those capacities, did you have occasion to become familiar with the details of the proposed transaction which is the subject of this hearing today?

Prince: Yes, I have.

Welch: And could you give us a brief description of your involvement and your role in that proposed transaction?

Prince: Well, I assisted in the performance of the due diligence effort leading up to the agreement. I also participated in the negotiation of the contract and so forth. Presently, I have overall responsibility for obtaining the necessary governmental and other approvals overall for the transaction.

Welch: Now, in connection with these responsibilities, have you also become familiar with the Travelers Form A which has been filed with the Delaware Department of Insurance and which is the subject of this proceeding?

Prince: Yes, I have. I participate in the drafting of the Form A, and of course, I executed it in behalf of Travelers Group.

Welch: Now, Mr. Prince, is the information contained in that filing accurate?

Prince: Yes, it is.

Welch: Okay. And were you present and listening to the testimony of Mr. Michener regarding the structure of the transaction and the merger?

Prince: Yes.

Welch: And do you agree with his description of the merger?

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Welch: Now, have the parties designated individuals as executive officers, and if so, have their biographical affidavits been filed with the Department?

Prince: Yes, certain individuals have been designated, and the Form A application indicates the biographical affidavits of these individuals of Travelers Group and of Citicorp. And I believe those are being filed supplementally. I also believe that all of them have been or will be submitted except for one which should be submitted very shortly.

Welch: Let's talk for a moment about financial condition. Could you describe for the Hearing Examiner the financial condition of Travelers prior to the consummation of the merger?

Prince: Yes, I'll turn back to the exhibit booklet if I may and ask you to turn to Exhibit #6 of Exhibit #1.

[pause]

Welch: Mr. Prince, I think you were starting to tell me about the financial condition of Travelers Group prior to consummation of the merger.

Prince: Yes, I was just referring all of us back to Exhibit #6 of Exhibit #1 which we had looked at just a few moments earlier in my testimony where the financial condition of Travelers Group is identified as you can see the total assets at year-end were $386 billion and stockholders equity was almost $21 billion. As an integrated financial services company with diversified earning stream from various businesses, each of which are strongly capitalized, Solomon, Smith Barney, Commercial Credit, Travelers Property Casualty, Travelers Life, Primerica Financial Services, with all these different companies, Travelers enjoys strong earnings and strong cash flow.

Welch: Now, following the merger, what would the financial condition of the company be? Define the companies we're talking about.

Prince: Sure. If I could direct your attention to Exhibit #12 of Exhibit #1, this is a detail of the pro forma basis of the combined companies at year-end. This is the simple arithmetic of adding the two (2) companies together, Travelers Group and Citicorp. And as you can see on this pro forma basis, the financial strength and capitalization of the company would be exceptional.

Welch: Now let's change topics yet again if we could. I'm going to ask you to talk for a moment about the plans for Citicorp Assurance, which is the actual subject of this hearing, that is Citicorp Assurance, will the proposed merger jeopardize the financial stability of Citicorp Assurance. Will that prejudice the interest of any of its policyholders?

Prince: No, as I've indicated, the Travelers Group is very well capitalized, and I believe that the combined financial strength of the two (2) companies after the merger will enhance the financial stability of the subsidiaries of the company and will certainly not prejudice the interests of any policyholders.

Welch: This next question is a long one, but let me try it anyway, because I think it covers some ground that's important. Does Travelers Group have any present plans to either liquidate Citicorp Assurance, to sell its assets other than in the ordinary course of business, to merge Citicorp Assurance with other entities, or make any other material change with the insurers business or corporate structure or management, for that matter, that would be unfair and unreasonable to its policyholders or otherwise not in the public interest?

Prince: I'll give you a short answer to a long question, the answer is no to any of those matters.

Welch: Okay, then that's addressing the __________?

Prince: That's correct.

Welch: Does Travelers have any plans to replace current management for Citicorp Assurance or change its current business in any significant way?

Prince: Again, the answer is no, we have no plans to change the business or to replace or change the current management of Citicorp.

Welch: Now, will the operations of Citicorp Assurance be integrated with those of other

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other than shares owned by the two (2) companies themselves, will be converted into the right to receive 2½ shares of Travelers Group common stock. Fractional shares will be paid for in cash. In addition, each issued an outstanding share of Citicorp preferred stock, again, other than shares owned by the two (2) companies directly, will be converted into the right to receive one (1) share of a corresponding series of Travelers Group preferred stock. As a result of these various conversions following the merger, the former Citicorp shareholders as a group, and the current Travelers Group shareholders will own approximately 50% of the outstanding shares of CitiGroup.

Welch: All right, let's talk for a minute about the value of the consideration. What's the value of the shares of Travelers Group common stock that Citicorp shareholders will obtain?

Prince: Because it's based on stock exchange, the value changes every day as the stock market changes. But just as a point of reference, the figure that's often used is that the value will be approximately $70 billion dollars. This figure is based on the number of shares of Citicorp common stock outstanding at about the date of the announcement, which was $451 million shares, and the price of a share of Travelers Group common stock on that date which was about $61 a share.

Welch: Now is Travelers Group incurring any debt in connection with the merger?

Prince: No, we're not.

Welch: Let's turn to yet another topic, Mr. Prince?

???: Actually, could you maybe look at this one moment? I guess, in terms of a written copy of it, I'm not objecting to any question or anything, I'm just, I'm wondering really is that earlier you'd said there are no extra copies of it?

Welch: That is correct.

???: That really is correct?

Meisenheimer: Would you please wait according to what we agreed until he finishes his presentation.

???: Okay. Go on and proceed from here.

Prince: I don't have to start over again, do I?

Welch: All right, I think, we started to talk, Mr. Prince, about the question of shareholder approvals.

Prince: Yes sir.

Welch: A little bit of shifting topic, will the shareholders of both Travelers Group and Citicorp be given the opportunity to vote on the proposed transaction?

Prince: Yes, each of the shareholder groups will vote separately on the transaction.

Welch: And when will that vote take place?

Prince: Both of the shareholder votes have been scheduled, again separately, but both votes will be held on July 22, 1998.

Welch: Now I think the Form A submitted by Travelers Group under Item #11 indicates the Travelers Group will inform the Commissioner of Insurance of the identity of the proxy solicitors retained in connection with the meeting of shareholders that we were talking about a moment ago. Have proxy solicitors actually been retained by either party to the merger?

Prince: Yes, I believe they have. I believe the Travelers Group has retained Morrow & Company and Citicorp has retained Georgeson & Company.

Welch: All right, let's turn to yet another topic, if you could. And that's the Travelers Group directors and officers. Or directors for the moment. What will the makeup be of the Travelers Group Board following consummation of the transaction?

Prince: There will be a board of 24 people, 11 outside directors from each of the two (2) companies presently, so that's 22, and Mr. Sanford Wile and Mr. John Reed, respective chairmen of each of the two (2) companies will also be members of the board, and each of them will serve as chairmen and co-chief executive officers of the company.

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Company Act, we will have a minimum of two (2) years from the consummation of the merger with the possibility of three (3) one-year extensions to conform our operations to the Bank Holding Company Act limitations.

Welch: Let's talk about other regulatory approvals for the moment. Have all other state and federal regulatory approvals been obtained?

Prince: Not yet, but they are all in process, and they're all grinding away. We have various regulatory approvals, both domestically and internationally.

Welch: Okay, can you describe those for the Hearing Examiner and their current status?

Prince: Well, both Travelers Group and Citicorp are required to file with various domestic and international regulatory agencies. These include, of course, the Federal Reserve Board under the Bank Holding Company Act that we talked about, certain other banking agencies, some state banking agencies, state insurance regulatory authorities, and the various foreign authorities.

Welch: Your Honor, we have no further questions of this witness at this time. Your Honor, as our next witness, we'd like to call Catherine S. Mulholland.

Meisenheimer: Just a second.

???: I'd actually like to ask if we could question Mr. Prince on what he just said. I don't know if I initially understood. After the first witness, they thought we were going to ask questions, and we waived.

[pause]

???: If I could just initially respond to Mr. Lee's request. The testimony of Ms. Mulholland is relatively short, and Mr. Prince is obviously going to be staying in the hearing room for the entire hearing and would be available at any time.

Meisenheimer: Okay. Are your questions just a few, or are they voluminous? I mean, how many questions do you have?

Lee: I guess it depends on how it develops.

Meisenheimer: To keep it moving, I move that I would like to go ahead and let Ms. Mulholland . . .

Lee: Sure.

Meisenheimer: Okay.

Teichman: Ms. Mulholland, will you raise your right hand? Ma'am, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Mulholland: I do.

Teichman: Then will you state your full name for the record?

Mulholland: Catherine S. Mulholland.

Teichman: And your position?

Mulholland: I am general counsel and senior vice president of Citicorp Insurance Group.

Teichman: Thank you. And, Ms. Mulholland, I'm going to ask you to keep your voice up so that we can get you on the tape.

Welch: In your answer, Ms. Mulholland, you made reference to your employment with Citicorp Insurance Group. Can you explain to the Hearing Examiner what exactly it is that Citicorp Insurance Group is comprised of?

Mulholland: Okay, again, if you would look at Exhibit #3 on Exhibit #1, you will note that on the right-hand side, Citicorp Assurance Company at the bottom is an affiliate of First Citicorp Life Insurance Company, a New York company, and both are wholly owned by Citicorp Life Insurance Company, an Arizona insurance company, with our direct parent being Citibank Delaware and ultimately our ultimate parent being Citicorp. On the left side of the chart, you will see Citicorp International Trade & Indemnity, Inc., a New Jersey insurance company, that is not considered part of Citicorp Insurance Group, but it is an insurance subsidiary of Citicorp.

Welch: All right, that's Citicorp Assurance way down there at the bottom of the chart, is

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Travelers Insurance subsidiaries?

Prince: Again, the answer is no. I believe that Citicorp Assurance will continue its operations as they are now conducting.

Welch: All right. Let's focus on the Board of Directors of Citicorp Assurance. What will be the makeup of the Board of Directors of Citicorp Assurance after the merger?

Prince: There are no plans to change any members of the Board of Directors of Citicorp Assurance.

Welch: All right. What will the impact of the merger on jobs be in Delaware? How many employees are expected to be maintained?

Prince: Because all of the plans will remain the same, I believe there will be no affect on employment levels in Delaware as a result of this transaction.

Welch: Okay. Now will the competence, experience, and integrity of those persons who will control the operations of Citicorp Assurance be such that it would not be in the interest of policyholders and the public to permit the acquisition of control?

Prince: Well since Travelers has no plans to change the management or the Board or their corporate structure, then the same individuals who have been responsible for controlling the operations of Citicorp Assurance will continue in that capacity. In addition, since Citicorp Assurance really has only three (3) corporate policyholders, the insurance-buying public won't be affected by the acquisition of control in any way.

Welch: Now let's turn to some banking law issues if we could. Is Travelers Group currently authorized to conduct any banking activities?

Prince: Yes, Travelers Group currently has two (2) bank subsidiaries which are licensed to conduct business in Delaware. The first is Travelers Bank & Trust, FSB, or Federal Savings Bank, a federally chartered savings bank located in Newark, Delaware, and the Travelers Bank USA which is a Delaware state chartered bank.

Welch: All right, now what do these two (2) banks actually do?

Prince: Travelers Bank USA is engaged in the credit card business, and Travelers Bank & Trust, FSB is primarily makes home equity loans.

Welch: Now can you explain for the Hearing Examiner the impact of the Federal Bank Holding Company Act on the merger?

Prince: Yes, as a result of our merger with Citicorp, Travelers Group will become a bank holding company under the Federal Bank Holding Company Act. We have filed an application with the Federal Reserve to become a bank holding company, and once we receive that, we will face certain limitations on our insurance and banking operations under the Act.

Welch: All right, we're focusing on Citicorp Assurance for the moment, does that mean that following the merger there is a possibility that Travelers Group could be forced to sell Citicorp Assurance because of the Bank Holding Company Act?

Prince: No. Many people read in the press the reports that at some point in the future Travelers Group may have to divest or limit its insurance operations. Actually, the operations of Citicorp Assurance are permitted by the current version of federal law, and so we don't expect that there would be any requirement in the future, even if the law stays exactly as it is, for us to sell, dispose of, or in any way separate the operations of Citicorp Assurance following this merger.

Welch: All right, now assuming that the Federal Reserve Board approves the Travelers Group's application to become a Federal Bank Holding Company, will the Bank Holding Company Act impose any limitations on the insurance-related activities of the Travelers Group following the merger?

Prince: Yes, and I referred to some of these limitations just a moment ago. It's possible that at some point in the future, the company could be required to divest or separate some of its insurance operations, not including Citicorp Assurance. However, under the Bank Holding

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America and American Security Insurance Company and Standard Guaranty Insurance Company.

Welch: With that in mind, is it accurate to say that Citicorp Assurance reinsures or insures only affiliates?

Mulholland: Yes, it is.

Welch: What's the A.M. Best rating of Citicorp Assurance?

Mulholland: It's A-, which is an Excellent rating.

Welch: And do you have any expectation that that will change as a result of the merger?

Mulholland: No.

Welch: What is Citicorp Assurance's policyholder surplus as of March 31st, 1998?

Mulholland: As of March 31st it's $25 million.

Welch: Okay. And will that policyholder surplus change in any way as a result of the merger?

Mulholland: Not as a result of the merger.

Welch: Let's turn for a moment, Ms. Mulholland, to the statutory criteria, if we could. I'm going to ask you a series of questions about the statutory criteria. Following Traveler Groups acquisition for control of Citicorp Assurance, will Citicorp Assurance continue to satisfy the prerequisites to write the lines of insurance that it currently writes in Delaware?

Mulholland: Travelers Group has indicated that it has no present plan to change the operations of Citicorp Assurance following the merger. So I see no reason why Citicorp Assurance would not continue to qualify with those licenses after the merger.

Welch: Are you aware of any aspect of the proposed merger between Travelers Group and Citicorp that would affect Citicorp Assurance?

Mulholland: I am not aware of any aspect of the proposed merger that would in any way jeopardize Citicorp Assurance's license. As the person responsible for Citicorp Assurance's legal and regulatory affairs, I believe that Citicorp Assurance has complied with all Delaware licensing and other regulatory compliance requirements in the past and will continue to do so following the acquisition.

Welch: Ms. Mulholland, will the proposed acquisition of control substantially lessen the competition in Delaware?

Mulholland: No, I personally reviewed the exhibit regarding the combined market share of Citicorp and Travelers insurance subsidiaries licensed in Delaware. Mr. Michener was correct in stating that in every line of business, both in life and health, property and casualty, that Citicorp and Travelers subsidiaries have a very small market share. In addition, Citicorp Assurance only writes in the line of other liability, which is a hodgepodge of, you know, line 19 miscellaneous liability, and no other line of property/casualty insurance.

Welch: Ms. Mulholland, will the financial condition of Travelers Group jeopardize the financial condition of Citicorp Assurance or otherwise prejudice the interest of its policyholders?

Mulholland: No, Travelers Group is a well capitalized company whose insurance subsidiaries enjoy very high ratings. Furthermore, Travelers —

Teichman: Ms. Mulholland, let me ask you to stop for just a second. And we're going to go off the record for just a moment.

[pause to change tapes]

Teichman: And we're back on the record, it's about 6 minutes after 11:00 a.m.

Welch: All right, Ms. Mulholland, before we went off the record, I think I had asked you whether or not in your judgment the financial condition of Travelers Group would jeopardize the financial stability of Citicorp Assurance or prejudice the interests of its policyholders. Why don't you start that answer off again?

Mulholland: Okay. Well as I mentioned that Travelers Group is a well capitalized company whose insurance subsidiaries enjoy very high ratings. Furthermore, Travelers Group

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that right?

Mulholland: Yes, that is correct.

Welch: All right. Now, do you also hold a position with Citicorp Assurance?

Mulholland: Yes, I'm vice president and general counsel for Citicorp Assurance.

Welch: And Ms. Mulholland, how long have you been working for Citicorp Insurance Group?

Mulholland: I have been working for Citicorp Insurance Group since July 1997.

Welch: Let's talk about your responsibilities in Citicorp Insurance Group. Could you describe those for the Hearing Examiner?

Mulholland: Yes, as general counsel, I'm responsible for overseeing and advising on the legal affairs of each of the three (3) Citicorp Insurance Group subsidiaries, including Citicorp Assurance Company. My duties include regulatory compliance, overseeing the preparation of company filings, corporate affairs, government relations, inner company and third-party agreements, and supervision and management of staff.

Welch: Let's turn for a moment to the structure of the merger. Some of the other witnesses talked about that, but we'd like to hear it from your standpoint. Have you reviewed a copy of the Form A statement and exhibits the Travelers Group filed with the Department in connection with the proposed merger?

Mulholland: Yes, I have.

Welch: Okay , in what capacity did you actually review that?

Mulholland: Well, I reviewed it and I helped prepare it.

Welch: In your judgment, does the Form A statement accurately characterize the merger and its impact on Citicorp Assurance?

Mulholland: Yes, it does.

Welch: And did you hear the testimony of the previous witnesses, Mr. Prince, Mr. Michener, regarding the impact of the merger on Citicorp Assurance?

Mulholland: Yes, I did.

Welch: And to your knowledge, was that testimony accurate?

Mulholland: Yes, it was.

Welch: Let's turn for a moment to, again, to some details on Citicorp Assurance. Describe Citicorp Assurance for the Hearing Examiner, if you would.

Mulholland: Okay, again, as shown on Exhibit #3, Citicorp Assurance is a stock property/casualty insurer whose ultimate parent is Citicorp which is also a Delaware corporation. Citicorp Assurance is domiciled and licensed in Delaware and only Delaware. As Mr. Michener explained, Citicorp Assurance currently has only two (2) types of business. First, it provides contractual liability insurance to Citibank North America, a national bank subsidiary of Citicorp that is located in New York. The policy insures Citibank New York against its contractual liability under a debt cancellation agreement that Citibank New York has with borrowers for certain types of loans made by Citibank New York.

Teichman: Ms. Mulholland, can I ask you to slow down a little bit so that I can –

Mulholland: So you can make notes?

Teichman: Thank you.

Mulholland: Secondly, Citicorp Assurance provides reinsurance on coverage underwritten by American Security Insurance Company and Standard Guaranty Insurance Company, both of which are Delaware domestic companies and that reinsurance is provided on behalf of Citicorp South Dakota, another national bank subsidiary of Citicorp.

Welch: Now, Ms. Mulholland, does Citicorp Assurance sell any products at all to the general public?

Mulholland: No, it doesn't. As I had mentioned, its customers are Citibank North

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into evidence.

Meisenheimer: Okay. Let's mark these Exhibit #2, the Form A filing.

Teichman: Okay, what I've got here is two (2) binders, loose-leaf binders. These are just copies? One is the same as the other?

Welch: Yes sir.

Teichman: Mr. Hearing Officer, it's your desire to mark one of them as Travelers Exhibit #2?

Meisenheimer: Right.

Teichman: Okay, so we'll move it into evidence as Travelers Exhibit #2.

Meisenheimer: There's one other issue that I would like to see addressed at this hearing today, or it could be submitted within the next five (5) days. I would like to see a list of the officers and directors that will be involved with the new company with the merger and their qualifications. And their qualifications. Any information that can be released to the public.

Welch: I'd be happy to do that, Your Honor.

Meisenheimer: Okay, we can do that in one of two ways. You can submit something or you can introduce it today orally. If you know the officers that we're talking about here, the major officers and directors, you can give a brief bio orally. That way we can address those issues, too.

Welch: In order to be a little more orderly about it, why don't we submit that supplementally. We'll do that after the conclusion of the hearing today. Now, just to clarify, Your Honor, when you say officers and directors of the company, you mean of the parent company, not Citicorp Assurance itself? Because obviously they're not going to change.

Meisenheimer: Right, right.

Welch: I'd be happy to do that.

Lee: I guess whichever part is not confidential, obviously, we would like a copy of, and I think, well, I was going to ask whether these binders are the same binders that were given to Ms. Rangan on Friday.

Welch: The same thing was provided to Ms. Rangan on Friday afternoon.

Lee: To some degree, your suggestion of either oral presentation or some, we understand, certainly people's social security number or home address we have no interest in, but in terms of ---

Meisenheimer: Admission will be made with the next five (5) days. You'll have an opportunity to review it. It will be, a copy will be available to you.

Lee: Of those binders, or the supplemental things that are going to be submitted?

Meisenheimer: The binders and the supplemental submissions, both.

Welch: The binders have already been made available to the individuals.

Meisenheimer: I just wanted to point out, is five (5) days a fair time in order for you to do this?

Welch: That's fine, Your Honor. It's not a problem.

Meisenheimer: I mean, there's no set rule that it has to be five (5) days.

Welch: Five (5) days is fine.

Meisenheimer: If you can do it within five (5) days, then we'll have it done by.

Lee: It's just my understanding that in the prior proceeding that Ms. Rangan described to me, there was five (5) days sort of after the dust had settled, she had five (5) days to review things. So it's not, you know, there may be other reasons for extending it further. But obviously if we get whatever the supplemental submission is on Day 4 of the five (5) days we have to comment, it's not a very useful affair to us. You say five (5) days to submit, if you submit it tomorrow, then it's only six (6) days. We just want to make sure we have a chance to review.

Meisenheimer: Yes, that's a very valid point, and we'll hold it open five (5) days after we receive it for your response.

Lee: Sure.

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capitalization and financial strength will be even greater following the merger. The interests of Citicorp Assurance's policyholders, therefore, will not be prejudiced by this proposed acquisition.

Welch: Okay. Are there any current plans which Travelers Group has for Citicorp Assurance which are unfair or unreasonable to Citicorp Assurance's policyholders or perhaps not in the public interest?

Mulholland: No, both Mr. Michener and Mr. Prince have testified that they plan no changes to the business, corporate affairs, or management of Citicorp Assurance.

Welch: Okay. Now considering the competence, experience, and integrity of Travelers Group, do you believe that the proposed acquisition of control is in the interest of Citicorp Assurance policyholders and the insurance buying public?

Mulholland: Yes, I do. The competence and experience of the management of Travelers Group is well-known in the insurance and financial services industries. Again, Citicorp Assurance only has three (3) policyholders. Its indirect parent, Citicorp --- Citibank North America, and Citibank South Dakota which it reinsures through contracts with American Security and Standard Guaranty.

Welch: All right, now is the proposed acquisition of Citicorp Assurance likely to be hazardous or prejudicial to the insurance-buying public in any respect?

Mulholland: No, I do not believe it will be. First of all, Travelers' financial strength is added to that of Citicorp's. The fact that the acquisition of control of Citicorp Assurance will have no impact on competition in Delaware and the fact that Citicorp Assurance does not market to the general public.

Welch: Thank you, Ms. Mulholland. Mr. Examiner, we have no further questions of this witness at this time.

Teichman: We're going to go off the record for a moment.

Welch: Your Honor, just in case there is any doubt, I think I formally moved our exhibits into evidence, but I want to be clear about that that we did formally move them into evidence. I think Your Honor's already ruled, but just in case I got it wrong . . .

Meisenheimer: We're talking about Exhibit #1, okay.

Teichman: We have been off the record for just a minute, and as soon as I hit the machine, Mr. Welch, you started to talk. But we are back on the record and nothing you said was cut off before I started the tape.

Welch: Thank you, sir.

Meisenheimer: There's a couple problems or not really problems, but issues that I would like to address that I think needs to be addressed here. Going back to our Form A filing just a minute. I would like to see the Form A introduced here as evidence as an exhibit to this hearing. The information, except that which is not public information on the biographicals, but all the other information I would like to see someone move it. And if not, we're going to move it as the agency.

Welch: I have no problem with that at all, Your Honor. So we'll formally move it at this time, if that's would you'd like us to do. We have a copy here I can hand up, and maybe that's just an extra copy here Your Honor doesn't need, because I know you already have it. That formally would move it into evidence subject to the questions that were addressed and discussed earlier in terms of the biographical information.

Teichman: Let me interrupt for a sec. If there are, obviously, it's up to you, whatever you wish to move into evidence, it's your case. I know you've had problems with the biographicals, if you want to redact just that part and then give us the rest of that, then we can mark it in, if that's your desire.

???: Yes, the Form A copies which we have here do not include the biographical affidavits or anything that would be filed supplementally, so ---

Welch: Okay, so we'll hand those up to the Examiner right now, and formally move them

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Lee: Thanks. It, under the heading, yeah. Do you have a copy of it? Under the heading, "Benefits to Policyholders" on page 2. You stated to the Commissioner and the Department, "it is anticipated that the merger will offer the parties opportunities to sell their respective products to each other's customers." Umm, I guess, can you explain a little more what you mean by that?

Michener: Yes, we're hopeful that with the combination of the two companies that there will be opportunities to sell Travelers products to Citicorp customers and vice versa.

Lee: Would these include selling Travelers insurance products through Citibank branches? You know, through the banks of Citicorp?

Michener: I don't know.

Lee: Is it the intent of the company to do that or is it that you don't know whether that will be permitted?

Michener: I don't know whether that's the intent of the company.

Lee: I'd like the, we submitted as part of our, as one of our written submissions a letters from counsel to Travelers and Citicorp. I have like two copies, I think though, that it's my understanding that they're part of the record. They're written.

Meisenheimer: Sure, we would like to have them marked in as exhibits.

Michener: Do we have them?

Lee: It's actually two (2) letters. You might want to mark them. If you don't mind, in the same, I have like three (3) copies. You got them.

Michener: Does that mean you don't get to ask me any questions?

Lee: What? No, no. You already had a copy. I faxed it when you called and asked me to fax it. You know, but I mean, you may not have it with you.

Teichman: Please direct your comments to the Hearing Officer.

Teichman: What I have here is two (2) documents –

Lee: Hang on a minute. Exactly two (2) documents. One is dated March 30th and one is dated March 31.

Teichman: Okay, this is a document that is, I guess, for lack of a better term we'll call this Lee Exhibit #1, and it looks like a 5-page letter dated March 30th. Mr. Hearing Officer, is it your desire to move this Lee's Exhibit #1 into the record?

Meisenheimer: So move it.

Teichman: The next item is, we'll mark it as Lee Exhibit #2. And this is a 2-page letter dated March 31. Mr. Hearing is it your desire to move this thing into evidence?

Meisenheimer: So moved.

Teichman: Okay. Lee Exhibit #2.

Lee: Okay. [pause]. You got one. I guess with Mr. Michener, in the spirit of trying to stick with one witness at a time, when you said it's, you don't, you're unclear as to Travelers or the proposed Citigroup's intent on cross marketing, on selling Travelers insurance products to Citicorp branches, umm, the two (2) documents that are there, I guess at this point, Mr. Prince, have you ever seen these before?

Prince: I don't believe so.

Lee: And you had said, when Mr. Welch was questioning you, that you were in charge of the, say again, I guess, he asked you what your role in the merger is?

Prince: I have been asked to coordinate the insurance components of the merger, including the regulatory approvals.

Lee: The approvals, but in terms of the plan going forward, actual business plan of the proposed CitiGroup?

Prince: What I am working on primarily is the insurance approvals to accomplish the merger. Obviously, the merger has not taken place, so the companies are operating independently at this point.

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Meisenheimer: Now I have a question, would you state your name, please?

Epstein: Yes, Jonathan Epstein from the News Journal. I'd like for clarification on what is being left out of the public record as a member of the news media, I'm sure you can understand we'd protest anything being left out of the record.

Meisenheimer: Sure.

Epstein: Anything that is left out, we'd like that to be as narrow as possible.

Meisenheimer: I would just like to refer you to the public affairs officer after the hearing. I don't think that's something that we want to address at this point.

Epstein: Well, if you're ruling right now on what's being left in or out of the public record, then shouldn't it be addressed at this point and not after the fact?

Teichman: Mr. Epstein, the point the Hearing Officer is trying to make is that we're in the middle of a public hearing, and it's kind of like a trial. You wouldn't interrupt in the middle of a trial to ask questions of the judge. So the same thing, if you have questions of the Department, then it would be appropriate at the conclusion of the hearing to ask Department representatives at that time rather than in the middle of a hearing where we're taking evidence and dealing with motions and so forth.

Lee: As a participant, I mean, this may – I'll keep it very brief, the idea was that everything that's not, that's exempt under FOYA can be withheld. I don't know if you've determined in advance under the State Freedom of Information law. I don't know if you've determined in advance what can be withheld or, if again, not as an attempt to, if they submit things and we submit a request, would you then rule on it, you know rule on it?

Meisenheimer: Absolutely.

Lee: And we'll do that quickly, it's not an attempt to, but I think that may address it as well, at least that there's some ruling and not just a --- that it be clear, not just a, what's being withheld and then it be actually entitled to exemption under the Delaware ---

Meisenheimer: Okay.

Welch: In response to your specific question, we'd be happy to submit the requested information and we'll do so promptly.

Meisenheimer: And then you'll have five (5) days to review it.

Lee: But I guess what I'm saying is are you going to review what they submit and actually determine whether its exempt under FOYA or not. Or is it just there and they submit it, and ---

Meisenheimer: We'll have to make that decision.

Lee: Well, we need some kind of request, if that's what triggers the review.

Meisenheimer: It's important to point out that if you're not happy with what you receive, then you need to, you can make an objection to us, and we need to make a ruling and if we need to extend the time frame, then we can do it at that point.

Lee: Okay. I guess what I'm saying is that it's not, literally, if we get it, then we may submit a request and you can rule on it. And we'll submit it quickly, you can rule on it quickly . . .

Meisenheimer: Okay? And I think we're at a point now for your cross-examination.

Lee: All right. Mr. Michener.

Teichman: Let me interrupt, just for continuity purposes. Try as best you can to, we're pretty informal here, but, just cross-examine one person at a time rather than jumping between. I realize one question might be better answered by another individual, but where possible, kind-of keep your cross to a single individual before you move on.

Lee: Okay. Oh, I see, but is that --- I'll try to do it that way, but if there's a need to go back, it won't be a – Mr. Michener, if your cover letter to the Form A which I think now has been moved in, I'm assuming that the Form A and the cover letter to Commissioner Williams has been moved in ---

Meisenheimer: Exhibit #2.

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captive insurer, as one of our witnesses put it, is dealing with. Three (3) policies, wholly owned, no plans to change the business, an entirely different issue than what he's going at. For that reason, I would make the objection. I think it's appropriate that if we keep this proceeding limited to the statutory criteria, we're going to be a whole lot better off. And I think it's far more consistent with the purpose of the statute and the purpose of the hearing, sir.

Lee: We think that the statute looks much more to the financial strength of the actual applicant, which in this instance is the Travelers Group. Therefore, their express plans here in the presentation, they've attempt to not --- it's been a presentation that's really at odds with the public presentation of the rationale of putting the two (2) companies together. We think this goes directly to the financial --- what's at issue is the integrity and competence, the integrity, experience, and competence of those who would control Citicorp Assurance and the financial strength of the proposed applicant, the Travelers Group. That's what we're --- by their logic, the fact that they say they have no plans to change Citicorp Assurance is not enough. You have to --- if a bearings, a failing securities company applied to Delaware to acquire an insurer, it wouldn't matter if the insurer was a captive insurer or anything else. The purpose is to look at the financial condition and strength of the applicant. And that's what, I think, after an hour and twenty minutes of read into the record testimony, I think to allow us to explore this question is not --- is by no means unreasonable. And I'd also refer you --- I'd prefer not to do it as an integrity matter, but there is a contradiction in documents that we've submitted today between --- that we wish to explore. That goes to, I guess even credibility of one of the three (3) witnesses. While I'd prefer not to say it that way. We think it's a legitimate --- when the deal of this was announced, a state insurance regulator that didn't say, "wait a minute, it sounds like that deal's not permissible under Federal law." What's the future financial strength of the applicant? It would seem that most state insurance --- that that's at the heart of the future financial strength of the applicant. And that's what we want to explore briefly and it would be unreasonable to not allow us to do it.

Welch: Your Honor, if I could make just one quick point. And it'll be real short. The point is, the fed issues are to be done with the fed. If you have problems with federal law and federal points you want to make, there's a forum there, you can make them. He's done that. However, if there's any issue at all about credibility of this management, we don't have any problem with these gentlemen and Ms. Mulholland addressing them. So I do think, Your Honor, respectfully, that this ought to be limited. But if it goes to credibility, I think our witnesses will be happy to answer it. And if Your Honor has a concern about that, that's no problem from our standpoint. I would suggest we keep it as brief ---

Meisenheimer: Okay, but I'm having some trouble right now with your relevance as far as the financial. How this is relevant to the financial condition.

Lee: Actually, if I can ---

Meisenheimer: I'm going to allow you to continue, but it's not going to be forever. We're just going to try and see where you're going.

Lee: I understand. The reason I began by asking, their own presentation at the Insurance Department said "we're gonna cross-sell" right under the heading, "Benefits for Policyholders". So it seems that that --- unless the showing they've put forward to the Department has a benefit of the proposed merger is the ability to cross-sell.

Meisenheimer: Before you going any farther, too, I need to know if you're going to have an objection as to this exhibit.

Welch: If I could just take ---

Meisenheimer: First of all, we'll need to mark this as Lee Exhibit #3.

Lee: It's testimony of Mr. Prince, so you might want to read ---

Prince: And others.

Lee: No, yours.

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Lee: Sir, Mr. Prince, have you seen these two documents before?

Prince: I haven't.

Lee: I guess I'm directing your attention to the Exhibit of the March 30th letter. To page 4 of it, second paragraph from the bottom, I don't know if you want to read it out? I don't want to put the words in your mouth, I can read it out, however you want to do it.

Prince: Please feel free to read it out.

Welch: Your Honor, before that happens, let me just interpose an objection if I could. I think in Your Honor's earlier opinion you made the point that with matters involving the fed are pretty far afield. In fact, I think what Your Honor said was it strains credibility, it strains one's imagine to figure out what it is that those proceedings have to do with this proceeding. Now I would make the objection at this time on the relevant basis with respect to communications and discussions with fed, and all those issues involving the fed, this is not the fed. This is the Delaware Insurance Commission, and as Your Honor pointed out at the outset, we've got a series of these statutory criteria, and those are the things we've tried to focus on. Mr. Lee has appeared before the fed, we know that, he stated his position before the fed, and he's been quite vocal about that. That's a separate hearing, that's a separate proceeding, the fed can consider whatever Mr. Lee submits to them that they think is appropriate, the fed can consider whatever issues are appropriate under federal law. I would make the objection on the grounds of relevance here. If Your Honor rules against this, I would suggest that this line of questioning ought to be limited, it ought to be kept short.

[pause]

Meisenheimer: Would you mind explaining your ---

Lee: Absolutely. The, one of the statutory factors is obviously the strength of the existing Travelers Group and of the proposed merger. It's, we've, and again, I guess we can develop this. I was surprised by Mr. Michener's answer of not knowing, both Mr. Wheel and Mr. Reeve, the CEO's of the two (2) companies merging at the top level have said that the cross-selling of products is essential to the merger and is the financial rationale for the merger. These documents, we're not asking questions to know about the fed proceeding. These documents describe, I believe, in much more detail than was presented today, the actual business plan of the company. And what we're asking, we believe it goes to possible hazard and prejudice to the insurance-buying public and the financial strength of the proposed company because existing law would seem to preclude that they cross some of these products. There seem to have been discussions in which indications were given that this might be allowed. ''hat we'd like to explore them. We also have, and I mean, I didn't have the, under the integrity factor, competence, experience and integrity of the proposed -- - those who would control the proposed company? One of the three (3) witnesses, we at least, we seek to explore a discrepancy between other testimony under oath to Congress and the contents of these letters which we think is something we absolutely have a right to gently explore in terms of they presented witnesses, they've sworn under oath. I'll introduce, I guess, Lee #3, which is a transcript of Congressional testimony of Mr. Prince on April 29th to Congress.

Teichman: Will you provide a copy to counsel?

Welch: Your Hönor, if I could make one point, I think the issue here, Mr. Lee's argument missed the point. He wants to talk about cross-selling amongst various Travelers and Citicorp subsidiaries. The point that's been made here, and I think made very clearly by Ms. Mulholland and Mr. Prince and Mr. Michener is that what we're talking about is one (1) tiny Delaware insurance company at the bottom of the chain. It only has three (3) policyholders, and they made the point very clearly and very explicitly that they're not selling policies to the public, nothing's going to change. This is just one little subsidiary that only does a very limited amount of business. Now, Your Honor did make the point at the outset, let's stick to the statutory criteria. I only make the point that what Mr. Lee's going into is something that goes far beyond what this little, this

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Lee: Umm hmm.

Prince: That's on page 3 of Lee Exhibit #3. If you go back to page 2 of Lee Exhibit #3, there is a series of questions that Congress*woman* Waters asked of Mr. Rhodes, my counterpart at Citicorp. And I won't repeat them all, but the general tenor of them was, "Isn't it true that you sought an informal opinion? He gave you informal support? Isn't it true that he thought it was a good idea? And that I'll be with you all the way?" Questions of that sort. And Jack wrote, answered, "no." At that point, Congresswoman Waters turned to me and said, "All right. How about Travelers? Were you in the meeting with Mr. Greenspan?" I said, "no." And she said, "And you aren't privy to any information about his response to the idea about the merger?" Continuing the line of questioning, "Was there some kind of a secret or favorable pre-filing indication from Chairman Greenspan?" And I answered then and I stand by the answer, that I am not and was not.

Lee: No, I appreciate — I mean, it certainly moves along this way. What I asked you earlier --- have you seen the Lee Exhibit #1 and #2? The letters between . . .

Prince: I have indeed.

Lee: And, I get the — in paragraph one where it says we appreciate your advice –

Prince: I'm sorry, where's paragraph one?

Lee: Okay. Paragraph one of letter one.

Welch: It would be helpful if you could identify the date of that.

Lee: Sure. It is the March 30th letter. The – in fact, I mean, again, it may not be the formal way – would you be willing to give a similar narrative of your understanding of the letters and have you seen them before and when you were aware of them and –

Prince: Yes.

Lee: Well, that would be great. We'll be very, you know, as they said, informal. Go ahead. Launch into it.

Prince: I'll wait, if I may.

Lee: Sure. You'll see, it's moving – I mean, we're not, rather than asking a series of pointed questions, we're more than willing to do the same type of narrative briefly on these two and?

Prince: Mr. Lee has asked me about Lee Exhibit #3, which is a March 30, 1998 letter to Virgil Maddingly, the general counsel of the Federal Reserve Board. The brief history of this document as I recall it is that as a result of a meeting between some of the legal representatives of the two (2) companies with Mr. Maddingly, this letter was sent to him to confirm many of the matters that were discussed in that meeting. Uh, I don't know if that puts it in a better context for you or not.

Lee: I guess, where the letter says, "we appreciate your advice." At the –

Prince: Can you show me–

Lee: Sure. March 30 letter paragraph one. "Thank you for your time and assistance and we appreciate your advice." Were you –

Prince: I'm sorry. Perhaps I have a different copy than you.

Lee: No, it's no problem.

Prince: Oh, well you skipped two (2) lines. I'm sorry.

Welch: Well let's – if we're going to have that read into the record, it ought to be accurate, that's all.

Lee: Okay. "Thank you very much for your time and assistance in the conversations we had last week. Our objective was to obtain your views on questions important to the proposed merger of red and blue," [which is Travelers and Citicorp] "including the use of cross-marketing, and we appreciate your advice." Umm, at the time that Travelers' counsel, Mr. Sweet, wrote the letter to Mr. Maddingly, you were aware that he was writing a letter? This was conveyed?

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Teichman: All right. This is a 2-page document, or strike that, a 3-page document that at this point is merely marked for identification purposes only as Lee Exhibit #3.

Lee: Okay. Mr. Prince.

Welch: Your Honor, no objection for purposes of the, the articulated purpose for the exhibit is to question Mr. Prince on integrity matters, so as I said, we don't have any objection to that. Again, the same objection with respect to the fed matters. I think it's far afield, but on that limited issue for limited testimony, we're not going to object.

Meisenheimer: Okay. Proceed.

Teichman: This is moved then, into evidence?

Meisenheimer: Yes, it's moved.

Lee: Maybe, the relevance of the copy that you have. Since I don't want to put anyone else's words in your mouth, but I guess, as to this one, from question – uh, Ms. Waters, from where Congressman Waters asked you whether you were privy to advice from – she said, the term of the report. I don't know if you want to – actually, I no longer have my copy –

Prince: I'm sorry, is there a question?

Lee: There is a question.

Prince: Okay. What is it, please?

Lee: The question is, is it true that in Congress on April 29, 1998, in response to a question whether you were privy to advice prior to announcing a merger from Chairman Greenspan on the Federal Reserve Board that you said "no."

Prince: I'm going to ask you to restate that question. I'm trying to understand.

Lee: Sure. Is it true that in response to a question from Congresswoman Waters whether you were privy to advice given by the chairman of the Federal Reserve Board as to the permissibility of the merger, that you answered "no."

Prince: Are you asking me to restate or recharacterize what you've introduced as Lee Exhibit #3?

Welch: Your Honor, let me object for a moment. I have a little trouble following the question. I think it's a little confusing.

Lee: I would have been happy to read it out. You know, I can read it out.

Welch: To the extent, Mr. Hearing Examiner, that there's some testimony that he wants to identify, the gentleman wants to identify, and ask Mr. Prince if he stands behind it, I have no problem with that. My suggestion would be to identify the question and simply ask him what his position is on that testimony. If he could be just a little clearer. I don't follow —

Meisenheimer: We're having trouble understanding. If you could, you know, redirect?

Lee: Sure. Have you had a chance to review Lee Exhibit #3?

Prince: I have.

Lee: And, and the statement transcribed is yours? You stand behind?

Prince: They are correct.

Lee: Okay. In Lee Exhibit #1, umm, and you object? The statements basically say that you were not privy to advice from Chairman Greenspan of the Federal Reserve Board.

Prince: Since you've asked it four (4) times, should I simply give you a sense of what happened at the hearing?

Lee: Sure, go ahead.

Prince: I'm glad you were there.

Lee: What?

Prince: You're focusing on a question which is on page 3 of what you've handed me. And the question is, Representative Waters and you aren't privy to any information about his [referring to Mr. Greenspan] response to the idea about the merger between you and Citicorp. And my answer to that question was, "I am not." That's the question you are referring to, I believe.

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analysis. So I would say in that sense, he did not provide us any advice.

Lee: Now this will get more into financial. The same paragraph, the same paragraph where it says – second up from the bottom on page 4 of the March 30 letter where it states, "in light of the advice we have provided to our clients" [meaning Travelers and Citicorp] "they are comfortable proceeding with the transaction, provided you are not uncomfortable with the type of practices outlined above." Is it your – okay. Would it be fair to say that unless the practices outlined in the letter of cross-selling were not viewed unfavorably by the Board that the merger would not have been announced and would not take place?

Prince: I think there are about 12 "nots" in that. I can't follow it. I'm sorry.

Lee: Okay.

Welch: The witness has made the objection for me, I guess. I would also note that the question made some assumptions extemporaneously about what was intended in the letter. He jumped from a quote into an interpretation of the quote. But in any event, if we could have –

Lee: Sure, no problem. What practice – when, when. What practices – described in this letter that you say that you've seen, would need to be done in order for Travelers and Citicorp to even have announced the combination, as the letter says?

Welch: Respectfully, Your Honor, same objection with the question.

Lee: What is the lett – What is the statement, what does the statement mean when it says, "the merger will only be announced if certain practices are not viewed unfavorably by the Board"?

Prince: Let me –

Lee: This goes directly to the financial, because the merger *was* announced, and yet the letter implies that if certain cross-selling were not permissible, the merger would not have been announced. And now it's being presented that those practices are actually up in the air and may not be permissible at all. In which case the rationale of the merger falls apart and the strength of the applicant is not there. By their own admi – by the own admission of the letter. This goes back to why I'm pursuing this.

Welch: Your Honor, I guess I would only say that that sounds like a piece of the question and a good bit of argument. I had objected when that argument was made. My only suggestion would be that if we're going to have questions, let's have questions. If we're going to have argument, we'll do that, too. But, if we could just have a clear question, we'd be fine with that. Travelers has no problem with that.

Lee: You testified that you were involved in the negotiation of the contract.

Prince: Yes.

Lee: In light of this letter, if during the two-year waiver period, no cross-selling could occur, no sharing of data could occur between Travelers and Citicorp, would the combination have nonetheless been done?

Prince: I'm not sure I understand the line of your questions, but perhaps I could just respond for a moment and see if we –

Lee: Sure, I have no objection.

Prince: I think that it is not correct, your presumption that the possibilities of cross-marketing are in danger or in question. I don't understand that to be the case at all. Cross-marketing is extremely important to us and it's an important part of this transaction. I would point out, if I may, that Citicorp Assurance won't be involved in cross-marketing at all. There is no marketing to the public now, there will be no marketing to the public in the future. Now, I don't know if that moves the ball along or not. Is there a question that I didn't answer that's in there somewhere?

Lee: Sure. Yes. If this letter which you say you're aware of – I guess we'll go back, we'll go back –

Prince: I'm still aware of the letter.

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Prince: I was aware that he was writing a letter. That is correct.

Lee: The meeting referred to with Mr. Maddingly, did you attend it?

Prince: I did.

Lee: Presumably, Chairman Greenspan did not attend the meeting.

Prince: That's a good presumption.

Lee: In the meeting, in the meeting that Mr. Rhodes did attend with Citicorp, is it your understanding that in the meeting that Mr. Rhodes did attend with Chairman Greenspan, that an indication was given to meet with Mr. Maddingly to, in fact, receive this advice prior to announcing the merger?

Prince: I am not aware of that.

Lee: Is, is, is, on page 4 of the March 30 letter –

Prince: Yes?

Lee: Paragraph, second paragraph up from the bottom – "In light of the advice we have provided our client, they are comfortable with proceeding with the transaction, provided you are not uncomfortable with the type of practices outlined above. While we do not ask for a written response or presentation to the Board or that the Board address this issue in its order, acting upon the application, we ask that you advise us if you disagree with the approach analysis taken above. We will call you Tuesday evening." How –

Welch: Actually, that's inaccurate, it says –

Lee: Okay. I'm sorry, I jumped over two (2) words.

Welch: I think you did. "We ask that you advise us if you disagree with the approach and analysis we have outlined in this letter."

Lee: "This is a very important issue for our client in order to maintain the proposed schedule. We propose to call you Tuesday evening." How do you – I guess, how do – is it your position that the testimony to Congress, because Congresswoman Waters stated – asked whether advice had been received from Chairman Greenspan and a response "no" without qualifying that, that Chairman Greenspan's lawyer had in fact provided advice was an accurate and forthright response?

Welch: I think I'll enter an objection to the question --

Lee: Go ahead. Sure.

Welch: -- as being virtually incomprehensible.

Lee: Okay.

Welch: Subject to that objection, if the witness understands it.

Prince: I'm sorry, I do not understand it.

Lee: Sure, okay.

Meisenheimer: Mr. Lee, I'm failing to see where this is going. Would you try to wrap it up and get to the point as soon as possible?

Lee: Sure.

Meisenheimer: I mean, I'm having a problem following you myself.

Lee: Okay.

Meisenheimer: Okay? So if you would continue and try to wrap it up, and then we'll go to some other questions. We have two other people we'll do.

Lee: Sure. Is, is, is it – would you characterize the March 30 – March 31 letter as, as involving advice received from the general counsel of the Federal Reserve Board?

Prince: I don't think so. I think that the – what we went in to see, uh, Mr. Maddingly about, was to present our proposed transaction and to describe various aspects of it and to describe the legal analysis that we had and that our outside attorneys had given us about the transaction. He said he could not approve the transaction. He's obviously not a member of the Board of Governors. And he didn't express any approval or disapproval of our transaction or the legal

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Lee: And no indication was given?

Prince: Not that I recall.

Lee: The first letter says, "we want to know what you think" and the second letters says, "thank you for the assistance." But nothing was said as to what the person thought?

Welch: Your Honor, I'll object to that as an inaccurate characterization of those letters. The letters obviously say what they say, and I don't think the examiner can summarize them in one or two statements and then use that as a predicate for the witness's – to come up with an answer. Subject to that, if the witness understands the question subject to my objection, as far as I'm concerned, he can answer, Your Honor.

Prince: Well again, I'm not sure I understand the question, but let me try to see if we can move the ball forward. As I said before, the meeting of the communication to Mr. Maddingly was to present the transaction and to present our legal analysis. That is, in the course of that discussion, including these letters, Mr. Maddingly neither approved nor disapproved of the legal analysis that we brought to the transaction. I think that we were comforted in our own minds by the fact that we had not received either an approval or a disapproval of our legal analysis. We went into the transaction believing that we understood correctly the legal issues involved. We received good advice. We came out of these discussions believing that. We had exactly the same view of the world before and after.

Lee: Are these type of contacts with regulatory agencies something that you would do now that an application is pending?

Welch: Your Honor, that's one I think I do have to object to on the same grounds. Now we go *beyond* the fed, now we're getting into other regulatory agencies. This has nothing to do with Delaware and this little insurance subsidiary that sits down in the far corner of this chart which only has three (3) policyholders which only insures affiliates and which doesn't sell to the public and whose policies and plans are not going to change. I think we are way beyond – now he's getting into other things even beyond the fed. I think we are too far afield, sir.

Lee: I object. In a way, we're trying to develop what will be on the record and then the Commissioner can make her decision. But we would ask the question and you'll answer it. You'll see whether a company that takes the position that a question about communications with the Federal Reserve Board chairman can be said "no" when the chairman's lawyer giving the advice from our perspective. And that's what we're trying to put in. Umm, that that that when there's a series of letters and clearly communications between the two (2) that will say, all the person said is "thank you for the letter". We don't think it's credible. We don't think that that's – and it's, it's – that that that, to focus on the size of what the – on the size of the company to be bought, and not the, the ongoing credibility and integrity of the applicants. We think it goes in there. And the Commissioner can make her decision on the tape of how she thinks. Then the documents are in there and they can be compared. Again, I mean, that's what I'm say – that's why we're getting it into the record. She can then make – she can then make her decision on it. Also, there are other questions.

Meisenheimer: Well, I'm going to allow you seven (7) more minutes to continue this questioning on this, and then we're going to another area because I'm having problems following you. I'm sorry, but I am.

Lee: Okay.

Meisenheimer: Okay?

Lee: No, no, no. But I also, I mean, I'm doing it as it is – okay. Seven (7) minutes. The – to your knowledge, were there communications with the fed – with uh, the Federal Reserve Board or its senior staff prior to March 30^{th}?

Prince: Well, the March 30 letter I believe came out of our meeting with Mr. Maddingly, so I would have to say yes.

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Lee: Sure. Yes.

Prince: Every time you ask it, I'm still aware of the letter.

Lee: Between the proposal to share data between Travelers Insurance Underwriting and the banks, were that – what would be the financial impact on the proposed CitiGroup if that were in fact not permitted.

Prince: I don't know.

Lee: Given that the letter implies that the deal would not – that the proposed merger would not have even been announced unless these things were permissible. You don't – you have no idea what the impact of that would be?

Welch: Your Honor, I'll object to that, to the –

Lee: What – he doesn't know? I mean. Okay. Go ahead.

Welch: If I could give my objection that might be helpful. Your Honor, I'll just object to the question as argumentative and as including an improper premise in the sense that it purports to be predicated on some invitation that Mr. Lee sees as being involved with the letter. I think you can ask him about what the letter says, he could ask him about what the letter doesn't say, but I don't think he can predicate his question. Again, we're talking about letters to the fed, now, that's pretty far afield. But I don't think he can predicate his question on his assumption about what it means, that's all. I object to the question on that basis and request that it be rephrased. I would also comment that again, without being tedious, Your Honor, I don't mean to be, but the fact is we are pretty far afield.

Meisenheimer: If we don't get moving along here with direct questions, and then if there's going to be an argument or summation, I'd like for you to do it at the end of this question.

Lee: Yes, sir.

Meisenheimer: You still have the right to object to the questions, but if we get into argumentative statements, then we're going to be here all day. So I'd like you to keep your questions as direct as you could, rather than speculative.

Lee: Sure.

Meisenheimer: Okay?

Lee: Sure. The – turning to the second letter, March 31. The second letter, the second letter references – says – the first letter says we will call you Tuesday evening. The second letter is dated a Tuesday and says, "Thank you for your assistance." Were you a party to the tel – to the telephone conversation referenced in the letter?

Prince: I was not.

Lee: Was the, was the substance of the conversation rela – relayed to you?

Prince: It was.

Lee: What was relayed to you? By whom?

Prince: By counsel.

Lee: What was relayed to you?

Welch: Your Honor, I'll object to the attorney/client advice that that question might raise and conceivably does. Subject to that, the witness can answer.

Lee: Not what advice were you given, but what – to the degree that you seem to have been willing to address these communications with – communications with the Federal Reserve Board, going to the likelihood of the approval of these practices, what would – what communication of Mr. Maddingly was conveyed to you?

Prince: I'm not sure I understand to the extent I'm willing to address these as part of your question. My recollection these many months later of the brief telephone call I received was that Mr. Maddingly had received the letter and had thanked us for sending it in.

Teichman: Sir, I need to interrupt for a minute. Can you keep your voice up so that – you're starting to fade. Just keep your voice up.

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Lee: Do you remember the date of that meeting?

Prince: I do not.

Lee: Other than that then, what then – the one meeting with Mr. Maddingly referenced in the letter – are you aware of other contacts between Travelers and the Federal Reserve Board in connection with this?

Prince: Are we talking about the meeting with Mr. Greenspan that I did not attend? I don't recall the date of that, so I don't know whether it was before or after this one. Those are the only two (2) meetings that I know about.

Lee: Are you aware – will you be surprised if, under the Freedom of Information Act, we have, we had received a fax from Skadden Arps outside counsel to Travelers to the fed dated March 24?

Prince: The question is would I be surprised at that?

Lee: Yes.

Prince: No.

Lee: Would you – do you have any idea what that communication involved?

Prince: No.

Lee: Are you aware of any communica – any further communications between Travelers or Citicorp to the degree you're aware of them, and the Federal Reserve Board or its senior staff from March 30th – between March 31st – from March 31st forward?

Prince: After the date of these two letters?

Lee: Yes.

Prince: I'm not aware of any. That doesn't mean that they didn't happen. I wasn't directly involved in that process, but I'm not aware of any.

Lee: Can you describe the process between the March 31st confidence that your legal analysis, as you say, your legal analysis was not, wasn't unfavorable to the fed, and the actual announcement of the proposal? Of the proposed merger?

Welch: Your Honor, could we have that question read back? Or I'm sorry, I guess we can't because there's no reporter. But if that could be rephrased – two pieces didn't seem to fit together.

Meisenheimer: Would you rephrase your question?

Lee: Sure. Is it your – I'll change the question. Better yet. Is it your understanding that the March – subsequent to March 31 and prior to April 5th when the merger agreement was signed, there were no further communications with the Federal Reserve Board?

Prince: Well I think I've just answered that question.

Lee: Okay.

Prince: Do you want me to restate the answer?

Lee: No, no. No, no. It's your understanding that you're not aware of them?

Prince: That's correct.

Lee: Are you aware – since the applicat – since an application has been filed with the Federal Reserve Board, are you aware of, other than written submissions sent to the parties, communications with the Federal Reserve Board?

Prince: I – there have been a couple of meetings with a large group of staff of the Federal Reserve Board to go over a variety of matters that I have attended. I can recall two (2) of those. I believe those have both been summarized in notes. But other than those two, I'm not aware of any.

Teichman: Mr. Prince, please keep your voice up.

Prince: I said I'm aware of two (2) meetings with a large group of staff with the Federal Reserve Board to go over a variety of matters. I believe that those two (2) meetings have been summarized in minutes. I'm not aware of other communications. That doesn't mean there haven't been any. I'm not directly involved in that process. But I'm not aware of any.

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Prince: I am. And I'm also aware of our strong, unequivocal denial of the facts in that allegation.

Lee: And is it your understanding that the facts in that allegation involve not only discrimination in mortgage interest rates, but also insurance issues? Credit insurance?

Welch: It strikes me, Your Honor, that the question is objectionable on the grounds that the examiner referred to the *facts* in that case. Mr. Prince has pointed out that the allegations in that case are something which Travelers denies. I'll object to that characterization to the extent that he wants to ask him about what he thinks the facts are, which he's already done. The allegations have been denied, where the thing stands. He can ask about that. The question was improper.

Lee: No, we're asking actually about his awareness. I mean, we don't object to putting it in that they disagree.

Prince: Thank you.

Lee: Mr. Michener, as -- in your position as Travelers Insurance – Travelers Property & Casualty, both the National Fair Housing Alliance filing with HUD and the Harris filing with HUD, are you aware of both of them or one or the other?

Michener: I am not aware of the Harris filing, I am aware of the National Fair Housing filing, and I agree with Mr. Prince's comment on it. And the only other thing I would add is that the same time and the same day or two, filings were made against a number of other insurers, so I don't believe that the filing – the alleged, the allegations in those complaints are really directed at Travelers, they're directed at the insurance industry.

Lee: Actually, I don't want to – Rashmi?

Rangan: Yeah. Actually, in this matter that is here today –

Teichman: Ms. Rangan, just go ahead for the record and state who you are.

Rangan: Okay, my name is Rashmi Rangan. And Ms. Mary Harris, who I worked with last year to help her file her complaint with HUD, is here today and later on, time permitting, she will testify. Back to some line of questioning that Mr. Lee was conducting, I think my personal biggest concerns and fears are the – goes back down –

Meisenheimer: Excuse me, but you're making the statement, and we're asking questions.

Rangan: Okay. I will ask questions. On 29th of March, you stated that you did not receive or to the effect that you did not receive counsel from Greenspan or anybody else in his office. On May 30th – March 30th, you requested categorically stating that unless cross-marketing opportunities were permitted, the merger would not move forward because it is not beneficial to the clients. You asked in that question – letter, clearly that if we do not hear from you, we will assume that our presumption is clear. Is that correct?

Welch: I'll object to that, Your Honor, on the grounds that I think it isn't a question, it's a series of perhaps four (4) or five (5) questions beyond which it also includes, I think, the examiner's perhaps argumentative point of view with respect to what she thinks the letters mean and the letters say or what was done. It might be better if we had one (1) question at a time asking about specific events, specific situations, so the witnesses can answer it and we can move on. A long diatribe like that followed with a question, "Is that right?" that's a tough one for any witness to handle, and so I object to that.

Meisenheimer: Excuse me. We're going to recess at this point and we'll be back.

Teichman: I'm sorry. We're back on the record. I apologize for that.

Welch: Your Honor, I would simply make the point that number one, our witness doesn't have any problem with testifying about anything that's relevant to these Form A standards. It's not a problem in any respect. However, if you look at this article, Matthew Lee, Executive Director of the –

Lee: That's not what –

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Lee: I'm actually going to – I am going to – excuse me, Your Honor. Go ahead.
[pause]

Lee: I'm going to turn -- Ms. Rangan said that of the 7 minutes, 3 minutes remain.

Teichman: We're going to go off the record for just a minute.

Teichman: We're back on.

Lee: Reserving those 3 minutes, moving to another area. You had testified under Mr. – in response to Mr. Welch's question about the two (2) banks owned by Travelers.

Prince: Yes.

Lee: Travelers Bank & Trust FSB, Travelers Bank USA.

Prince: Still those two (2).

Lee: In terms of the, the, the uh compliance which was raised on, on, on direct, umm, do you recall in 1997 a finding by the New York Banking Department that commercial credit and subsidiaries were not complying with the Home Owners Disclosure Act in New York state?

Prince: I don't remember a finding by the New York Banking Department. I remember you raising the issue. And I don't believe Citicorp has anything to do with those two (2) companies. So it may be that the New York Banking Department found something, I don't recall it. I remember the issue coming up.

Lee: Do you –

Meisenheimer: Mr. Lee, would you tell me –

Lee: What the relevancy is? Compliance. They raised on their – they, they, they put into the record that that, that the applicant, Travelers Group, has a compliance program and a compliance culture, has never had a license removed, so I have a series of a few – it's a few, it's a few questions that we think are inconsistent with that.

Sullivan: That was the testimony –

Teichman: Sir, let me interrupt you. You made a couple comments – who are you, sir?

Sullivan: My name is Bob Sullivan, from Skadden Arps representing Travelers.

Teichman: Thanks.

Sullivan: I think the hearing testimony of Mr. Michener reflects that the question asked by Mr. Welch was, "Has any Travelers Insurance subsidiary license been suspended or revoked?" Not as Mr. Lee has just characterized as any license by Travelers Group or its subsidiaries.

Lee: That wasn't the question. There was a question, I think, to Mr. Prince about the banking subsidiaries of Travelers. I guess, identify – we have to presume that what you asked, that what you put in you believed was relevant. So we ask questions about it.

Sullivan: Yes, but the question went to –

Lee: Right.

Sullivan: -- Mr. Michener that you referred to was, "Did any license of any of the Travelers Insurance subsidiaries, have they ever been suspended or revoked?"

Lee: Right.

Sullivan: The answer is no.

Lee: Right, no, no, I did remember that.

Sullivan: Just for clarification.

Lee: Mr. Prince, are you aware of a filing for insurance redlining by the National Fair Housing Alliance with HUD concerning Travelers Insurance?

Prince: I am, and I'm aware of our strong, unequivocal denial of it.

Lee: Are you aware of the status of it?

Prince: I believe it's not moved since then. I believe it was filed, we answered it, and I don't believe HUD has taken any action on it since.

Lee: Are you aware of a racial discrimination filing with HUD by Mary Harris concerning Commercial Credit in the State of Delaware?

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Meisenheimer: Mr. Lee, that is an assumption. I want you to move on.

Teichman: And before you do that, Mr. Prince, can I ask you to move the seat closer to the microphone?

Prince: Sure.

Teichman: Your voice tends to trail off.

Lee: More substantively on that point, as it goes to whether or not the proposed CitiGroup will be – will, will, will in fact be allowed to cross-market during the two (2) year divestiture period or further, is it your understanding that the four (4) in – in Exhibit #1, the March 30 letter, the four (4) numbered points combining and bundling products between Citibank and – Citicorp and Travelers, doing relationship pricing, tying the pricing of insurance products to a banking relationship, sharing the databases of the insurance company, including health insurers and the banks, and finally providing a single consolidated bill between banks and insurance companies. Is it your understanding that the Federal Reserve Board – that, that general counsel Maddingly has stated that those practices are consistent with, with not having an unfair competitive advantage and being able to divest the business.

Welch: Let me object –

Lee: That's – it may be long, I don't think it's unclear.

Welch: Your Honor, a couple of points. Number one, it is extraordinarily long. Number two, more importantly, he's injected four (4) new issues relating to cross-selling by insurance subsidiaries and banking subsidiaries other than Citicorp Assurance. Again, the proceeding here is Citicorp Assurance. Citicorp Assurance doesn't sell to the public, it's only got four (4) – three (3) customers, rather, it doesn't intend to sell to the public. Nothing's going to change. He's talking about a whole series of different companies that have nothing to do with this transaction. With apologies, Your Honor, I feel compelled to point that out and to make that objection. Now, if the witness understands the question, and he can add something – as far as I'm concerned he may answer. But the line of testimony is just way far afield.

Meisenheimer: One question, go ahead. But you've got to get to the point.

Lee: I'll say this now, in, in the nature of it – given, and I don't know if, if we'd submitted this letter earlier, that's why I don't want to go on. The key quote from this letter, we find, is – and this is why it goes to the financial strengths of the proposed acquirer – is this. From page 4 of the March 30 letter, second to the last paragraph. "In light of the advice we have provided to our clients" [i.e. Travelers and Citicorp] "they are comfortable proceeding with the transaction provided that you are not uncomfortable with the type of practices outlined above." From that we infer that the CitiGroup combination, which will be the proposed acquirer and controller, Citicorp Assurance, is dependent on being able to do these practices. That's why they're relevant. It goes to the prospective financial strength of the acquirer. And that's why – the letter says it, the letter says we are comfortable combining the two (2) companies, which is what this application is all about, only if these practices will be permitted. And I named the four (4), that's why it was a lengthy question. The practices being the sharing of data between insurance companies and banks, the bundle – the tying of pricing between insurance companies and banks, -- the point is not whether or not Citicorp Assurance is going to tie its practices, although it could. It may only be a captive insured now, but it's chartered to do a full line of P & C and can at any time. And there's no representation in the record that they will not immediately after, after – if there were an approval, being doing so. So it seems a fair thing to explore at this time. But I – I honestly – I believe that in light of the sentence which is not – you know, it's not – it's from senior outside counsel to the Travelers Group stating to the Federal Reserve Board they are comfortable proceeding with the transaction, i.e. merging Citicorp and Travelers. This letter is written before the deal was even announced. If you, the Federal Reserve Board, are not uncomfortable with four (4) sets of things. And so we're exploring whether in fact they've been given any assurance of

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Welch: If I could finish my objection if it's all right, sir. Is using every means possible to derail the Citicorp Travelers Group merger. Mr. Lee asked the Federal Reserve Board to fill out the application. Uh, if the fed refuses, Mr. Lee has asked several other regulators to recuse themselves. It's thematic that Mr. Lee's opposition to this transaction and perhaps a whole lot of other merger transactions, I don't know. Our witness will answer any questions Your Honor thinks are appropriate, but I don't see that this is substantive evidence of anything. I don't think it'll come in as substantive evidence. Subject to that, we don't have any problem with the witness answering any questions.

Meisenheimer: Mr. Lee, would you explain?

Lee: Sure. I mean, I guess it almost goes directly to – in the earlier testimony, I asked Mr. Prince what was his understanding was said in the telephone conversation between Mr. Maddingly and Travelers counsel between the March 30th and March 31st letter. As I recollected, Mr. Prince said all that was said was, "thank you." He thanked them for the letter. And this article reported by a respected banking trade paper on page 3, full paragraph 3, says, "during that call, Mr. Maddingly said, he told the lawyers the cross-selling plans should not interfere with the divestiture requirements or give the company an unfair competitive advantage." Which is quite different than "Thank you for the letter." And that's what Mr. Maddingly said. Unless there's some idea that Barbara Reem, 12-year banking reporter, made up the quote from Mr. Maddingly, either Mr. Prince – they're inconsistent. Does Mr. Prince stand by

Meisenheimer: I'll mark that as an exhibit and then I'll let you start with your questions.

Lee: Okay. In fact I've even asked the question. And now I'll ask it again. Mr. Prince, if I recollect this morning before the break when I asked what was said in the telephone conversation between the March 30 and March 31st letter, Exhibits 1 and 2, you said that what was said was, "thank you for the letter." In Exhibit #4 just introduced, full paragraph 3 on the third page, it is an article by Barbara Reem of the American Banker, it states during that call, Mr. Maddingly said he told the lawyers that cross-selling plans should not interfere with the divestiture requirements or give the company and unfair competitive advantage. Is it still your position that what was said in the call was, "thank you for the letter"?

Prince: What I testified to this morning was what the lawyers told me. And I stand by that testimony. What you're pointing to is a comment that supposedly Mr. Maddingly told the lawyers. You're missing the middle part of that. You're missing the middle part of that. Now, I have heard our lawyers tell us that it's very important, coming to your point on Maddingly's comment there, that our cross-marketing plans ought not – we must make sure they *do not* interfere with the ability to divest the insurance companies. If that quote is accurate, then that may be where that came from.

Lee: But it remains your testimony that you're aware of both letters and that what was conveyed to you after the communication that followed the March 30 letter, all that was conveyed to you was, "thank you for the letter." And on that basis, the merger went forward.

Prince: I'm not sure how to answer that question. I stand by my testimony this morning. Is there a different question that I've missed?

Lee: You stand by – you also stand by the testimony that that was the last communication you are aware of with the fed and following that, the merger was announced?

Prince: If I can, make sure you recall I said I wasn't personally aware of any other communications. There may have been some. You remember I said that? But I'm not personally aware of any others.

Lee: You also testified that you were involved in negotiating the agreement presumably in reaching the final agreement.

Prince: Indeed I was.

Lee: So it would be reasonable to assume that if there were –

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that, that – that this is central in any way. The Form A is informationally incomplete. Provides a superficial analysis and is incorrect. We dispute whether they would be able to hold it for five (5) years and we think that goes to the financial strength of the company. We were hoping to receive – the problem is that we received answers – this is why we asked for discovery – we received answers that have been, I never knew we were going to cross-marketing from the head of insurance. We've received answers where we didn't – I don't know – I'm not saying you're not, I mean –

Meisenheimer: Mr. Lee, what you're doing is making an argument here. You're going to have a time to give your testimony, and that's what I would like to move on towards.

Lee: I guess that I was noting that we object that it would have been more useful to us to have the actual – as you noticed in our first question after the break, what was said by –

Teichman: I think, Mr. Lee, the Hearing Officer has made a ruling with respect to your –

Lee: Okay – we thoroughly object that neither of –

Teichman: Mr. Lee – there will be ample opportunity – Mr. Lee --

Lee: -- that neither author of the two (2) letters, Swede and Sabel, were here, because no one else can answer what was said, apparently.

Teichman: Mr. Lee. Everybody will have an ample opportunity to make arguments to the Hearing Officer when the testimony is complete, when all the evidence is received. Once the Hearing Officer makes a ruling, and he tells you that he wants to move on, that means that he needs to move on.

Rangan: I have a few questions and anyone can actually answer. But to begin with, how many of you are here today?

Meisenheimer: What's the relevance of that?

Rangan: How many of your legal counsel is here to defend against two (2) community activists? It's a question that I'm quite interested in knowing what are we pitted against, how long is the _______. If you don't wish to answer, that's fine.

Welch: The only person speaking on that today, Your Honor, as far as I'm concerned, is me. I've made the objections that I think are appropriate, and by and large, I think we've had the witnesses answer questions, and I fail to see the relevance of doing a head count on whose in the room.

Meisenheimer: We have the register of attendees here, which you're perfectly welcome to have a copy of.

Lee: Great.

Rangan: Also another question. Was Citibank Assurance Corporation chartered to and is empowered to other property and casualty insurance, including to the general public in Delaware?

Prince: I'm sorry, I didn't hear the first part of your question.

Rangan. Okay. Was Citibank Assurance chartered to and is it empowered to other property and casualty insurance, including to the general public in Delaware?

Prince: I don't know the answer to that. I assume it's a matter of public record.

???: I would suggest that Ms. Mulholland answer that question.

Mulholland: Yes, and the answer to the question is yes.

Rangan: Thank you. It has also been stated time and time again that Citicorp Assurance Company basically does only captive insurance. Exhibit #4 of Exhibit #1 states "Citicorp Assurance Company has directly written 901,000 policies and has .898% of the market share." I just need some clarification and explanation.

Mulholland: Perhaps I can clarify that. That is –

Teichman: Ms. Mulholland, could I get you to come around so that we can get you on tape?

Mulholland: In answer to your question, the 901 is dollars and the – that is the contractual

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being able to do the four (4) things. Because in fact if they haven't, the financial strength of the proposed acquirer is in question and needs to be further examined. If they admit it sure, that's then – well it's inconsistent with the prior testimony but at least it'll show something.

Welch: Your Honor, it's a lot of argument. It's a lot of rhetoric. I think what it really does is highlight the first sentence of this letter that Mr. Lee puts in. Matthew Lee, this will make an argument, Executive Director of Inner City Press, is using every means possible to derail the Citicorp merger. This stuff has nothing to do with this Delaware proceeding. Now you've got a company like Travelers, multi multi-billion dollar situation, assets, the whole thing. It's as strong of a financial vehicle as you can imagine. Sure, cross-selling, it's got some – there's some opportunities to it. The fed can do what the fed is going to do. Nevertheless, the theme here, the key theme is Matthew Lee is going to use every means possible as his exhibit points out to try to derail this thing. Subject to that objection, I do find no objection as far as I'm concerned and the witness can answer.

Lee: We don't dispute that we object. The facts that we are opposing in other forums have – doesn't make the question less relevant or not. It goes directly – their own letter to the fed, unless the letter to the fed wasn't true. It says they feel comfortable going forward provided you are not uncomfortable with those practices. It is a totally fair inference to say if you're not allowed to do the four (4) things, they are not *comfortable* with the transaction and they wouldn't *do* the transaction.

Meisenheimer: Do you have any other questions?

Lee: No, I, the question – I, it's still – it remains up in the air. He said you don't object to him answering – I can rephrase it, I can ask it –

Prince: We don't.

Lee: Okay.

Welch: As far as, Your Honor –

Meisenheimer: Let's wrap this up.

Prince: I thought I heard four (4) questions in there. First, I would disagree with your characterization of the four (4) points, but they are what they are in the letter. You asked whether or not *not* being able to do cross-marketing would somehow implicate the financial strength of the company. I think that was the basis of your question. I think as we've gone through and looking at some of the exhibits of the financial size and strength of the company, cross-marketing is an ability for the company to do more. But the notion that if we were not permitted to do cross-marketing, that somehow the financial strength of our company would be called into question, is I think with respect, silly. Just silly. Another question you asked was whether or not, when we said in the letter we were comfortable proceeding, provided you, and you said, meaning the Federal Reserve Board." That's wrong. This is not addressed to the Federal Reserve Board, it's addressed to Virgil Maddingly. The fourth question I heard in there was had we received any assurance on the cross-marketing? And the answer to that is no. I don't know if there are any other questions in there, but those are the four (4) I heard.

Lee: I guess what I – what – given what the letter says, that the two (2) companies are only comfortable proceeding with the transaction of the proposed merger if the general counsel of the Federal Reserve Board, chief legal officer that advises the Board on the permissibility of activities, is not uncomfortable with it, it doesn't – we believe that the application – do you – you were involved in preparing the Form A, as you said earlier.

Meisenheimer: Mr. Lee, I want you to wrap this up. I just – please wrap it up. Because you've read that paragraph about six (6) times now. And I think it's time to make your point. You ask your question, you get your answer, and we move on to something else.

Lee: I guess, you know – if you want to know what the point is, the point is this is not in the app with the Form A. The Form A describes the overall merger without stating that this is –

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Michener: My testimony, and I think the testimony of others is that we have no current plans to change the operations of the company.

Lee: But there is, there is also no – the company could do it. There is no commitment being made in the record to the Department that that will not take place.

Michener: I can't testify to what could happen. I can only tell you what the facts are. The facts are that we have no current plans to change the operations of the company.

Lee: Exactly. I'm asking not what the plan is, but whether any representations are made. Number two, is – and is, is, are you representing that, that, there – that, is Travelers committing into the record that if it were allowed to acquire Citicorp Assurance that Citicorp Assurance would not be merged into a Travelers insurance company for any committed-to length of time? Two (2), five (5), or is it simply, are you – is that a commitment that is being made or is it simply a statement that there is no plan at this time?

Welch: That's about four (4) questions –

Meisenheimer: Stop.

Welch: Sorry, Your Honor, but subject to that, if the witness understands and wants to answer the question, I have no objection.

Michener: We have no plans to merge the company in with any other companies if – I just know from my general experience in the insurance business if plans such as that were developed, we would have to go through a process similar to this in the future. It would require regulatory approval and would have to go through that process.

Lee: Does that apply to the, to the first question about writing property/casualty directly to the public? Would you have to apply for, for, regulatory approval or would you just do it?

Michener: I don't believe we'd have to apply for regulatory approval to do that.

Lee: And then the third question is, is financial in nature. And it involves either by, either by projected earnings or by percentage of projected earnings, what impact does Travelers believe it would have to not be allowed to engage in the four (4) practices described in, in Exhibit #1 during the two (2) year waiver period.

Welch: Objection – clarity?

Meisenheimer: Could you clarify it, please?

Lee: Sure. That, that, that given – it was described that there was a due diligence made, it's been described that the deal is well thought-out. What, for the record, what would be the financial implication of – since there's no assurance that these things – that, that, that – these practices that were described as being important can be done, whether there is any way whether Travelers in its due diligence in thought about the merger calculated in any way the result on earnings or financial strength as you define it of not being able to do – not being able to cross-market, and in fact, divesting insurance underwriting in two (2) years.

Meisenheimer: Do you understand that question? Because I don't. I'm sorry.

Lee: Okay, I'm assuming –

Meisenheimer: Would you rephrase it one more time, please?

Lee: Okay. Okay. I'll rephrase it, you're right. Let me not . . . A representation has been made that the company is strong and will be a benefit to the policyholders. What provi – what estimate has Travelers reached as to financial strength if it is in fact required to divest its insurance underwriting business two (2) years after a prospective Federal Reserve approval?

Michener: The question of the impact, the financial impact on the combined company with divestiture is one that has not been calculated. I think that analysts have looked at those figures and have made rough calculations based upon published figures. The company has not done that because the company doesn't know what form the divestiture would take. The published reports that I have seen have suggested it might impact 10% of our combined earnings. But again, those are a third party's, those are not ours. We have not made that calculation.

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liability insurance that we sold directly to Citibank North, N.A., the New York bank.

Rangan: Does any other insurance company offer the same protection to the same suhsidiaries of Citicorp? I don't understand the market share of .898%. Where is that derived from?

Mulholland: Okay, that other liability is a line on the annual statement. The NAIC adds up all the lines and gets a total premium written for each line of insurance sold in the property and casualty field. That's the miscellaneous line that includes anything that doesn't fall into vehicle insurance or such things. Under other liability, our debt cancella – our contractual liability for the debt cancellation is reported at $901,000. The annual premium.

Rangan: And the percentages are percentage breakdown of all of your loans, is that is?

Mulholland: No, not at all. It has nothing to do with loans. The $901,000 is less than 1% of that total line of insurance as reported to the NAIC.

Prince: By all insurance companies in the state.

Rangan: Okay.

Mulholland: No, I think in the country.

Lee: Why is this – why is this listed under Citicorp Insurance? Are these policies written by Citibank, N.A.?

Welch: Your Honor, I have no objection to the question, but I think we're getting into a free-for-all here where we've got person shooting questions and another person jumping in. The indication was that we'd follow standard trial procedures, and I'll object on that basis.

Meisenheimer: Sustained.

Rangan: I still need – I'm sorry, but I cannot understand, umm, the percentage breakdown.

Michener: Why don't I take a shot at answering this question? I think I testified to it earlier. These are the numbers that are indicated on Exhibit #4 of Exhibit #1 are dollars and they're in thousands of dollars. So if we start at the top – well, let me start even further. The source of this data is shown on the bottom of the page and is based on data from a company called One Source. And they collect, they are one of the organizations that collect data on premiums written by insurance companies countrywide. So in Delaware, for 1997, I believe, the entire industry, if you add up all the insurance companies in Delaware under this particular line of insurance, it will be $100,300,000. That's the top line. The next line is if you take all of the current Travelers Group subsidiaries that write this line of insurance in Delaware and add up their premiums for 1997, you'll get $4,240,000 and that works out to be 4.227% of the entire industry. And to keep going, Citicorp Assurance, their premiums were $901,000, their total – their percent of the total was .898%, so less than one percent. So finally, you add, just adding up those numbers and those percentages after the merger in this one particular line of insurance, I keep pointing that out, the total will be $5 million – or would have been in 1997, $5,141,000 with a market share of 5.125%.

Rangan: I think I understand it, thank you very much.

Meisenheimer: Do you have any rebuttal to the question?

Welch: No, Your Honor, we don't at this time.

Meisenheimer: I think at this point, then, I think we're ready for your testimony, Mr. Lee.

Lee: We have a witness who's been waiting.

Teichman: Let's just go off the record for a minute.

[pause]

Teichman: Okay, we're back on the record. It's about quarter to 2 in the afternoon.

Lee: Mr. Michener, is Travelers representing that Citi – that if it were to acquire Citicorp Assurance that it would remain a captive insurance company and not write property/casualty insurance to the public in Delaware or elsewhere?

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Lee: Well, you said it depends on the form the divestiture takes?

Michener: Is this the fourth question?

Lee: It's a – well, I find it hard to believe –

Meisenheimer: One last follow-up question. This is the last question.

Lee: Sure. So, well, I guess it's your testimony that Travelers does not know what the fi – what, what the financial impact would be if legislation is not passed allowing you to keep insurance underwritings?

Michener: I think that's the same question, and I would stand by my answer.

Teichman: Before the witnesses are excused.

[pause]

Meisenheimer: There's just a couple things that we would like to clear up for the record. Number one, Citicorp Life is not a Delaware company as far as, you know, the hearing today. It may have been a little bit confusing for the record, so we just wanted to clear that fact up. And number two, we wonder if going down the road, if HRT does not pass in the next few years, will the company have to divest itself of its insurance? Have you thought about that?

Teichman: Again, that might be information that's sort of up to you, if you want to – if all of you want to address that more, that's more of a legal argument as to why – there was a statement made earlier that Citicorp Assurance – even if the federal banking regulators required down the road that this deal be unraveled that Citicorp Assurance would not be an entity that had to be divested from CitiGroup. Umm, that's probably more a legal argument that you might want to address in closing, or however you wish to do it. . .

Welch: Well, that's fine. Mr. Prince's testimony did anticipate that, so umm, why don't we direct that question to Mr. Prince and let him respond to it?

Prince: I frankly don't have anything to add to what I just said. The federal banking laws draw distinction between various kinds of insurance, and I understand that the kind of insurance that is written by Citicorp Assurance is not prohibited and that we would not be, of course, under any circumstances to divest Citicorp Assurance. So I don't have anything to add to that, if you wanted a further analysis of it we'd have to do that supplementally.

Meisenheimer: That'll be fine. Okay, we're ready for your testimony.

Rangan: May I present a witness? This witness is a Delaware resident, has experiences with one of Travelers subsidiaries, and we want to bring to light that issue of competence, experience, integrity, of the acquirer and both Matthew Lee and myself are very familiar with this case and we want to help our witness along so that she can present her case to the hearing today.

Meisenheimer: Look, I'm trying to see the relevance of this. Where do you think it's -- ?

Rangan: Uh, Ms. Harris had experience with, uh, Commercial Credit, a mortgage loan through them for placed insurance, very high credit insurance. A complaint had been filed with her, we still do not know the outcomes of it, but we are addressing basically, uh, the issue of competence, experience, integrity of the acquirer to show that Delaware residents *have* been impacted, uh, there is a, umm, this merger is hazardous and, uh, prejudicial to the Delaware public.

Meisenheimer: I will allow this for a short time. We'll see where it goes. If I don't see where it's going anywhere like some things that we've done the first part of this morning, then I'm going to just –

Rangan: Basically, this is not a question and answer, we are just helping Ms. Harris, who has never had an experience to present in this kind of setting, along with her story.

Welch: Your Honor, may I speak to that for a moment?

Meisenheimer: Sure.

Welch: We understand Your Honor's ruled about Ms. Harris speaking; however, Your Honor has also ruled that Ms. Rangan and Mr. Lee are not entitled to appear here as counsel. They are not Delaware lawyers and they ought not serve in the capacity as Delaware lawyers.

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Welch: And the fact that HUD has not responded already we think is significant. So we would object on a substantive basis to that just to preserve the objection. And we understand Your Honor's ruling.

Rangan: Uh, if I understand correctly, I just introduce her, she is able to testify. She does not come prepared with a written testimony, but if there are points that are critical and she misses them, can I mention them or no?

Meisenheimer: No. It's her testimony.

Rangan: Okay. Ms. Mary Harris.

Teichman: Ma'am., do you have any objection to taking an oath?

Harris: No.

Teichman: Ma'am, will you raise your right hand? Ma'am do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Harris: I do.

Teichman: And please state your full name for the record.

Harris: My name is Mary Ellen Harris.

Teichman: Thank you.

Meisenheimer: You may proceed.

Harris: I want to thank you for this afternoon and for giving me this opportunity to speak my heart concerning a problem I had with Commercial Credit. I had received – in 19 – between 1996 and '97 I had received a flier in the mail, and um, that flier represented Commercial Credit, and as many of us receive fliers today, it's a type of advertising, advertising Commercial Credit, what they can do for the customer, for their customers, or, you know, their business. How they can help you if you're in trouble with a financial loan or anything. And during the time when I went, I only went for like a small amount of money, and umm, I was coaxed into a, a large sum of money, uh, plus a home equity loan. And uh, which I didn't understand a whole lot about it then. And when we, we took out the loan, uh, they charged us $8,000 for life insurance. And it wasn't even the whole term of the loan. And uh, I was beginning to find out some things about Commercial Credit further on when we took the loan out further on in the course of paying them, because when I went to pay a bill, it seemed like, uh, when I went to pay a bill it seemed like for about six (6) or seven (7) months into the loan that, umm, none of the monies that we were paying in was even going on the loan. And I had a question on that which they became snappish and they kinda avoided me with their answers. You know, I want to know that we didn't see our money being put into the loan, and uh, you know why wasn't there some subtraction. All right? We also decided to look into some of the paperwork. It was some things that we had a problem with that uh, some places was blank on the paperwork, and they were not filled in until after, after we had, ummm, came to pick up, uh, you know, the money for the, uh, loan. And umm, also, umm, they charged us $1,800 on top of this $8,000, $1,800 for one year's life insurance when I, we decided to, umm, we decided to uh, let Commercial Credit go and go, you know, go and get help from another loan company, because we just wasn't satisfied with what was going on there. We wasn't happy with what was going on there. And umm, we thought that was a awful lot of money. You know, when you figure it out, about $9,000 some dollars and we're just low-income people, and umm, they never deducted that. They didn't want to deduct that monies from the payoff balance when we went to another loan company. They still kept the, kept the, kept that, uh, total amount of money on the uh, the payoff figure. And umm, you know, we trusted, we trusted them. And those bills that we had was just like small, were small bills, and when they got done, I mean, they added so many things on that it made a large group of money and which, which was hard for us to pay it. Because, umm, uh, you know, like I said before, we're a low-income family and uh, you know, we pay our bills, and I work every day. My husband does, too. And umm, during the time I was taking care of my parents. My father's a cancer patient and my mother had her legs amputated,

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They are not authorized to practice law in Delaware, and one thing is for sure, and that is that putting a witness on and doing a Q & A, even an informal one as she's chosen to characterize it, that's practice of law in Delaware. And that's not something they ought to be permitted to do. Now, we don't object, since Your Honor has ruled on the question, we understand that ruling has happened with Ms. Harris making that statement as a member of the public, that's fine. However, we do, and beyond that, we obviously we would want to put it into perspective at a later time, perhaps after this statement's been made. But we do object to them acting as lawyers here in Delaware where they're not qualified to practice. Secondly, by the way, Your Honor, it's a little bit off the topic, but Mr. Prince and Ms. Mulholland have completed their testimony. Mr. Prince has a appointment down in Washington, D.C. If it's acceptable, Your Honor, we'd like to allow him to be excused at this time.

Meisenheimer: Is there any objection.

Lee: For the record, we do object. Because I can imagine – we only stopped – we stopped questioning because you ordered us to stop questioning. But we didn't agree – our questions weren't finished. We don't think that the issue of the financial impact on the acquirer of the passage or non-passage of HR 10 has been answered. He answered it as to we wouldn't have to divest Citicorp Assurance Group, but the, the, we think that that should be explored more. I think, I think the question that you asked wasn't only about would you have to divest Citicorp Assurance, would Travelers Group have to divest all of its insurance underwriting if HR 10 doesn't pass? And that goes right to the financial question that wasn't answered. So we have more questions for Mr. Prince. I – we don't want to tie him up, if we can keep asking him now, we'll finish this as quickly as we can. But we have more questions.

Meisenheimer: It goes noticed that you object. And he can be excused.

Welch: Your Honor, we appreciate that. And back to the other point which is where we started discussing, we, if Your Honor is going to allow Ms. Harris to speak, she ought to make her statement and we respect her right to do that, but we don't think these individuals here ought to be serving as lawyers in Delaware where they're not admitted to practice law. So subject to that, --

Meisenheimer: That was part of the ruling that we handed out, so . . .

Lee: Her participation pro se means that she could only – if she testifies, --

Teichman: Let's go off the record for just a minute on this.

[pause]

Teichman: And we're back on the record, it's 2:00 p.m.

Meisenheimer: I will allow you to introduce her, but you will not be represent, or if we feel that at any point that you're coaching or representing then we're going to cut the testimony.

Welch: Your Honor, anticipating the testimony as well, I will make the following objection, and that is, and I think what we're going to hear about today is a personal grievance that Ms. Harris had with Commercial Credit with one (1) branch manager problem that she ran into which has been heard and is being presented to Housing Urban Development. And I think what they're asking Your Honor to do now as Hearing Examiner for the Department of Insurance is a lot like what they asked you to do this morning. This morning they said step into the shoes of the fed and resolve issues before the fed that we've been ventilating there. Now what they're saying to you is, we've got a personal grievance, it's one that is to a certain extent –

Lee: Is that an objection or an argument?

Welch: That's an objection.

Lee: Well, it's kind of a long one.

Welch: It's an objection. The point is that this is exactly what we saw this morning in terms of them asking Your Honor now to step into the shoes of HUD and to, and to resolve a personal grievance that's before HUD –

Lee: What is the objection?

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making our voice known. You know, things that we were disagreeable with. And uh, so that, you know, we had to go to another loan company and that meant, you know, extra this and extra that to, to get away from Commercial Credit, you know. To get away from them and uh, and the problems that they, uh put on us. So uh, and this didn't help us any, either. You know, we just had to go through another loan company and, and the like. And the paperwork was shoddy. The paperwork that they did was shoddy uh, to Commercial Credit. Because it was, uh, and like I said on the loan, it was uh, some of the things we did not even see on there and we didn't see until we come back to pick up the loan papers itself. The blank spaces was on there and I bought cars or got cars and things before and they handled it a whole lot different than that. And, you know, like I said, if it wasn't right, believe me, I wouldn't be here.

Meisenheimer: But you do have a formal complaint into HUD which has not been decided as yet?

Harris. Yes.

Meisenheimer: Thank you very much.

Harris. Thank you.

Meisenheimer: Would you like to mark that as –

Rangan: It would be my exhibit. I would be happy to –

Meisenheimer: Are there any objections?

Welch: Uh, no, Your Honor. Subject to the ones we've already made, I have the same objections, but that'll be it.

Teichman: We'll identify it as Rangan Exhibit #1 for lack of any better method of identifying it. It's a 2-page, appears to be a 2-page letter, apparently written by Ms. Harris who just testified. Mr. Hearing Officer, I take it it's your wish to move this into the record?

Meisenheimer: Yes, it is. So moved.

[pause]

Meisenheimer: Would you like this to be an exhibit?

Rangan: That's fine.

Meisenheimer: Please mark this as Rangan Exhibit #2.

Teichman: It's marked as Rangan Exhibit #2. It appears to be a 1, 2, 3, 4, 5-page, uh, written summary of uh, what I assume is Rangan's testimony.

Meisenheimer: Any objection?

Welch: Uh, Your Honor, I haven't been able to get through it, I can take –

Meisenheimer: Would you like to take a minute to do it?

Welch Why don't I do that?

Teichman: Okay. Let's go off the record then.

[pause]

Teichman: Okay, we're back on the record and it's 2:20 p.m.

Welch: Your Honor, we do object to this. This is a – it looks like a kind of a mixed bag of legal argument. Of course, we pointed out already that Ms. Rangan is not in the position to practice law in Delaware or before this proceeding. Her views with respect to various policies of the law and the community in general as far as I can tell, beyond that rumination and speculation on her part about the intentions of the acquirer, beyond that the intentions of CitiGroup, how she can possible testify on a first-hand knowledge basis of any of that is absolutely baffling. And beyond that, I don't see any reference in here – maybe there *is* one, we've had to go through it fairly quickly, I don't see any reference in here whatsoever to Citicorp Assurance. I mean, Ms. Rangan made clear that she publicly opposes the Travelers/Citicorp merger. She opposes a lot of mergers – it's very clear from the public record. When a merger is proposed, they'll consider a challenge and not undertake one. But this seems to be nothing more than a reflection of that. I don't see anything in here that's relevant to the Citicorp Assurance transaction and the Form A

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and umm, you know, we really couldn't afford a lawyer. And umm, you know, to look in, to help look into these things. So, uh, that was one of the reasons why, uh, I was told to contact this lady by the name of Rashmi. And umm, you know, to see if uh, you know, if they could help. And uh, we just didn't realize the overcharges and the, a lot of things that was added on to make a large bill when uh, in other words, we almost paid, we would have been paying almost three (3) times as much back, rather than for uh, we would have almost been paying about three (3) times as much back for one particular bill that should have been, uh, half that much. And umm, you know, in other words, I'm saying the balance was greater than really what it should have been. You know, we knew at that point that it wasn't very fair. And to me it was like a target against, I mean, toward black people, because most time when I went down to pay bills, it was about all you saw was minorities there. And uh, you know, it just makes you wonder, you know, who the people that were figuring up these things, were they really figuring them up right? You know, the bills and things up right. And uh, were they right in the things they were doing dealing with insurances and uh, adding on a lot of extra things on the umm, on the loan itself when they were making them out. Umm, years, a lot of years was added on to that loan because of that. And a lot of years was put on my husband and I because, it was, you know, it was really hard. Because we went to them for help, and it was like they, they did a lot of things unfair to us. And it, you know, it's really made it hard, you know on us. And like I said, I couldn't afford to hire, you know, some big time lawyer or something because, you know, working every day and I was trying to take care of my parents and the like, we have children, four (4) children and it wasn't that easy. You know. And my husband doesn't make a great deal and I don't, don't either. But umm, this is part of my story that I just want to let you know, because if they were doing something that was not right, I think somebody needs to look into it because it probably didn't just affect me, but other people, a lot of other people might have been affected through this, uh, through this company, Commercial Credit. And maybe they were, you know, ripped off, you might say, or whatever. Maybe – maybe not some of you, but uh, maybe if you kind of take a look around and maybe look into the records or whatever, then maybe you might come up with some information, uh, some questions on how they do their business downtown Commercial Credit. And I'm just, uh, ordinary person from Delaware and I just want my voice to be heard because I don't want nobody to go through what I went through, cause I, I've just been a nervous wreck. You know, my husband and I was, you know, trying to pay bills and, and that sort of thing because of the load they put on. I mean, say if you went to borrow $20,000 and before you got out of there, I mean, you come out with a $80 or $90,000 loan, uh, I'm not a mathematician, but something will tell you that something's not right. Or if they're not putting – applying the proper monies to uh, to that bill like it's supposed to, and uh, then something is not right. I mean, they – we were coaxed into that, we were coaxed into that. And that to me was like, you know, the more, the more they could put on there was, you know, the more money we would have to pay. The more things that were put on there. The more we would have to pay. And that's not right. I just, I, you know, it was not right. It's not fair.

Meisenheimer: Thank you very much. Do you have any questions.

Welch: Uh, no Your Honor, we don't. The only comment I would make is that I understand that the matter is pending before HUD, that Ms. Rangan and Ms. Harris have made their views – have made their views clear to HUD. And that it's being looked at. That the company has denied the allegations, obviously there is no suggestion here for a moment that this is any kind of pervasive practice, or even if it were true, which we deny that it was, but one situation involving one branch and one individual and it's all before HUD. And again, subject to that, I have no questions.

Harris: Your Honor, I'd like to just say one more thing. Because of that, we had to, when we closed the loan out with them, uh, they was still beginning to want to try to add things on for us to pay because it was like they were angry with us for cutting off, you know, cutting off and

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procedural matters? How is the public interest served when no budget, mission-driven, non-profit advocacy organizations who are most ably represented by their directors and boards must retain legal counsel? How *is* the public interest served when the non-profit organization does have pro bono out-of-state legal counsel but remains unqualified to participate because of further restrictions imposed on the organization to retain a Delaware lawyer? How is the public interest *served* when the individual, and in this case I am talking about myself, who represents an 11-year old, locally, regionally, and nationally recognized organization at the forefront of bank mergers challenging these mergers, testifying before the banking regulators, driven by its mission to ensure equal access to credit and capital for the underserved populations and communities throughout Delaware is found to have a minimal interest in these proceedings? I present that my personal interest in these proceedings and my organization's interest in these proceedings is far from minimal, and I submit into evidence Rangan Exhibit A which summarizes my credentials, and I apologize, it's a copy from a grant application I had made.

Teichman: Let me interrupt you for a moment. This is actually going to be Rangan Exhibit #3, it's at least identified as such. Is there going to be an objection to this?

Welch: If I could just have a moment.

Teichman: Okay, we're going to go off the record.

[pause]

Teichman: And we're back on the record.

Welch: Your Honor, we do object to this. This is, uh, I don't know how to characterize it. It's a – appears to be a list of things that Ms. Rangan thinks that she has achieved personally and on behalf of her organization. I can't imagine that this would be admitted in any court or administrative agency in the state. It's just, it's pure utter hearsay. It's a, although it's quite complimentary to her, and I can understand her interest in having before the – in the record, it is *not* evidence. And I object to it on the grounds of relevance, on the grounds of hearsay. I don't think it should be admitted for the truth of the matter asserted in any respect. I don't think it's substantive evidence. So we object to it on that basis, Your Honor.

Meisenheimer: Would you like to answer?

Rangan: Yes. I object to your objection. I am here representing myself and I myself have the right to present my credentials and unlike your clients, I am not even requesting that my resume be kept confidential. It is public record. Everyone in this room can have a copy of my resume. I'm very, very *proud* of what I do for my organization.

Meisenheimer: The rules, I'd like to remind you, the rules of this does not apply to what we're doing here. But we can, you know, mark this, and I agree, it doesn't have any relevance.

Teichman: Just for the record, the objection is sustained.

Meisenheimer: Sustained.

Lee: Fine, I'll say something and you can object. If she seeks review of it, on standing, she has a right to get stuff into the records.

Teichman: Right now, she's testifying.

Rangan: I do need to understand what does that mean, what he just stated? So is my Exhibit A part of the record or not part of the record.

Meisenheimer: We're going to make it part of the record.

Welch: Your Honor, I understand, I understand the objections.

Teichman: So the objection is overruled then?

Meisenheimer: Right.

Teichman: So then Rangan, what has previously been marked for identification purposes as Rangan Exhibit #3 is moved into evidence.

Meisenheimer: So moved.

Rangan: And since my credentials really *are* of the organization that I lead, I submit again

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that's before Your Honor. So we would object on that basis.

Meisenheimer: Objection is noted, and I will allow you to speak.

Teichman: Ms. Rangan, will you go ahead and raise your right hand? Ma'am, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Rangan: I do.

Teichman: Okay. Then go ahead and state your full name for the record.

Rangan: My name is Rashmi Rangan. And well, it's afternoon now. My testimony reads good morning. My name is Rashmi Rangan on behalf of the Delaware Community Reinvestment Action Counsel of which I *am* executive director of Inner City Press Community of which I am a member and in my personal capacity as a Delaware consumer, I am here to testify *against* the proposed acquisition of Citicorp Assurance Company by Travelers Group. I *will* address my concerns with the Department's handling of this public hearing first. Next I will offer my arguments opposing the application. I strongly and strenuously object to Ms. Donna Lee Williams', Commissioner of the Delaware Department of Insurance, refusal to recuse herself from these proceedings, saying, and I quote, "I will not recuse myself from making the final decision in this case" even when we have established that Ms. Williams has received campaign contributions from the regulated community. The fact that the independent hearing officer used here is appointed by the Commissioner and the fact that the final decision relative to the outcome of the application rests with the Commissioner and the *fact* that the Commissioner received contributions from Travelers taints today's hearing process. Ms. Williams also stated, "I am elected by the people of Delaware. I will make my decision based on what is in the" – Yes?

Meisenheimer: Excuse me, could I ask you to highlight your objections and your points rather than –

Rangan: These *are* my objections, these *are* my points relative to this particular hearing process relative to the Department's handling of the pro se representing myself of me representing the organization which in the larger community I am recognized in the Delaware community as representing the Delaware community's concerns when it comes to access to credit and capital for them. And that *includes* access to insurance as well because high-cost insurance is a growing concern in the community. And although I am not an attorney, I challenge *any* of your attorneys here to be able to speak on behalf of *any* of the consumers like people like Ms. Harris to bring their concerns to this body.

Welch: Your Honor, let me just make one point, and that is that I understand Your Honor's ruling, pre-hearing ruling addressed the point of Ms. Rangan's right to represent other people here. She can represent herself, but Your Honor already said she can't represent other people. We have no reason to believe she represents anybody else other than herself here. Admittedly, she says she does, but Your Honor has ruled on the fact that she can't do that. So we understand Your Honor has *also* ruled she may testify, and we're not objecting further to that, but I don't believe she can testify on behalf of others.

Meisenheimer: Continue.

Rangan: Thank you. Umm, I cannot in all honesty believe that Ms. Williams' position will be in the best interests of the public. One, how is the public interest served when the interested citizens of the state must bear the financial burden and invest travel time to be able to review the public portion of the application filed? How is the public interest served when the insurance-buying public entitled to conduct discovery proceedings in the same manner as presently allowed in the Superior Court of the state under Title 18, Delaware Chapter 5003(d)(2) can be overruled because an individual's interest in these proceedings is, I quote, "minimal." How is the public interest served if the counsel for the Department refuses to provide the individual with direction regarding proper procedures to *fully* and *fairly* participate in these hearings. How is the public interest served when the same counsel does provide the corporate legal counsel advice on

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there is question, concerns, grumblings about what is happening. And there is enough pressure on the Federal Reserve Board to do the right thing such that it does not walk over the Congressional, there is a law created by the Congress that is not overwritten. We remain gravely concerned over the regulatory oversight of the various aspects of businesses that the proposed CitiGroup would conduct. Umm, we are concerned about just recently Nations Bank was slapped with a million dollar – 7, uh, 6.75 million dollar lawsuit for misrepresentation by its loan officers, again, taking elderly couple, picking out the elderly couple and misrepresenting to them that the investments, that the deposits into a trust fund were insured by the Federal Deposit Insurance Corporation. I agree that that does not pertain to insurance, but in insurance we have seen tons of violation, or fair disclosure laws as well. We have requested to the Federal Reserve Board and we are gaining momentum that the proposed CitiGroup must divest its non-permissible activities right away and not be granted that automatic extension of three (3) year plan. We are glad to note that Governor Meyer in his testimony before House Banking Committee agrees that these activities would have to be divested under government law. We know that CitiGroup does not have any intentions of doing so. Mr. Charles Prince in his testimony before the House Banking Committee says this year we hope to provide more kinds of financial products and services in more kinds of ways than any other company in the world. Basically want to gain strength and stability, uh, meet competitive challenges. And it's the competitive challenges that I will address first. There is perhaps an important Mr. Charles Prince at his public hearing, there is perhaps no other industry in the world as competitive as the financial services industry. Competition for the customer and his or her business is fierce. I disagree that the financial service industry is highly competitive. If there is one thing I have learned in my economics class and from my experience with the telecommunications industry, competition drives prices down. In the financial service sector, we have seen the reverse happening. Ergo, financial services industry is on the verge of monopoly. No way are we talking about competition here. New York Times has reported that basic checking fees continue to rise at many banks, ATM fees everybody has used them and knows how expensive they are, umm, bank fees actually account nationwide for 24% of revenues last year. I also want to address to another quote again attributed to Mr. Charles Prince. As companies become larger and more diverse, they are better able to serve as a source of strength and stability, not only for the affiliates, but more importantly for the customers. And herein lies the real public policy concerns of implied federal guaranty to all affiliates. A consumer walking in to a Citiwhatever, with a Citi name, assumes its a Citibank, therefore deposits are insured and is not – does not realize the impact of doing other businesses with that entity that could not necessarily be insured. The merger between Citicorp and Travelers Group is hazardous and prejudicial to the insurance-buying public. Both Dietrich and ICP, a consumer and community advocacy group, with members who purchase insurance products, our missions are to advocate for the interests of the consumers and under again the existing codes, the Department must consider whether the acquisition is likely to be hazardous or prejudicial to the insurance-buying public. And to consider whether the competence, experience, and integrity of those persons who would control the operations of the insurer are such that it would not be in the interests of policyholders and of the public to permit the merger of other acquisition of control. We speak for myself and on the insurance-buying public and the public, in fact, and on, in my capacity as an individual and as the director of the non-profit organization, we have charged Travelers Group to have insurance underwriting qualities that have a disparate and a discriminatory impact on the minority community seeking insurance policies. And I enter into exhibit basically a report by the greater – Fair Housing Council of Greater Washington v. Travelers Property & Casualty Corporation and to characterize it as a general anti-insurance industry study is absolutely wrong.

Teichman: Let me interrupt you for a minute, Ms. Rangan, do you – you wish obviously to have this thing marked for identification as an exhibit?

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into evidence Exhibit #4, which is a summary mission purpose of the organization.

Teichman: This will be marked as Rangan Exhibit #4 and appears to be 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10-page document.

Welch: Your Honor, I think we make the same objection, although I understand Your Honor's prior ruling, but for the record we'll make the same objection. It has nothing to do with the criteria under Section 503.

Meisenheimer: So moved that it be moved into evidence.

Teichman: Okay. Rangan exhibit is moved into evidence as Exhibit #4.

Rangan: Underscoring this particular merger application is the gigantic merger plans announced by Travelers Group and Citicorp on April 6, 1998. And I will cite that 18 Delaware C. D18. After the change of control, the domestic insurer referred to in subsection A of this section would not be able to satisfy the requirements for the insurance of a license to write the line or lines of insurance for which it presently is licensed. Under the existing Glastical Act, securities and insurance cannot mix And under the existing Bank Holding Company Act, banking and insurance cannot mix. This was a firewall built to prevent future economic catastrophes from lessons learned in the aftermath of the market crash. Therefore, the acquirer would not be able to satisfy the requirements for the insurance of a license to write the line or lines of insurance for which is it presently licensed. Although we *heard* testimony today that Citicorp Insurance would not be impacted, however, right now it is the impact of Citicorp and Travelers Group merger that we are gravely concerned about. This leads us to the next D1C. The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders. The financial stability of the acquirer, therefore, is an illusion. It is built upon an assumption that certain laws and legislation will be passed and therefore they will be able to cross-market and will be able to build their empire and will be able to grow financially to the extent that they will be able to continue doing what they want to do. The Glastical Act and Bank Holding Company Act permitted newly created bank holding companies up to two (2) years to divest its non-permissible activities. It is by no stretch in imagination an automatic divestiture time frame. In this case, the acquirer, Citi – Travelers Group, already conducts insurance business and does not want to get rid of its most profitable business which is insurance and does therefore, intends to use this time to lobby Congress to change the law so that they can continue moving forward which was the crux of our cross-examination this morning. So, we say this is a loophole that is willfully and knowingly being abused in the application that will create the proposed CitiGroup, leading us into the next D1E, the competence, experience and integrity, and I've bolded that deliberately. Of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control. It is with this regard to the integrity of the acquirer that both Dietrich and myself sought and were denied discovery and depositions. We continue to question the integrity of the acquirer. Like I said earlier, the acquirer has no intentions of divesting itself of insurance activities currently non-permissible and currently very profitable. Rather, it intends to invest these two (2) years and additional three (3) year waivers that the Federal Reserve may, again, may not automatically grant, to lobby Congress to repeal the Glastical Act and historically, it has registered demolition attempts since 1979. Most recently, a month ago, it again failed to pass and amend the Bank Holding Company Act so that the proposed CitiGroup can concentrate its economic resources, 7½ billion income and 50 billion in revenues, and financial services, insurance, consumer finance brokerage and investment, and banking. Citicorp employs full-time in-house lawyers, we've seen that today. Umm, outside legal and consulting firms, and has a multi-million dollar lobbying budget. These laws permitted the newly created bank holding company up to two (2) years to divest its permissible activities. This is not an automatic extension of divestiture granted to a new banking holding company, and groups like mine and other groups nationwide, including in the Congress,

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filed apparently before the Office of Thrift Supervision on behalf of Ms. Harris or someone else, I'm not sure, but we'll make the objections.

Meisenheimer: You realize that you are representing her interests when you introduce this into evidence? When you introduce it to us? I mean, it looks like you're representing her, I mean, this looks just like something that would come from an attorney.

Rangan: In that case, I must amend. I don't know whether you want it for the record or off the record. In that case –

Meisenheimer: I'm telling you, you realize, to me this is what it looks like. You want to still introduce this into the record as an exhibit?

Rangan: It is also my communication in my capacity as the director of an organization that has constantly for the last three (3) years communicated with the Federal Reserve Board, with the Office of the Comptroller of the Currency, with the OTS, with the FDIC, with every regulatory body out there we have been in communication, so would it be your position to then say that every communication that we have had with other regulatory agency would be representing – because we are constantly representing other people's interests.

Meisenheimer: I'm really not here to answer this question. So you would like to still introduce this?

Rangan: As long as I am not violating any, uh, laws, yeah?

Meisenheimer: Well, I cannot rule on that, on your violating the attorney –

Welch: Your Honor, I'm wondering if Your Honor's inquiry to Ms. Rangan about that issue should be made a part of the record. I would submit that it should be.

Meisenheimer: Are we still off the record?

Teichman: No, we're on the record.

Meisenheimer: Okay, we're on the record, this is on –

Welch: Okay, then I apologize. I thought we had gone off the record. Thank you very much.

Meisenheimer: No, sir. This is on the record. Let it be marked.

Teichman: It's your wish to move it in as evidence?

Meisenheimer: Yes.

Teichman: It's moved in as Rangan Exhibit #6.

Lee: She's not seeking to represent –

Meisenheimer: You are speaking out of order. You're out of order.

Rangan: This is my communication to the Department, to actually the office of supervision that I would like to enter it into record as speaking more about the commercial credit group, Travelers Group Commercial Credit's violation of all fair lending and consumer disclosure laws. Again, to give you an insight of the Harris's case, again it is public record. It has been record into my columns that I have written into the news letter – into the News Journal on my own behalf that they went to Commercial Credit for a $7,000 loan, ended up borrowing $52,000 loan, $11,000 of which were in closing costs against their home on which they initially owed less than $13,000. They did not realize they paid 5 points and $8,890 premium for credit life insurance of a $50,000 loan for 10 years. We charge Travelers Groups Primerica Financial Services with targeting minority and low- and moderate-income families for expensive, predatory, self-serving lending, investing, and insurance sales practices. Primerica has targeted many leaders in the community including myself to be a financial representative for Travelers Group. The designation of them as personal – as financial planners or advisors is a misnomer in their own submission in Form A 10k clearly, not even 10k there, in a report to the investors, Travelers has clearly stated that Primerica Financial Service providers are actually selling all the products that it can possible sell. They will now have a few more wares to peddle to the unsuspected families who meet with the sales agent under the assumption that they will help them plan and invest their finances. I will

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Rangan: What, I think we are on 4 or 5?

Teichman: I believe this is 4.

Meisenheimer: Exhibit #4?

Teichman: No, it's Exhibit #5. It's Rangan Exhibit #5 for identification – oops – purposes.

Meisenheimer: Is there an objection? Would you like to read it?

Welch: Your Honor, we – yeah. It's several pages long and we don't know what it is. Maybe it could be identified in the record?

Teichman: What I'm looking at is, uh, what is apparently identifies itself as Fair Housing Council of Greater Washington v. Travelers, some sort of a report, on apparently that, uh –

Rangan: They have submitted to HUD their results of their study that they conducted that they attest that we did mention earlier in – back and forth.

Teichman: Looks like a 6-page document. Let's go off the record for a moment and consider this.

[pause]

Teichman: Now we're back on the record. It's 2:45 in the afternoon.

Welch: Your Honor, we make the same objections to this document that we've made to all the others. This looks like a series of antidotes involving a whole host of different facts involving different tests and studies that were done. It's not clear what the context is. It *certainly* shouldn't be admitted for anything substantive. It has *nothing* whatsoever to do with the statutory criteria under Section 5003. It looks like another anti-insurance industry piece, uh, and uh, having nothing to do or not even mentioning Citicorp Assurance, we think it ought to be excluded and we would object to its entry as part of the record.

Meisenheimer: Your objection is noted, but it is moved that it be entered.

Teichman: Okay, Rangan Exhibit #5 is moved into the record.

Rangan: I would just elaborate a little about that report that has just been entered into the records. Oftentimes non-profit organizations receive complaints and just based on the complaints alone, we cannot go and stop legal proceedings or seek review of files. Therefore, many of the non-profit organizations also conduct scientifically ________, tested, paired tests where they *do* send identical folk, black and white, to determine the kinds of treatment that the white receives at the hands of the, uh, entity being tested, and the black that receives at the hands of the entity being tested. Since the Greater Fair Housing Council of Greater Washington did receive tons and tons and tons of complaints against Travelers, they did send their testers to find out what was happening. And in terms of property and casualty insurance, they found that if you were a minority, you were quoted higher priced lower coverage property insurance. If you live in poor neighborhoods, you were quoted the same thing. Higher priced lower coverage. And we are bringing it again back to the practices, experience, etc. etc. of the acquirer. And we have also charged Travelers Group's commercial credit with violating fair lending and consumer disclosure laws. We did forward the complaint to HUD, HUD has taken almost a year to review that complaint while they apparently haven't gotten back yet, I have had informal conversations, and they said that the complaint, Ms. Harris's complaint, is just the tip of the iceberg. And I will actually submit my initial read when I met with Ms. Harris a long, long time ago. When I looked at her loan to see what was happening and I will submit since she has already testified, my analysis of what happened to her into record as Exhibit #6.

Teichman: This document will be marked as Rangan Exhibit #6. Marked for identification purposes.

Welch: Well, Your Honor, we'll just incorporate the other objections we've made at this point. We make the same objections with respect to this. This one really looks like Ms. Rangan is practicing law. What she's trying to do here is let into this proceeding some piece that she has now

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skip to some quotes, basically it goes on to talk about exactly what are the discussions that we have already gone into this morning about seeking prior approval prior to making an announcement of whether the two (2) groups can be merged, etc. etc. Umm, well, I will end it with it should be clear that we, as an organization, me as an individual, have greater than just passing, fleeting interest in this particular proposed merger to be granted right to discovery on all insurance-related questions that we still have and we also want to raise the issue under the integrity and all others in our written communication to the Department over the past several days. At this point, I also want to for the record again request that Miss Donna Lee Williams recuse herself from these proceedings, and I submit my request along with an article that goes into details about Delaware Commissioner's campaign funds scrutinized. And I would submit these as Exhibits #6 and #7.

Teichman: We're going to go off the record for just a moment.

[pause]

Teichman: And in fact we are back on the record at 3:00 in the afternoon.

Meisenheimer: As far as this issue is concerned, it's not one that I will make. I don't think that it's right, it's the time to be made or the appropriate place to be made. What you decide to do with it as far as submitting it directly to Commissioner Williams, that would be fine. I'm not trying to give you advice or anything. I don't think this is the place, this hearing, to do this, because in the legal term, right is the word that we want to use. Until we have received all of the evidence and given this to Commissioner Williams, and then at that point, it will be the time to do it. So I will refuse that motion.

Rangan: Okay. Thank you. Before I conclude and before I take any questions, I also wanted to formally for the record request copies of this particular taped recording primarily because we actually provided copies of everything that was admitted into these proceedings, including my testimony. We did not have the same privilege of the Travelers and Citicorp represented as to be able to see what they said. Uh, we also do not have the money to be able to pay for the copies of these, so we again formally request that these be forwarded to us free. Finally, I was informed that these tapes are not transcribed, and I fail to figure out how the Commissioner can rule on a application if they don't have access to transcribed records. And that brings me to yet a couple of questions that I don't know if I have – if I should ask now or if I will ask later. I will ask later. Thank you.

Welch: No questions, Your Honor. The only thing we would ask would be – a number of things have been put in from HUD and submissions that were filed in other, in the OTS in circumstances such as that. What we'd like to do is just reserve the right should we choose to do so prior to closing of the record in the five (5) day period that Your Honor spoke of at the outset, to put in anything supplemental that perhaps we filed in response to Ms. Rangan's or anyone else's submissions that have become part of the record here as a result of Your Honor's rulings. We'd just like to have the opportunity to put something in should we choose to do so.

Meisenheimer: Yes, we'll have five (5) days that we'll keep the records open, and after it comes in, you'll have five (5) days to make a response to it – both parties.

Welch: Thank you.

Teichman: Ms. Rangan, your testimony and so forth is complete?

Rangan: Umm hmm. Thank you.

Meisenheimer: Mr. Lee, do you have a testimony at this point?

Lee: I guess I want to understand a little further what when you said this distinguishing between testimony and argument, what opportunity to argue is going to be made. Well, to make motions – remember you said you'd entertain motions? So why don't I – I guess, what do you envision? If I don't testify, what's, what is the process? What happens next?

Teichman: Well, go ahead and answer.

Meisenheimer: You'll have a point at the very – at the very end to make your comments,

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in insurance in this state. My findings show that the majority of Citi – Citicorp Assurance's business is derived from reinsurance assumed. Less than 1 million of Citicorp Assurance's total premiums collected to 1997 were from direct premiums as Cathy Mulholland already stated. Travelers Group has no specific plans to change the business of Citicorp Assurance, nor does Travelers Group have any plans or proposals to have Citicorp Assurance declare any extraordinary dividends, to liquidate Citicorp Assurance, or to sell any assets of Citicorp Assurance other than in the normal course of business. Travelers Groups does not have any present plans to merge Citicorp Assurance with any other person or persons or to make any other material change in Citicorp Assurance's business or corporate structure or management. There are no persons who currently hold or are anticipated to hold at the time of the merger 10% of or more of the voting securities of Travelers Group or Citicorp. And they're not expected to hold 10% afterwards. Umm, based on the submitted plans and requirements of Title 18, Section 503, I would recommend the merger be approved based on my review.

Meisenheimer: Well, from your review of Exhibit A and – not Exhibit A, but Form A –

Call: From the Form A.

Meisenheimer: --then there were no – nothing that would lead you to believe that, uh, there is –

Call: I didn't find anything –

Meisenheimer: violate the six (6) things that we went over in the very beginning?

Call: No, they comply with the statutes as I understood -- stand them.

Meisenheimer: Are there any questions?

Welch: No, sir.

Lee: Yes. In your review, in Form A there is a footnote about the – the possibility that in connection with the merger, Travelers will have to divest itself of all insurance underwriting activities. Right in Form A, it's in Form A.

Call: Yes.

Lee: Did, in your review, did you consider the financial impact of that divestiture – the odds of divestiture?

Call: I read the note, I considered it. From my perspective, the companies were profitable before a merger, and if they did have to divest, I would think that they would have profits after they divested.

Lee: But not to be – on what basis do you think that? Something in Form A?

Call: Based on their past history of profits. Their net income. They have positive net in – Travelers has positive net income for the last five (5) years that I looked back into. And I don't see a reason why they wouldn't be afterwards.

Lee: Even if they had to sell off the, the – all their insurance underwriting.

Call: Well, I – from all the different companies that Citicorp was profitable, Travelers was profitable, uh, Citicorp Assurance has positive net income, so they – to me, they stand alone on their profits. And if they did have to divest, you know, I would think that there would still be profits, even if they weren't able to cross-sell their products or whatever.

Lee: I mean, I guess – and this is all based on a review of Form A?

Call: No, I reviewed their financials. They submitted their annual statements for five (5) years for Travelers and two (2) years for Citicorp. Also I looked into the NAIC database and reviewed the information there.

Lee: Without again trying to – have you, have you – are you aware that, that the proposed merger has been called something of a bet, a bet on a change in legislation? Have you heard that idea?

Call: I've read, yes.

Lee: And – that, that a bet – it seems to me that you could lose a bet and be less than what

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your final comments.

Teichman: Ms. Rangan sort of mixed argument with testimony about facts and circumstances. And that's okay. Umm, I would have preferred to keep argument regarding the propriety of this thing separate from the facts and circumstances type testimony.

Lee: I guess I just wondered about this idea of entertaining – you said you'd entertain motions later on, but then a motion was, like, not entertained.

Teichman: That particular motion for a particular reason. If you have another application to make to the Hearing Officer, you can *do* that. Go ahead.

Lee: No, no. I mean we've already said – we wish we – there are other individuals we would have liked to cross-examine and depose. We have more questions for Mr. Prince, but with that understanding, we can move to uh –

Teichman: I think the Hearing Officer's question was did you have some testimony that you would like to give –

Lee: I think more in the nature – the way I see your interpretation, it's more in the nature of arguments.

Teichman: So you wish to make argument after the evidence is in.

Lee: Yep.

Meisenheimer: Okay, we're ready for the Department now to, Mr. Call.

Teichman: Mr. Call, would you raise your right hand? And sir, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Craw: I do.

Teichman: And please state your full name and your position with the Department for the record.

Call: My name is James Call. I am a financial analyst for Delaware Department of the Insurance.

Meisenheimer: Would you summarize your findings, and you can read from that report if you need to, regarding your review of this application and Form A filing?

Call: Okay. I umm, well, Travelers Group submitted a Form A to this Department, and the filing relates to the proposed acquisition of control of Citicorp Assurance Company, a Delaware-domiciled insurance company. The acquisition of control will result from the merger of Citicorp, to ultimate control and parent of Citicorp Assurance with and into the wholly owned subsidiary of Travelers Group. Newco, organized solely for the purpose of completing the mergers. I reviewed the merger and the structure of it. I reviewed the financials of Travelers Group and Citicorp and I won't go into that, because the other, the other ones have already gave the financials. Uh, I *will* say that umm, the operating results of Travelers Group for 1997 and 1996 showed net incomes of 3.1 billion dollars and 2.9 billion dollars respectively. Citicorp Assurance Company, the one that's merging, had surplus for 1997 was 38.8 million with a risk-based capital ratio of 6.31. 1996 results showed a surplus of 34.5 million dollars, a risk-based capital ratio 7.2, and the only state where Citicorp Assurance is currently licensed is Delaware. What I'm saying here is that, you know, these are very profitable companies. And they do have a lot of surplus. During the review of the Form A, the following items were noted, the restated certificate of incorporation of Travelers Group will be amended to change the name of Travelers Group to CitiGroup, Inc., that they increase the number of authorized common stock of Travelers, the by-laws of Travelers will be amended to reflect that Travelers will be managed by co-chairmen and co-chief executive officers who are initially expected to be the current chairman and chief executive officers of Travelers and the current chairman of Citicorp. Travelers and Citicorp will each designate 11 individuals to serve on the Board of Directors of Travelers following the merger. All members of the group of the Board of Directors of Travelers Group other than the co-chairmen will be outside directors. From the review of Form A, this acquisition will not lessen competition

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and the testimony presented on behalf of Travelers and Citicorp Insurance demonstrate that the merger complies with the Commissioner's standards of review for Travelers Group's acquisition of control of Citicorp Assurance. We respectfully submit that the record as a whole does not provide a basis for any findings by the Commissioner that would approve disapproval – that would permit disapproval of the pending application. Indeed, we believe that the record affirmatively establishes the following: 1) After the proposed transaction, Citicorp Assurance will continue to satisfy the requirements for a certificate of authority to operate in Delaware. As our witnesses have testified, Citicorp Assurance currently satisfies the requirements for issuance of a certificate of authority in Delaware. Travelers Group has no present plans to change the business or operations of Citicorp Assurance following the merger. Except for becoming an indirect, wholly-owned subsidiary of Travelers Group, there will be no changes to Citicorp Assurance, its statutory financial statements, or its operations. Thus, Citicorp Assurance will continue to meet the requirements for a certificate of authority. 2) The proposed merger will not substantially lessen competition in Delaware or tend to create a monopoly in Delaware. Citicorp Assurance does not market insurance to the general public and for the great majority of its lines of insurance, Citicorp's insurance subsidiary do not write business in Delaware. In addition, for those relatively few lines of insurance which are both written by Citicorp, and I'm speaking of all of their insurance companies, and Travelers Group's insurance subsidiaries, the combined market share of these companies is approximately 5% or lower. The merger, therefore, will have no anti-competitive effect in Delaware. 3) The financial condition of Travelers Group will not jeopardize the financial stability of Citicorp Assurance or prejudice the interest of its policyholders. As Mr. Prince testified, as of year-end 1997, the Travelers Group had total assets of over 386 billion dollars and total stockholders equity of almost 21 billion dollars. Travelers Group, therefore, is a very well capitalized company. This is reflected in the fact that it has insurance subsidiaries licensed in every U.S. state and the fact that Travelers principal insurance companies have A.M. Best ratings of A or better. Furthermore, following the merger with Citicorp, Travelers Group will have the largest market capitalization, as well as the largest asset base of any financial services company in the world. All the capital of the insurance company subsidiaries and other subsidiaries of Travelers Group will necessarily remain separate within the holding company structure. The financial strength of Travelers Group and the opportunity to access the worldwide capital markets will provide increased security to policyholders and customers. 4) The post-merger plans of Travelers Group with Citicorp Assurance are fair and reasonable to Citicorp Assurance policyholders and are in the public interest. As a testimony from Travelers and Citicorp Assurance demonstrates, Travelers Group has no plans to change the current business operations or management of Citicorp Assurance. Nor does Travelers Group have any plans to liquidate Citicorp Assurance, to sell its assets, or consolidate or merge the company with any person. 5) The competence, experience, and integrity of the persons who will control the operations of Citicorp Assurance are such that the transaction will be in the interest of Citicorp Assurance policyholders and the insurance-buying public. Travelers Group is the ultimate controlling person of more than 40 insurance subsidiaries domiciled in 13 jurisdictions licensed in the United States. The knowledge and experience that Travelers Group has acquired in managing those companies will ensure continued security and protection for policyholders of Citicorp's insurance subsidiaries, including Citicorp Assurance. Finally, the proposed acquisition of control of Citicorp Assurance is not likely to be hazardous or prejudicial to the insurance-buying public. As Ms. Mulholland and Mr. Prince testified, the insurance-buying public is not impacted by Travelers Group's proposed acquisition of control of Citicorp Assurance. First, because Citicorp Assurance has no individual policyholders and does not market to the general public. And it only insures or reinsures the business of Citicorp and its subsidiaries. And as we've also explained, we believe the proposed transaction will enhance the security provided to policyholders of Citicorp Assurance. In conclusion, I would respectfully

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you are now.

Call: Well even if – in my perspective, even if they did lose the bet, I couldn't see where they would lose money on it. I mean, they might not make as much money as they hoped to make, but I don't see how they can go from a profit-making organization to a money-losing organization based on not – or having to sell off certain, uh, parts of their business. If the businesses are making a profit, then they – if they even had to sell it, they would, you know, probably sell it at a profit. So, in my perspective.

Lee: And I guess, just to know, did you – in just that part of it, as I understand the review of the annuals, the annual reports and everything. In terms of the possible, the possible outcomes of having to divest or not, did you put any numbers on it? Did you –

Call: I asked for the consolidated balance sheets of both companies, as far as, uh, I didn't ask for the financials if they divested. But I guess at that point, you know, I read the note, but I don't see where they could lose the money. If all the entities were making money, I didn't see the point.

Lee: In, in, in your review, I'm assuming that you've reviewed other mergers for the Department. Would something like asking for a future, you know, future profitability, would that be a thing that you would usually do? Not existing, future, projected.

Call: I would uh, well, I did ask for the consolidated financials of the combined companies, and uh, and their projections into the quarterly statements and the annual statement. But I did not ask for the, uh, profitability if they had to divest.

Lee: So the statement were all – the statements that they gave you were based on not divested?

Call: Yes.

Lee: And as the Department, you didn't ask for statements if they had to divest?

Call: No.

Meisenheimer: Further questions?

Lee: No.

Meisenheimer: Okay. I think we're – no more questions?

Welch: Uh, no sir, Your Honor, not at this time.

Meisenheimer: Okay. Do you have a 10K?

Call: Yes.

Meisenheimer: Is that part of the Form A filing?

Call: Uh, yes.

Meisenheimer: So that should be part of it, then.

Call: As far as the annual reports?

Meisenheimer: No, not the annual reports. I mean, I know the Department gets the 10K, but have you reviewed the 10K?

Call: No.

Meisenheimer: Okay. All right. We're ready for our closing statements.

Welch: Your Honor, I think what we'd like to do as we indicated at the outset would be to call Jim Michener back and have him make our final statement.

Michener: In our list of exhibits was Exhibit #1, page 16 or Exhibit #16 summarizes the applicable standards for review by the Commissioner, and I thought that that might be helpful just to look at those as I try to summarize our presentation. At this time, I will describe how Travelers Group application satisfies the applicable standards of review for approval by the Delaware Department of Insurance for the change in control of Citicorp Assurance. I'll address each one of the statutory standards. In Delaware, the approval of Travelers Group's application to acquire control of Citicorp Assurance is governed by Title 18, Section 5003 of the Delaware Code. The evidence contained in Travelers Group Form A statement exhibits provided as part of that Form A

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Department to consider that issue. Not just to say, well, the fed'll do what it'll do. Because that would involve being remiss in a, in a responsible consideration of the financial strength factor. I also, again, without – it wasn't our intent – we initially wanted to pursue the letters strictly as a financial matter, and that was the goal. It was then argued that that was irrelevant. So we argued under an integrity factor. But I'm struck! I believe that the tape of today's hearing and, and, and the written, the written things that have been put in, you know, I guess I can say at the least reveal a tru – a lack of candor or a sort of a pride in answers narrowly drawn. For example, I mean, the distinction between – we tried to point out the difference between exhibit – Lee Exhibit #1 and Lee Exhibit #3. Testimony to Congress, no advice from Allen Greenspan. A letter from the counsel saying thanks for your advice, Greenspan's counsel. And this was an opportunity, anyone can make a mistake, but it seemed to me that an applicant that sticks – that sticks by this type of narrow hairsplitting is, is – there are questions raised under the application – under an application, under, under factor E of the 503. There is also, I think directly – I mean, on the record, answering the question, there was a representation made about – and the reason these calls – these are not just Federal Reserve calls. These are the – these are the only way one could figure out what the odds of the future financial – of, of, of the financial strength are going to be. I really, you know, with all – it doesn't, it's not enough to say well, they're profitable going in. It's a seemingly controversial possible explosive combination that's going to require divestiture of 20 - 30% of their business. But we don't need to look at it because they're both strong companies. And then I think at today's hearing, that's why we tried to ask the question, what numbers has Travelers put on the various scenarios of how it could work out under legislation or of a fed order? I mean, in fact, as a financial matter, had they received assurance from the fed, that's why pursued this issue. And I think it's an issue that the Department itself should pursue. Because it goes directly to financial strength. If they – if in fact they *did* receive assurance, that's a positive financial factor from the Federal Reserve Board. Then again, it would be a negative integrity factor because they've claimed that they haven't. I think in examining the record – we, obviously, the Department is not going to rule on, on, on – we don't think it's just a fed issue. That's what I'd say. It's been por – it's been portrayed that just as a complaint is filed with HUD and do nothing about it. This is not a fed issue, this is an issue that, that is at the heart of a reasoned and responsible assessment of this applicant's financial strength, the ramifications of the proposed combination on the insured, reference – I couldn't figure it out. Earlier in the – there was a question asked, is Travelers representing that Citicorp Assurance will not write P & C in Delaware? They said no, we're not representing, we have no current plans. Then it was said, you know, in closing it was said we will not. I mean, I think that's something – I don't know if whether that's an aff – that's a post-hearing, the Department has to nail it down. It's in – it's in the participation order that since they can. So I think it doesn't – and it was certainly said that they could change that with no application whatsoever to the Department. But that's really the least of it. I think, I mean, at the, at the core and what doesn't – what was really not portrayed in the Form A at all, and I guess maybe there was a sense of it sort of coy, almost. It's an unprecedented merger. It's something that Chairman Volcur, the ex- -- the last chairman of the Federal Reserve Board, said it's something that the feds shouldn't touch with a 10-foot pole until the law changes! Even in terms of giving the 2-year waiver. So it's not – it was portrayed as there's some crazy groups that are protesting mergers or there's some individuals with their own axe to grind, but everything's really, you know, on the up and up. This is not an up and up issue, but it is – it would be unreasonable not to get to the bottom of the issue and we object to not having been allowed to get to the bottom of the issue and in fact we, you know, we asked – we asked that the order be reconsidered and that we be granted post-hearing discovery precisely on this issue. We will narrow it to this. But we think it's impossible. It could – including after today's, today's showing, to say that that issue is not relevant to the determinations under 503. It's – I know what that the order said – I strain to see

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submit that Travelers Group application to acquire control of Citicorp Assurance meets all the regulatory requirements imposed by Section 5003 of the Delaware Insurance Code. As a result, we would respectfully request the Commissioner to approve Travelers Group's Form A application. And I would also add that we thank you for the hospitality in listening to our presentation today. Thank you.

Meisenheimer: Thank you. Mr. Lee?

Lee: As has been, as has been – in terms of objections, you said you would entertain them. So I guess even just formally, Ms. Rangan attempted to, to, you know, formally put into the record her basis for asking for recusal. I think it should at least be entertained. How it's ruled on or what it's ruled on or no. But it could – it doesn't seem to make any sense to wait until after the hearing is held and all the evidence is in for the Commissioner to decide whether appointing the Hearing Officer was correct. With all due respect, it's not in any way directed at you, it has to do with the affair – the appearance of fairness. In – I believe that the, the, the submission of Travelers Group to the Department in Form A was superficial and did not touch on any crucial aspect to the ongoing financial strength of the applicant, which is whether this combination with Citicorp in fact, it's a bet. It's a bet that could very well can be lost. And that is not – not only was it not forthrightly presented in the application in the record to the Department, but you know, with all dues respect, it does not appear that the Department itself looked into it. Then we arrive back at that as protestants or members of the public, we were denied discovery on exactly this point that we wish to develop. Umm, we think that the current record does not – that it would be unreasonable and arbitrary on the current record to declare – to, to, to approve a merger that's – here's another, another way to put it would be this. This is an unprecedented merger, this is not a normal, this is not British-American Tobacco buying Zurich or some, it's not an insurer to insurer deal. It is described as an absolutely unprecedented – a bold stroke that flies directly against existing law that is a bet on Congress changing the law. And the fact that the, the application under a standard that considers the financial strength of the applicant, did not – the fact that it was testified today that Travelers has made no estimate of what the financial implications would be if it does – if it has to divest. Either its not credible or there was no due diligence and its impossible for us to believe. If it's true, it supports the non-approval of the application. It doesn't – it is, it is, it would be irresponsible [laugh] to do a merger of that size without having calculated the ramifications of what is described by even supporters of the merger as a bet. Umm, this is why the objection to being denied discovery is exactly on this point. Because it's – we view it as – if the Department didn't look into it, one would try to avail themselves of public – the public seeking to testify, developing the record on that issue. We were deny – we were unable to, to depose the people in the best position to know what the odds are, that's what I was saying about odds, it sounds strange, but if, if there was, if the applicants were responsible business people they'd have put an odds on it, and it goes back to these letters. This is why I – I definitely appreciate it, I know you've allowed in more than, than you may have wanted to. We still felt constrained by the inability to get to the bottom of it. Because I think, viewed in the context of the perspective financial strength of the applicant, the letters are crucial because it's the only – and, and, it was imperative if they wouldn't answer our questions that the Department ask questions and get to the bottom of it. Because, you know, like, the, the – to say that if a company is prof – is profitable, even if it has to sell part, it's still profitable, you know, respectfully, we disagree. A company's very profitability is based on a synergy between the parts. If, if, if a company like a Microsoft, which is strong, is required to sell off certain parts of it, it could become an unprofitable company. At least theoretically, you can't – just the fact that it's profitable doesn't prove that. And if, in fact, that although it's portrayed that the Department should be get involved in Federal Reserve Board issues, for the Department to responsibly consider the perspective financial strength of the applicant in this instance because it is an unprecedented application, it absolutely requires the

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anyone be an attorney to submit comments. They consider routinely comments from community groups in support of residents of their neighborhood. They've never ruled that an individual, particularly the executive director of a community group, can't speak for the group. I mean, that's something that was ruled here, but I think that, that, that it's something that certainly was objected to. There's a – the organizations – it would seem if consumer protection and consumer advocacy organizations in Delaware have no – are deemed by the Department to not be affected or interested in acquisition of Delaware insurance companies when by statute there is a public hearing, umm, then something is – something is drastically wrong with the process. And it goes back to this that the idea of – I don't want to say it's a test case that, that this is a major merger. There is a danger here. I mean, I'll – the point we want to make is this: the heart of the merger. What's actually going on in the merger and the way in which it clearly impacts the financial strength of the applicant, the future strength of the insured to be acquired, is something that the record is – the record – the burden was on the applicants and they didn't address a major question. And it doesn't appear to us, you know, with all due respect, that the Department inquired into it in any – in any responsible way. We renew our request to do discovery on that issue because we think that a decision made without that information in the record would be – certainly, when to deny we certainly have no objection to. But when to approve on this record would be, would be incomplete and arbitrary and the test – today's testimony that the company has not calculated the numbers if it had to divest – I'm wrapping up.

Meisenheimer: Are you making another application for discovery?

Lee: Yes, we are.

Meisenheimer: How is it different than the previous one?

Lee: The difference is that, that it – from the order that was issued on May 29th, it seems that the per – the, the – we believe that the purpose of the request was misapprehended. It is not – although, although the letters that some of it concerned are letters back and forth to the Federal Reserve Board, it's not an inquiry *about* the Federal Reserve Board. It's an inquiry about the major doubt and wildcard in the future financial stability of the applicant. Which is would the proposed CitiGroup have to sell off 20 to 30% of its business? And we – and the letters are relevant because the letters say on behalf of Travelers to the Federal Reserve Board that only if – not only – only if the businesses can be integrated. Only if the products underwritten by Travelers can be sold at Citibank branches, only if there is a single statement saying CitiGroup that's banking and insurance products, only if those things are permissible is the deal even worth doing. So I think you step back and you say, since they've now said that there are no assurances, no reason to believe that the Federal Reserve Board or anyone else will approve that, that an inquiry – too, again with all due respect, the answers given today that the company hasn't looked into the numbers. Mr. Prince, there was a missing witness here today. The letters are crucial because they involve – do they have a reas – is there a reasonable basis to believe that they can keep 30% of their business and that they can cross-sell? And that the wiggle room that was left is that, well, that's what Mr. Swede told Mr. Prince. All he said is Mr. Maddingly said thanks for the letter. That would seem, based on the first letter, a very thin reed to do the merger on. But Mr., but Mr. Swede wasn't here. We'd asked to depose Mr. Swede, and if we had, maybe we would have come here and said, you know, that was all that was said.

Teichman: Let me interrupt you, please, just a minute.

Lee: Sure.

Meisenheimer: Okay. I'm going to rule on that right now. I've listened to everything today, too. And I'm persuaded at this point that any additional things that we've heard today would have us do additional discovery. Now you're going to submit a list of the officers and directors?

Welch: yes.

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the relevance of fed letters to the standard, but I think the standard – I, I would hope that, that that's now shown. And we will request that either, you know, immediately or as soon as possible after the order there's an oral motion that discovery be allowed on this issue, narrowed to that issue. But the record at present would not legitimately support approval as presented today. As presented with an applicant that says we have never even calculated numbers if we have to divest, which I think is what was said. We can – we'll go back to the tape, with all due respect.. The Department didn't inquire into this. But I would lay more blame on the applicant, because it seems to me it's something that's supposed to be disclosed in the application. We requested the Form A. So that you know in terms of late participation – we requested the Form A from Travelers and Citicorp April 13th followed up by a letter to coun – to their counsel of April 27th. We finally only got it on April 28th – on May 28th is when we got the thing. So I think that there's a sense that, oh the public, you know, they come in too late asking questions, that was the reality. I'm saying that to the record, that I think that there's some, there's some, you know, the, the – again, in the nature that this is an unprecedented application. It is. There is a sense that oh, we're raising policy issues. It sort of – it *is* kind of a test case. It's a test case for the, the credibility of State regulation of an enormous part of what would be the largest financial company in the world that there's a – there's, I think an argument was made that although it's domiciled in Delaware, it doesn't matter if they write insurance policies elsewhere. That the Commissioners – I think there was actually in the News Journal said that Commissioner Donna Lee – it said that her only duty is to citizens of Delaware. I don't necessarily think it's true. If, if in fact the entity that's licensed here is insuring Citibank N.A. and Citibank South Dakota N.A. It seems quite – that not allowing an applicant to –

Teichman: We're going to go off the record for just a moment.

Lee: Okay.

[pause to change tapes]

Teichman: We're back on the record. It's about 3:45 in the afternoon.

Lee: We'll try to, in the interest of time, I mean, obviously, we have these various objections, but, you know, we made them and then asked the Department to rule on them. Umm, the one thing to make clear, in, in putting in context the things that were presented, umm, Ms. Harris's experience with – is with Commercial Credit, a – right in the booklet they presented of affiliates, a major affiliate of Travelers Group. She's a Delaware citizen, member of the Delaware public. Her experience with Commercial Credit involved a quite questionable, uh, credit-related insurance by the Travelers Group that in fact is not the thing that's in front of HUD but is something that the Delaware Insurance Department is particularly suited to look at in terms of its pendency at HUD being an excuse to not look at what she testified to and what the written things show, umm, HUD is generally required to rule on complaints made to it in ninety (90) days. It has in fact been nine (9) months on her complaint. Too, because she waived the ninety (90) days on the representation of HUD and turned it into a systemic inquiry and had gone to Commercial Credit's headquarters in Baltimore to review files, not only her file and rule on it, but to review the entire – to review the marketing and pricing practice by race of Commercial Credit. So that's something that it would seem that the Department, given that it's in the record, it's not something that to the degree that the argument is, that's before another agency, don't worry about it. It is in fact an insurance-related thing going to the very applicant on insurance and in Delaware. So it seems – it would seem extremely narrow not to, to – we would object to it being treated in the record as something that, because it's in front of HUD, the Department doesn't have to look at it at all. Umm, there is some – there seems – we viewed it as a public hearing in the sense that, that members of the public come and testify. It may be that for historical reasons it's a very formal process, but the, the issues that arose as to Ms. Rangan, you know, somehow practicing law, in submitting comments which she submitted into the record to the OTS, the OTS doesn't require that

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Meisenheimer: We understand. And that will be available for you to review, and then after that you will be able to give your comment to that. So I'm going to clear up that issue right now and now allow additional discovery. Based on what I've heard today and based on the additional information that we've asked them to submit.

Lee: Then –

Meisenheimer: You can go on, you know, from here.

Lee: Umm hmm. I guess there's another request that the Department itself make some inquiry into that issue. It seems that what – I didn't understand that the Department itself would be, would be a witness. But the current records – the state of the current record is that there was no inquiry, from our point of view, into the future financial strength of the applicant. That the, the, the conclusion drawn about the future financial strength was that because both are profitable now, must be profitable in the future. And that is something that, I mean, actually, we have – hang on a moment. We've entered an exhibit. It's just because I've – I've mentioned it, I think it's im –

Welch: Your Honor, I'm going to object to that.

Lee: Go ahead.

Welch: I want to object to that, and the reason is, the record has been closed. What we have going is argument now, final argument. He's been supplementing that final argument with new facts he's been coming up with throughout it. But I don't think Your Honor ought to take any new exhibits at this point. The record is what the record is. We've done it, and this is not some new uh, we ought not re-open with some new procedure.

Meisenheimer: I'd like to point out that the record's going to be open anyway, so you can submit it within the five (5) day period.

Lee: And just to clarify this, it's five (5) days after *they* submit.

Meisenheimer: Yes, but we're not going to receive any more exhibits because you are summizing right now and you will be able to submit that within the five (5) day period.

Lee: Given that you – I guess – here's a – you've ruled that no more discovery. Now I think it's an important point to make. When is or was the right point to make a request for recusal? We were told it wasn't – Miss Rangan asked Mr. Teichman who's been, you know, very well – again, it's with all due respect. She was told that he couldn't tell her when such a request would be made. That that would be legal advice, couldn't be told. I think it's a fair question. The issue – the issue has been raised. Ms. Rangan attempted to make a motion and it was not entertained. It was returned to her. Is that motion part of the record or not part of the record?

Meisenheimer: Well, once again, I'm not here to answer those questions. I'm here to rule on what I've heard, and that is my position at this point.

Teichman: I think the Hearing Officer made clear that it's his position that the – that the recusal matter is not ripe. It stands to reason, therefore, that if you wish to make an application regarding the recusal of the Commissioner, that gets made to the Commissioner after the Hearing Officer's proposed order and recommendations go to her for review and for her final decision.

Lee: Even if the request is not only to recuse the Commissioner, but the Hearing Officer appointed by the Commissioner?

Meisenheimer: That's correct.

Lee: And that's in the five (5) days period?

Teichman: That really – that's something that – recusal issue needs to be addressed after the hearing officer issues his proposed order and recommendations.

Lee: And is there a twenty (20) day period between – I'm just, I guess I'll just have to –

Teichman: Sure, I think we need – let's just finish with your argument. Ms. Rangan has some argument I think she wishes to make.

Lee: Yep, she sure does.

Teichman: And then we'll address procedural matters as far as the time that the record's

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extent that there was going to be a change in policy – in plans of some sort, and, and Citicorp Insurance was going to start selling insurance to the public, they would be coming before you and making that clear. So to the extent that there was any lack of clarity on that, Ms. Mulholland has urged me to clarify that. They are captives, they' don't sell to the public. There's no plans that that's going to change. This transaction is positive for Delaware. The fact of the matter is, it *is* a progressive transaction, it *is* a leading transaction, Delaware is a progressive state, and, and uh, it ought to be approved. Thank you so much for your time and attention again.

Meisenheimer: We have five (5) days that we're going to keep the records open. Which that will be until June the 9th and for you to submit whatever documents, additional documents for the Department's review. Now, after that five (5) days we're going to keep it open another five (5) days to give each party to have a chance to, uh, make their comments regarding that.

Teichman: Let's make clear that what you – just so everybody's clear, that – what you – you want to limit the second five (5) days to issues that are only raised in the submissions that occur in the first five (5) days.

Meisenheimer: Right. So we have ten (10) days from today. All right. We'd like to thank everybody for coming, for your patience, and for your uncut.

Teichman: Before we – actually, before we close out the record, I want to make sure that I have everybody's exhibits. For Travelers, I actually have two (2) exhibits. Is that your recollection? Okay. Mr. Lee, I believe I have four (4) exhibits from you, is that correct? And Ms. Rangan, let me check, I think I have five (5). Is that your recollection? No, strike that, six (6), I have six (6). And the time is 4:00 in the afternoon, Thursday, the 4th of June, and we are off the record.

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going to be left open and so forth afterwards.

Lee: Okay.

Welch: Your Honor, if I could take – if I could just have two (2) minutes of argument, I promise it won't go beyond that, but if –

Meisenheimer: Well, I was going to give you a rebuttal, so go ahead, since you went first. But do you want to wait? That's fine.

Welch: Go ahead.

Rangan: I think based on the testimony we heard today, the questions and answers, I have more reason now to believe that this merger will *not* benefit the community in any way. Particularly the ramifications are tremendous with globalization. Have we so quickly forgotten just about two (2) months ago Asia burped and the stock market went roller coaster ride! We're concerned about particularly the insurance and the banking mergers as one thing. The concerns stem from again, the appearance of a, uh, federal subsidy. Again, with the safety and soundness. Say, for example, I was a banking customer of this proposed CitiGroup. I also had insurance from this proposed CitiGroup and proposed CitiGroup had also insured say thousands of home in California and God forbid, California got hit with an earthquake. What will I do? I'm going to pull out my banking deposit, my investments, etc. etc. to ensure that I don't go down, I don't go under. And I'm sure if nothing else, the consumers in America do watch the natural calamities they're their front-page news, they're there on the news, and with the, uh, greater coverage of the finance sector, again on an hourly basis on the news, I think the consumers are getting a little more aware of what is happening and with the greater awareness, I think these collaborations are going to put a greater financial burden on the consumer and on the acquirer as well in this case and goes back to the strength, stability financially of the acquirer. We have already talked about concerns with the integrity of the acquirer, and I will let it rest at that. Again, on the current record of the various subsidiaries of Travelers Group, this merger request should be denied. I think I've covered it all. Thank you.

Welch: Of all the exhibits that Mr. Lee and Ms. Rangan put in, the one that stands out most in my mind now that I get a chance to look at it is Lee Exhibit #4. Matthew Lee is using every means possible to derail the Citicorp merger. He attacked Donna Lee Williams, the Insurance Commissioner, he attacks Your Honor, he attacks the witnesses here, he attacks the fed, he attacks the Hearing Examiner's financial analyst, none of it holds up. Absolutely none of this holds up. The fact of the matter is that as Mr. Michener pointed out, the statutory criteria have been met hands down. As the financial analyst for the Department pointed out, the statutory criteria have been met *hands down*. It's unrebutted. Now what about this divestiture point? Well, your own financial analyst points out that his analysis is flawless. He points out that Travelers is very, very sound, very, very profitable before the transaction. Citicorp – very, very sound, very, very profitable before the transaction. You put them together and you've got something even strong and even better. *If* there has to be some divestiture, the profitability was there before, the profitability was there after. Now obviously, divestiture can happen in a whole lot of different ways. It's the kind of thing that's going to come before groups just like yours. You'll get the opportunity under some circumstances, other insurance departments will as well, if there's going to be something. The *fact* of the matter is, attacking the financial analyst makes no sense. He looked at the issues, his analysis of it is flawless. There's simply no basis for the attack on him or the attack on, on, on the, uh, analysis. Beyond that, if one divests assets, one gets cash. Does that necessarily adversely impact? Just as a matter of common sense, does that adversely impact the business organization? Not necessarily. And I think that's inherent in your financial analyst's analysis. So the testimony of our witnesses remains unrebutted. It's a ca – what we're talking about here is captive insurance company. It does not sell to the public. It isn't gonna sell to the public. As Ms. Mulholland pointed out to me shortly before, or rather during the break, to the

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Hello, my name is Gwen Jacobs. I am the President of New York ACORN, and I am testifying today for New York ACORN, and for Maude Hurd, ACORNs National President who was not able to be here.

In April ACORN did a study of Citibank's record on single family lending to borrowers of different races and incomes in ten cities; we also looked at their lending record by neighborhood in 6 cities. Finally, we compared Citibank's performance to the performance of other institutions.

What we found is that if you are lower income person of any race, and especially if you are African American or Latino, you had better not look to Citibank for a loan. Citibank is not looking for our business, and if we go to them, we are much more likely to be rejected. Citibank is not making loans in our communities and not meeting its basic legal obligations to serve **all** potential borrowers in its service areas.

Before I go over some of the details of Citibank's outrageously bad record, there are two important things to keep in mind. First, don't dismiss the numbers on Citibank's failure to serve low and moderate income people with the thought we can't afford to buy homes anyway. In cities around the country people with moderate incomes - below 80% of their areas median, and people with low incomes - incomes below 50% of the area median, even those with incomes below 30% of the area median, can and do buy homes. We can and do buy homes, and we can and do pay our mortgages. When banks will lend to us.

When banks like Citibank won't lend to us we pay someone else rent forever - often more rent than we would pay monthly for a mortgage - without ever building the equity of owning a home. Or we are forced to pay outrageous interest rates at mortgage companies. Potential homebuyers who would contirbute to community growth and stability are forced to move in order to get a loan; houses are left abandoned, and neigborhoods deteriorate.

Now for the details.

- In 1996 (the most recent year for which data are available) a Latino applicant for a home loan at Citibank was 300% more likely to be rejected than a White applicant. An African American applicant was 350 % more likely to be rejected than a white applicant.

How does this compare to other institutions?
- Citibank is much worse than your average bank. Citibank's 'rejection ratios' -the rate at which minority applicants are turned away as compared to white applicants - are substantially worse than the average rejection ratios of all lenders in the 15 major cities ACORN has studied. On average Latinos were rejected 1.7 times as often as whites in 1996 compared to 3 times as often by Citibank; and African Americans on average were rejected 2.1 times as often as White applicants compared to 3.6 times as often by Citibank.

How does this compare to Citibank's own past performance?
- Citibank's own performance is getting worse not better. Citibank's loans to African Americans and Latinos fell by more than 50% between 1995 and 1996. The share of Citibank's single family mortgages that went to Latino and African American families fell dramatically from 36% in 1995 to 13 % in 1996.

Even when we looked only at relatively high income applicants - families earning 50 and 60 thousand dollars a year and more, we found that African American applicants were rejected nearly 3 times as often as whites, and Latino applicants were rejected more than four times as often as whites.

One thing that is particularly disturbing about Citibank's record is the fact that not only do they reject minority applicants at high and growing rates, but also their practices - rejections, location decisions, advertising, outreach, customer service - who knows what combination of elements - seem to be working increasingly to discourage or prevent minority families from even applying for loans. While the banks total number of applications per year is growing, both the percent of their applications from minority borrowers, and even the absolute number of such applications shrank between 1996 and 1995 to unacceptable levels. Total applications from African Americans and Latinos fell by 47 and 48 percents , respectively. The share of applications from African Americans declined in every city we looked at, and averaged only under 6% of all Citibank applications.

What if we look at neighborhoods, not individual borrowers, or if we focus on income alone, rather than race?
- Citibank has systematically redlined lower income neighborhoods of all races, as well as minority neighborhoods.

For example, Citibank made 104 loans in the Baltimore area in 1996. Only 13 of these, however, were made in inside the city limits - where the Citibank branch itself is located. Looking outside as well as inside the city, nearly half of the Baltimore areas neighborhoods (47%) are low and moderate income - that is, with average incomes below 80% of area median - but these neighborhoods received only 17% of the loans from Citibank. Neighborhoods with average incomes below 50% of area median are 16% of the metro area, but received only 2% of Citibank's mortgages. Neighborhoods with more than 90% minority residents make up 154 of the Baltimore metro area, but received only 1 mortgage loan.

In Miami, where nearly half of the metro area is made up of low and moderate income neighborhoods, Citibank made only 18% of its loans in these neighborhoods. Instead, a full half of the banks loans went to the only 21% of areas with average incomes above 120% of area median. Of its 343 loans in the Miami area, _Citibank failed to make even a single one_ in the 15% of all area census tracts where minorities are more than 80% of the residents.

Here in New York City ACORN looked at more than 800 Citibank loans and found that Citibank makes few loans to any low income or minority neighborhoods, and that while it makes the majority of its loans overall in Manhattan, it makes essentially no loans at all to minority or lower income parts of Manhattan. *(show race map)* Citibank made no loans at all in census tracts in Manhattan which were more than 90% minority in 1996, and only 1 loan in a census tract with more than 75% minority residents in the borough, although there are a total of 76 such census tracts on the island. The bank made only 5% of its loans to such neighborhoods city wide, even though they make up 28% of the MSA.

Looking at income, (*show income map*) although 18.2 % of the New York metro area is low income, Citibank made only 6 loans in these areas. Moderate income census tracts, with incomes between 50 and 80 percent of the area median make up an additional 35% of the city, but received only 10% of Citibank's loans.

I could go on and on.

But what the numbers I have talked about, and those there wasn't time to go over, add up to is a clear picture of the fact that Citibank is steering capital away from us. They control huge amounts of capital and they are directing it away from low and moderate income people of all races, and from African Americans and Latinos of all incomes.

Without access to capital, no matter how hard we work, our families and our neighborhoods will never really thrive. By failing to make loans in our communities, - and they clearly fail to do so - Citibank is blocking our access to opportunity.

Given this record, it is absolutely wrong for Citibank to be given access to still more markets. Given this record, it is absolutely wrong to give Citibank still more market power. The Federal Reserve Board needs to say No to this greater concentration of wealth and power, and say Yes to democacry

My name is Gloria Waldron and I am a member of New York ACORN. I Am testifying in part for Ted Thomas, who is the President of Chicago ACORN, and was not able to be here.

I want to say first for Ted and others in Chicago and around the country how disappointed and angry we are that the Federal Reserve is holding hearings on this merger ***only*** here in New York. A huge merger is being proposed between two giant companies with bad records, and it is a merger that we and many others believe is illegal under current banking law. Tens of millions of consumers across the county will be affected by this merger , in Chicago, and in Oakland, in Miami, everywhere. But they are being denied the opportunity to comment on it on it person, and deliver their messages to the regulators about what is at stake here.

In Chicago in particular I know that not only ACORN, but also the Chicago Community Reinvestment Coalition, and the Woodstock institute, and others, groups with a long, active, and successful history of fighting for fair access to credit have asked for hearings. When the Federal Reserve Board refused, the Woodsotck institute proposed a video hearing, but the Board said that was too complicated too. When we see that the federal Reserve Board cannot even be bothered to take the trouble to be thorough in hearing from the public about a merger this important we are pretty upset.

Now I want to talk about three things.
First, Travelers record of ignoring inner city and minority neighborhoods
Second, the total inadequacy of the Citibank's announced CRA commitment
and Third, the illegal and dangerous nature of this proposed merger.

Travelers Insurance is not serving lower income, urban and minority neighborhoods. We don't have as many numbers on Travelers as we do on Citibank, because they do not have to make their numbers public. Thats part of the problem. What we do know isn't good though.

Insurance industry studies have pointed out that most of insurance agent's business comes from within 3 miles of their office location, and office location was a key element in the Justice Departments Fair Housing Suit against the American Family company in 1995. So, in order to back up what we know from experience about Travelers performance, ACORN has taken a look at their office locations and also their advertising practices.

What we found is that in the ten large racially mixed cities and their surrounding metro areas that we looked at , three out of four Travelers agents are located in zip codes where whites make up more than 85% of the population.

The travelers agents are located mostly in suburban areas, especially wealthier and whiter ones. Fewer than 1/3 of the agents overall were located within the city limits, and this ratio was especially bad in some cities. In DC only 13% are within the city limits; in Bridgeport only 8% are within the city limits, and Philadelphia only 2% of travelers agents are located within the city limits.

The travelers agents are located miles away from low and moderate income and minority neighborhoods. 93% of Travelers insurance agents in the cities we looked at were further than 3 miles from ACORN neighborhoods, while as I said industry studies show that most of an agents business comes from within 3 miles of their office. In Philadelphia travelers agents are on average more than 20 miles from central North Philly. In New York the average distance of Travelers agents from downtown Brooklyn is 24 miles!

Little information about Travelers is available for average consumers, espeically in large cities. The company doesn't list many agents in the phone book, and when it does list it is most often in suburban books. Unlike its competitors, Travelers does not advertise in city telephone books. In contrast, the company's internet home page - which is much less accessible to low and moderate income people, as well as to minorities who have a lower rate of interment access than the population as a whole - lists many more agents than do the phone books.

Gwen Jacobs has already talked about Citibank's poor lending record.
Citi has now announced a so called commitment to low income areas to go with its merger proposal. We think it is much too little and much too vague.
Citibank has promised 115 billion dollars over 10 years, which is only 2% of its assets annually. Thats 2 % of its assets for African Americans and low and moderate income people. I call it insulting.
Other banks involved in recent mergers have promised much more - 6% for Naitonsbank, 5.5% for Bank of America, etc.
Even within the 115 billion, most of what Citibank has promised is consumer lending, like credit cards and auto loans. This will not do anything to deal with their basic problem with making home loans, or small business loans, in our neighborhoods.

Finally, not only do Travelers and Citibank each have records of shutting the door to credit, homeownership and insurance in the faces of low and moderate income and minority people, but the giant combination they are proposing breaks banking laws designed to protect the public from too close relationships between banks and other kinds of companies, and make sure that banks and other kinds of companies are regulated as they need to be. These laws were passed by Congress - elected by the American people - and they have not yet been changed by Congress. We do not think that the Federal Reserve Board, on its own, should be deciding to change them, or to allow special exceptions.

Citibank and Travelers alone already have the power to block people in my neighborhood, and in neighborhoods like mine around New York and around the country from getting the financial resources we need to have a fair chance in this economy. They are doing it already. I am honestly scared at the thought of their getting together, getting bigger, getting even less interested in dealing with anyone who is not already part of their world. I am scared and angry.

ACORN

88 Third Avenue
Brooklyn, NY 11217
(718) 246-7900
Fax: (718) 246-7939

This year New York State has awarded a contract to Citibank to distribute food stamps and public assistance benefits electronically starting in January 1999. However, we have seen that Citibank is not a friend to us. It is basically a bank for the well-off. We will be hurt if we let our money go there. What I urge each and everyone of you to do is open up an account in the bank of YOUR choice now and do not let the city decide the bank for you. Tell others this message so that they too may benefit.

Este año el estado de Nueva York le granto un contracto a Citibank para distribuir cupones de alimento y los beneficios de asistencia publica electronicamente comenzando en enero del 1999. Pero, nosotros hemos visto que Citibank no es amigo de nosotros. Es simplemente un banco para los ricos. Vamos a sufrir si dejamos que el dinero vaya hai. Lo que quiero que cada uno de ustedes hagan es que abran una cuenta en el banco que USTED elige y no deje que la ciudad decide para usted. Diganle este mensaje a otros para que ello tambien beneficien.

Shirley Williams
940 E. 220th Street
Bronx, NY 10469

June 24, 1998.

Attention: Ms. Ezmini,

It is quite evident from recorded statistics that Citibank lending record to minorities and low income communities is rapidly on the decline. More minorities are readily rejected from loans compared to their white counterparts. This is a blatant violation of fair lending policies.

I speak from experience as an African American hoping to realize the American dream of owning a home for the first time, but was rejected after applying to Citibank for a loan. These unfair practices must be made known so that consumers will not support Citibank, Travelers which is illegally merge with Citibank, or any other Citibank affiliation.

Sincerely,

Shirley Williams

No, this merger should not happen because, its illegal for one, two Citibank has a particularly poor record of direct lending to low income neighborhoods and people of color in New York City.

Citibank lends almost exclusively to upper income neighborhoods in Manhattan predominantly white neighborhood (more than 85% white), receive 75% of Citibank loans in 1996. Even more striking, Citibank made only six loans that year in low income neighborhoods in NYC, Metropolitan area.

Again Citibank rejected African American and Latino applicants for conventional mortgages for homes purchase (2 ½) times more frequently than white applicants.

Citicorp and Travelers Group pledged to invest 115 billion in low and moderate income community over the next decade as part of their historic MEGA MERGES.

Citicorp John Reed and Travelers Sandy Weill ear-marked more than half of that money 59 billion for credit cards students loans and consumer lending. The problem with that is Citicorp has not done anything in the past so what makes me believe that we as people of color or Latino can benefit from this merger. What I see is low and moderate income are being kept poor with high interest rate with the credit, and student loans. Meaning Citibank/Travelers are beneficiating greatly from this action and we as people of color are kept trying to keep our head above water.

Please, read between the lines because life gets no better and increasingly harder to strike for a better condition in our livelihood.

What can be done to improve our condition? We must have low interest rates and guarantee not to raise interest rate after 3, 6 month or even one year after contract. That would help toward depression in our poor neighborhood. That way we as people of color would an incentive to strike from depression to our Economy goals.

Thank you for listening.

UNITED WE STAND, DEVIDED WE FALL

It's that simple!!!!

We Are

ACORN

CITY BANK'S UNFAIR POLICY

As a bank, there should be rules and regulations and even loop holes to go through. But every bank must try its best to met the needs of the people.

The polices of City Bank is making it even harder for the poor to save money by raising the deposit for free checking to $6000 in linked accounts, and its minimum ATM withdrawl to $40; is a clear indication that the majority of poor people who are Blacks and Hispanics will be unable to maintain or open a saving account in that bank.

The Citibank Travelers Deal: Sign on the Dotted Redline

ACORN examined the lending record of Citibank in ten cities to determine the lender's commitment to low income and minority communities and individuals. These lenders took more than 14,500 applications and originated more than 10,000 single-family owner-occupied mortgages in 1995 and 1996. In 19 out of twenty cases, the share of loans and applications to Latinos or African Americans has declined dramatically between 1995 and 1996 and minorities tended to be rejected for loans substantially more frequently than whites. ACORN also looked at the geographic spread of Citibank's lending in six metropolitan areas and found that low-income and minority neighborhoods were poorly served by Citibank. Citibank's inadequate lending record calls the move to merge with Travelers into question on Community Reinvestment Act grounds. The markets Citibank currently serves are already underserved in terms of credit. Allowing Citibank easy access to new markets would only subject additional communities to its inequitable lending record.

Citibank's lending record is also compared to an ACORN study, which was released in September of 1997, which analyzed the aggregate lending records of banks in fifteen metropolitan areas. Using this information, ACORN is able to compare the racial rejection ratios of Citibank to the average rejection ratios of other institutions in the metropolitan areas where Citibank operates. In every case where Citibank operated in one of the previously studied cities, Citibank's performance was worse than the average.[1]

The merger between Citibank and Travelers is additionally troubling given Travelers dubious record of redlining its insurance products away from low-income and minority communities. Travelers has been charged with violations of the Fair Housing Act for offering homeowners insurance products whose underwriting guidelines have the effect of refusing to serve minority neighborhoods. In New York City, Travelers' auto insurance coverage seems to avoid the Bronx and Queens, effectively screening out many minority drivers. These anecdotal problems suggest there may be more beneath the surface of Travelers performance, but there is no comparable disclosure requirement in the insurance industry to the Home Mortgage Disclosure Act ACORN used to evaluate Citibank.

The findings of ACORN's study on Citibank include:

- **Latino rejection ratios are getting worse at Citibank:** For every white who was rejected by Citibank in 1995, more than two (2.08) Latinos were rejected. In 1996, three Latinos were rejected for each white who was turned down -- an almost fifty percent increase. This is worse than ACORN's 1997 analysis described above which found on average 1.73 Latinos were rejected for each white in 1996 nationwide.

- **Citibank's African American rejection ratios are higher than the national average:** In 1996, the African American rejection ratio at Citibank was 3.59 -- down from 4.12 in 1995. While there is some improvement, Citibank's African American rejection ratio is 70% greater than the 2.11 ACORN found nationally.

- **Applications from minorities are shrinking at Citibank:** Total applications from African American and Latinos fell by nearly half between 1995 and 1996. The number of Latinos applying for Citibank loans fell by 48% and the number of African Americans fell by 47%. The share of applications from African Americans and Latinos dropped to 15% by 1996 -- more than 60% decline since 1995. There was a decline in the share of Latino applicants between 20% and 80% in every city except for Miami which increased 30%. All told, the share African American applications at Citibank declined in every city and averaged only 5.85% of all Citibank applications.

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[1] Rejection ratios compare the rejection rates of minorities compared to the rejection rates of whites, so if ten percent of white applicants were rejected and twenty percent of African Americans were rejected, the rejection ratio would be two

- **Citibank made half as many loans to minorities in 1996 as in 1995:** The number of loans Citibank made to Latinos and African Americans fell by 53% and made up fewer than 15% of the number of loans in Citibank's mortgage portfolio.

- **Citibank rejects even wealthy minorities more frequently than whites:** In six of the cities surveyed, African Americans and Latinos earning more than 120% of the median income were rejected more frequently than similar white applicants. Wealthy Latinos were rejected more than four times as frequently as wealthy white applicants on average. Wealthy African Americans were rejected nearly three times as frequently as wealthy white applicants on average.

- **Citibank loans almost exclusively to wealthy white neighborhoods:** Citibank has systematically engaged in a practice of relining minority and low income neighborhoods, leaving them starving for credit. ACORN looked at over 3,000 home purchase mortgage originations in New York, Washington, Baltimore, Chicago, Oakland, and Miami. In every instance, Citibank loaned almost exclusively to the very whitest and upper income areas while at the same time virtually ignoring minority and low-income areas.

Citi by City Analysis

Baltimore

Lending Record by Race and Income of Applicant: The number and share of minority conventional mortgage applications has dropped off sharply at Citibank in Baltimore between 1995 and 1996. African American applicants accounted for only 10.2% of Citibank's 1996 applicants, down from 38.2% in 1995. There was only one Latino applicant in 1995 and none in 1996. Over the same period, the share of white applicants grew 61.3% to reach 70.9% of all applications. The number of conventional loans to African Americans fell from 38 in 1995 to 11 in 1996 representing a 69.3% decline in the share of Citibank's loans to African Americans.

In 1995, the rejection ratio for African Americans was quite low -- only 1.09 African Americans were rejected for each white rejection. By 1996, 3.15 African Americans were rejected for every white applicant who was turned down. Incredibly, even wealthy African Americans were 7.25 more likely to be rejected than similarly affluent white applicants, the highest figure of all Citibank operations surveyed.

Lending Record by Race and Income of Neighborhood: Citibank made 104 mortgage loans in the Baltimore metropolitan area in 1996. Disturbingly, only 13 of them were made inside the city limits, despite the fact that the only Citibank branch is located at Baltimore's downtown Inner Harbor. Nearly half (47%) of Baltimore neighborhoods are low- and moderate income, but Citibank made only 17% of its mortgage loans to those neighborhoods. The poorest areas received the very least from Citibank. Neighborhoods earning below fifty percent of the median income are 16% of the metro area but they received only 2% of Citibank's mortgages, eight times less than their share of the city. This disparity was made up by Citibank in the wealthy areas. The wealthiest neighborhoods made up 16% of the metro census tracts but received more than 50% of Citi's mortgage originations -- a 300% over representation.

Minority communities were particularly hard hit by Citibank's indifference. One quarter of Baltimore MSA census tracts are minority, but they received only 3% of Citibank's mortgages. Neighborhoods which are more than ninety percent minority received only one mortgage loan (1%) despite making up 15% of the metro area. Neighborhoods comprised of 90% white residents make up 47% of the metro area, but Citibank made 66% of its loans to these areas.

Chicago

Lending Record by Race and Income of Applicant: While the total number of Citibank's applications grew slightly in Chicago between 1995 and 1996, the number and share of minority applicants fell sharply. Applications by African Americans and Latinos dropped off by half between 1995 and 1996 (from 221 to 109 and 402 to 177 respectively). The share of applications to minorities also fell by more than half, down 53.0% by African Americans and 58.1% by Latinos. The number of loans to African Americans and Latinos in Chicago has also been cut by more than half and the share of loans to African Americans has fallen by 57.5% between 1995 and 1996 to 5.4% of all Citibank's conventional mortgages. The share of loans to Latinos fell by 62.7% (to 10.0% of Citi's loans) in 1996.

In 1995, African Americans were four and a half times as likely as whites to be rejected at Citibank in Chicago and Latinos were nearly three (2.78) times as likely to be rejected. In 1996, the figures fell slightly to 2.52 for African Americans and 2.6 for Latinos. ACORN's analysis of all lenders in the 1996 Chicago market found that African Americans were rejected 3.17 times as frequently as whites, only slightly worse than Citibank's own record and that Latinos were rejected 1.93 times as frequently as whites, making Citibank worse than the market as a whole.

Lending Record by Race and Income of Neighborhood: Although nearly twenty percent of Chicago's census tracts are below 50% of the median income, Citibank made only 32 loans in these neighborhoods, only 3.12% of its mortgage originations a more than six-fold under representation. Another 30% of Chicago's census tracts earn between 50% and 80% of the median income, yet received only 22.4% of Citibank's mortgages, 30% fewer than their proportion in the metropolitan area. Nearly 45% (43.9%) of Citibank's loans were made to the city's most affluent neighborhoods even though they make up just 15% of the metro area -- nearly a three hundred percent over-representation.

Minority communities were especially underserved by Citibank. Though 30% of the city's census tracts are predominantly minority but they received only 4.6% of Citibank's mortgages. The 19% of the census tracts where more than 90% of the residents are minorities received only 1.7% of Citibank's mortgage loans. In comparison, the 45.0% of the census tracts which more than 85% of the residents are white received 71.0% of Citibank's mortgage originations.

Miami

Lending Record by Race and Income of Applicant: The share of applications by African Americans fell from 18.8% in 1995 to 7.5% in 1996. The number of loans to African Americans fell by more than 50% (from 31 to 15) between 1995 and 1996. The share of loans to African Americans decreased by 69.3% to only 4.9% of Citibank's conventional mortgages. African Americans were rejected more than three (3.25) times as frequently as white applicants in 1996. Even wealthy African Americans are rejected more than two and a half times (2.57) as frequently as wealthy white applicants.

Lending Record by Race and Income of Neighborhood: While nearly half of Miami's metropolitan area is low- and moderate-income neighborhoods, Citibank made only 18% of its 343 home loans there. Instead, it made almost half of its loans to census tracts over 120% of the median income, despite the fact that these areas make up only 21% of the metropolitan area. There is a more than a 200% over representation of the most wealthy areas in Citibank's loan portfolio. Those that lived in neighborhoods earning less than half the median income, about a fifth of the metro area, fared the worst. Only 3.5% of Citi's loans went to those neighborhoods -- a more than fivefold under representation.

Minority communities received even less from Citibank. Incredibly, Citibank failed to make even a single loan in any census tract where minorities comprise more than 80% of the residents despite the fact that these tracts make up 15% of the metropolitan area. Overall, the minority areas, which are nearly a fourth of the city, received only 3.5% of Citibank's home loans -- a more than six fold under representation. The whiter areas, however, received ample access to credit. Areas where more than 75% of the residents are white received 87% of Citibank's loans despite representing only 63% of the metro area. Census tracts where more than 95% of the residents are white represent ten percent of the city, but these tracts received 25% of Citibank's mortgages.

Las Vegas

Lending Record by Race and Income of Applicant: Though lending activity decreased substantially between 1995 and 1996, it was most apparent amongst minority applicants. The number of African American applicants fell from 32 in 1995 to 2 in 1996. Latino applications declined from 107 to 5 in 1996. The share and number of loans to minorities also declined. Only two African Americans and one Latino applicant received Citibank loans in 1996. The share of African American loans fell 63.7% to 2.8% of Citibank mortgages in 1996. The share of loans to Latinos dropped 95.9% to 1.4% of Citibank's conventional mortgages.

Los Angeles

Lending Record by Race and Income of Applicant: Between 1995 and 1996, Citibank took 50% more applications and made 57% more loans, but the benefits of this increased lending went predominantly to white and affluent borrowers. The share of African American applicants fell from 11.2% in 995 to 3.5% in 1996 and the real number of applicants fell by more than half from 57 to 27. The number of Latino applications fell from 252 to 78, and the share of Latino applications dropped from 49.7% in 1995 to 10.2% in 1996. The number of loans to whites grew from 66 in 1995 to 297 in 1996 -- a 350% increase. Over the same period the number of loans to African Americans dropped 57% to just 11 originations, a paltry 2.4% of Citibank's mortgages in 1996. Loans to Latinos decreased 70.8% to 40 mortgages, representing only 8.7% of Citibank's originations.

Citibank rejects minorities more frequently than whites and more frequently than average lenders in Los Angeles. A 1997 ACORN study of all lenders in Los Angeles found that African Americans were rejected 1.69 times as frequently as whites and Latinos were rejected 1.38 times as frequently in Los Angeles in 1996. Citibank rejected African Americans 3.26 times as frequently as whites in 1996 and Latinos 2.40 times as frequently. Even for applicants who are all over 120% of the median income, Citibank rejected wealthy African Americans nearly three times as frequently (2.98) as wealthy whites and wealthy Latinos more than three times as frequently (3.13).

New York

Lending Record by Race and Income of Applicant: Although applications to Citibank increased by nearly 25% and loans increased more than a fifth between 1995 and 1996, little of this increased lending activity benefited minorities or those with low incomes. African American applications climbed 8.5% but the share of African American applicants fell by 10.7%. Latino applications fell slightly, from 134 to 128, but the share of Latino applications fell 21.4% to just 5.0% of all Citibank applicants. Lending to African Americans and Latinos is also dropping. Citibank made 9% fewer loans to African Americans in 1996 than 1995, but the share of loans to African Americans fell 25.0% to 6.6% of Citibank's mortgage originations. Citibank made 18.4% fewer loans to Latinos in 1996, but the share of loans to Latinos fell 32.5% to 3.5% of Citibank mortgages.

Citibank's rejection ratios are higher than average New York lending institutions ACORN studied in 1997. At average New York institutions, African Americans were rejected 2.13 times as frequently as whites in 1996, but at Citibank they were rejected 2.67 times as frequently. Latinos were rejected 1.69 times as frequently as whites on average in 1996, but at Citibank they were rejected 2.39 times as frequently. Even the wealthiest minorities were rejected more frequently than whites with similar incomes. African Americans earning over 120% of the median income were rejected 2.63 times as frequently as whites earning the same amount in 1996. Wealthy Latinos were more than twice (2.12) as likely to be rejected as wealthy white applicants in 1996

Lending Record by Race and Income of Neighborhood: ACORN examined more than 800 loans Citibank made in Manhattan, Brooklyn, Queens and the Bronx and determined that Citibank makes very few loans to low income and minority neighborhoods at all, makes the majority of its loans on Manhattan, and makes essentially no loans to the minority and low income areas on Manhattan. Only 3% of Citibank's loans went to neighborhoods where minorities made up more than 90% of the population, even though these neighborhoods represent 15% of the MSA -- a fivefold under representation. Of the 21 loans made to these neighborhoods, none were made on Manhattan. Citi made only 5% of its loans to census tracts where minorities made up more than 75% of the population, even though they represent 28% of the MSA. Only 1 of these loans, less than a tenth of one percent of Citi's mortgages in 1996, was made on Manhattan even though there are 76 census tracts on the island with these demographics.

Even in the other boroughs, Citibank's record of lending to minority neighborhoods is weak. Only 22% of its lending in Brooklyn, Queens, and the Bronx went to census tracts where minorities make up the majority of the population. Even fewer (10 %) went to neighborhoods where minorities make up more than 75% of the population.

In contrast, the very whitest neighborhoods in the city received the majority of loans. Across all boroughs examined, neighborhoods where whites made up more than 85% of the population received 53% of the loans, although they only make up one third of the MSA. In Manhattan, this is even more distinct, where these 85% white areas received 75% of the Citibank's loans.

The same pattern is evident in Citibank's lending to low income areas. Although 18.2% of the metropolitan area is low-income, it made only six loans in these areas -- fewer than one percent (0.7%) of all of Citibank's mortgage loans. Moderate income census tracts, between 50% and 80% of the median income, represent more than a quarter of the metropolitan area yet Citibank made only 10.0% of its loans to these neighborhoods. In contrast, while less than twenty percent of the census tracts in the metro area exceed 120% of the median income, Citibank made 48.0% of its loans to these areas -- nearly two and a half times their proportion in the city.

Again, the extreme focus of Citibank's lending went to Manhattan's upper income areas and the lending on Manhattan tended to go more towards wealthier areas than in Brooklyn, Queens or the Bronx. Only 0.2% of Citibank's loans on Manhattan went to areas below 50% of the median income and only 5.8% of its loans went to areas below 80% of the median income. In contrast, 67.2% of its loans went to upper income census tracts on Manhattan. There were 86 low-income census tracts on Manhattan that received no loans from Citibank. In Brooklyn, Queens and the Bronx, 17.3% of the loans went to areas under 80% of the median income and only 1.5% of Citibank's loans went to areas under 50% of the median income.

Oakland

Lending Record by Race and Income of Applicant: There has been a dramatic decline in the number of applications from and loans to minorities in Oakland. African American applications fell from 144 in 1995 to 29 in 1996 -- a 79.9% decline. Similarly, Latino applications fell from 199 in 1995 to 38 in 1996 -- an 80.9% drop. Loans to minorities have also dropped precipitously, the share of loans to African Americans fell 74.4% from 24.0% of Citibank mortgages in 1995 to 6.1% in 1996. The share of Latino loans has fallen from 32.1% in 1995 to 7.89% of Citibank originations in 1996 -- a 75.4% decline. Over the same period the share of loans to the wealthiest borrowers has soared.

Citibank's rejection ratios are higher than at average Oakland lenders. Citibank rejected African Americans nearly three times (2.82) as frequently as whites in 1996, compared to ACORN's 1997 finding that average lenders in Oakland rejected African Americans 2.28 times as frequently as whites. Latinos were rejected 2.63 times as frequently as whites at Citibank in 1996, compared to the city average of 1.64. Even upper income African Americans were rejected more than five (5.14) times as frequently as affluent whites in 1996.

Lending Record by Race and Income of Neighborhood: The whitest areas received the majority of Citibank's lending in Oakland. Census tracts comprised of more than 90% white residents make up only 12% of the metropolitan area, but these areas received 30% of the mortgages -- nearly two and half times their representation in the MSA. Neighborhoods where between 80% and 90% of the residents are white received nearly twice the share of Citibank loans as their proportion in the MSA. In stark contrast, the neighborhoods with the highest concentrations of minorities, more than 75% of the residents were minorities, made up 16% of the MSA (more than the whitest neighborhoods) but received only 4% of the Citibank mortgages made in the metro area -- a 400% under representation.

Citibank lending also focused on the wealthiest areas in Oakland. Upper income areas represent one fifth of the metro area, but Citibank made 62.3% of its loans to neighborhoods over 120% of the median income -- a more than 300% over-representation. Low-income areas are twenty percent of Oakland's census tracts, but Citibank made only 14 loans there, a mere 3.8% of its loans.

St. Louis

Lending Record by Race and Income of Applicant: Between 1995 and 1996, the number of African American applicants to Citibank fell by 75%, from 15 to 6. The share Citibank lending to African Americans declined even more sharply over the same period decreasing from 2.64% of all of its loans in 1995 to 1.33% of its loans in 1996. In all, Citibank made 8 loans to African Americans in 1995 and only 3 in 1996. It only took 2 applications from Latinos between 1995 and 1996, and made 2 loans.

The Citibank rejection ratio for St. Louis was the highest of the ten cities examined and markedly higher than the areas average lender. In 1996, African Americans were ten and half times as likely to be rejected as white applicants by Citibank. The analysis ACORN performed in 1997 found that the average lender in St. Louis rejected African Americans only slightly more frequently than white applicants, the citywide rejection ratio was 1.34 in 1996 about eight times lower than the Citibank ratio.

San Jose

Lending Record by Race and Income of Applicant: African American applications fell to only four in 1996 from 18 in 1995. The share of African American applicants slid from 3.8% in 1995 to 0.8% in 1996. Latino applications fell from 114 to 19, and the share of Latino applications fell 83.9% from 24.3% to 4.9%. Lending to minorities has also fallen fast. In 1995, Citibank made 68 loans to African Americans and Latinos. By 1996, the figure had fallen to 11 -- more than an 80% decrease. The share of loans to African Americans fell from 3.3% in 1995 to 0.6% in 1996. Latinos received 18.9% of Citibank's mortgage loans in 1995, by 1996 they received only 2.6% of the loans.

Latinos were rejected more than four and a half times (4.59) as frequently as white applicants at Citibank in 1996. African Americans were rejected more than four times (4.33) as frequently as whites in 1996. In 1995, upper income Latinos were rejected nearly four times (3.95) as frequently as wealthy whites and in 1995 upper income African Americans were rejected more than four (4.30) times as frequently as upper income whites.

Washington, DC

Lending Record by Race and Income of Applicant: Applications from African Americans fell from 194 to 76 between 1995 and 1996. The share of applications from African Americans fell from 32.7% in 1995 to 11.1% in 1996 -- a 65.9% decline. Latino applications fell from 57 to 15 between 1995 and 1996, representing a 77.1% decrease in the share of Latino applicants from 9.6% to 2.2%. Minority borrowers received nearly 40% of Citibank's mortgages in 1995 but only

10.4% in 1996. Citibank lending to African Americans fell from 116 in 1995 to 41 in 1996. Lending to Latinos fell from 32 in 1995 to 8 in 1996.

Citibank's rejection ratios exceed the average of Washington, DC lenders ACORN examined in 1997. Citibank rejected African Americans more than three (3.39) times as frequently as whites in 1996, compared to the city average of 2.31. It also rejected Latinos more than three (3.23) times as frequently as white applicants in 1996, compared to the area average of 1.83. Even upper income minorities were rejected more than three times as frequently as whites with similar incomes in 1996 (3.31 for African Americans and 3.37 for Latinos).

Lending Record by Race and Income of Neighborhood: Citibank made few of its loans to minorities in Washington, DC. Although 28% of the Washington, DC census tracts are minority majority, these tracts received only 9% of Citibank's mortgages in the metro area -- a 300% under representation. Conversely, neighborhoods where more than 80% of the residents are white received more than 70% of Citibank's lending, despite making up only 46% of the metro area.

Citibank made only 6 loans to low-income areas in Washington, even though 16% of the census tracts are low-income. Though nearly thirty percent of the metro area is moderate income Citibank made only 14% of its loans to these neighborhoods. Instead, it made the majority of its loans (55%) to census tracts over 120% of the median income even though these neighborhoods are only 17% of the metro area – a three fold over-representation.

The Trouble with Travelers

Though there is no comparable data that is publicly available on Travelers record of serving low-income and minority communities, there are recent events and studies which indicate that its record may be no better than that of Citibank's, indeed it could be worse. There is evidence that Travelers underwriting guidelines for homeowners and automobile insurance are structured in such a way as to make insurance more expensive, less comprehensive or unavailable in these communities.

The National Fair Housing Alliance has recently filed a Fair Housing Act complaint with HUD against Travelers for underwriting guidelines that disparately impact minority communities. In Washington, DC, for example, Travelers will not insure homes worth under $250,000 which effectively makes its insurance unavailable for 90% of homes in Latino and African American neighborhoods. It also refuses to underwrite policies for homes older than 45 years, which excludes 38% of the homes in minority neighborhoods – nearly twice the share of homes excluded in white neighborhoods. Additionally, Travelers requires a credit check to acquire its insurance product, even though credit history is not an indicator for riskier policyholders who might file more claims.

Travelers also makes little commitment to service the minority communities in Washington. Like many insurers, its agents have all but disappeared from minority and integrated neighborhoods, the complaint alleges. The National Fair Housing Alliance used matched-pair testers to verify bias in the underwriting of policies at Travelers and found differential treatment against African Americans.

The lack of service in low-income, minority inner city neighborhoods can be seen in other lines of Travelers business as well. It's Commercial Credit Corporation, which originates mortgages, home equity loans and consumer loans, operates in Illinois, New York, New Jersey, Ohio, and Pennsylvania. The vast majority of its 257 offices are located in the suburbs and small towns. In fact only one office was located in a major city, Philadelphia.

Its auto insurance products also suggest redlining low-income and minority communities. In New York City, the Department of Consumer Affairs found that although 1.26% of the states insured automobiles were in the Bronx and Queens, but Travelers seemed to avoid servicing these areas.

Only 0.46% of Travelers' 303,000 policies were for cars in the Bronx or Queens, 63% less than the two borough's share of cars.

The reliance on anecdotal evidence of Travelers record of serving low-income and minority neighborhoods fairly only underscores the need for further disclosure of Travelers business activities. The disclosure of lending and banking industry information has been critical to making the industry fairer to all consumers and borrowers.

Conclusion:

The formation of Citigroup from the merger of Citibank and Travelers will create the largest financial entity in the world. Given the magnitude and complexity of the merger, ACORN urges diligence and scrutiny of this deal. ACORN believes Citibank and Travelers' poor record of serving low-income and minority individuals and communities must be weighed heavily as regulators consider granting historic powers to Citigroup.

The merger will create a banking institution which would be in violation of current banking law, namely Glass-Steagel and the Bank Holding Company Acts which prohibit the merging of depository institutions with insurers and securities firms. Additionally, the merger application needs to be considered with respect to the impact the acquisition will have on local communities as well as carefully consider Community Reinvestment Act issues. Local communities especially need assurances that this merger will not drain capital and resources out of their communities through deposits and insurance premiums to finance the expansion of Citigroup here and across the world.

All appropriate regulators with jurisdiction over this merger should hold public hearings in their communities to both ask the companies to more fully elucidate their record and to give citizens and community groups the opportunity to express their concerns and opinions.

Methodology:

ACORN examined Citibank's lending activity in nine metropolitan areas between 1995 and 1996. ACORN analyzed Home Mortgage Disclosure Act (HMDA) data released from the Community Right to Know Network. HMDA requires depository institutions with more than $30 million in assets to report annually to the Federal Financial Institutions Examination Council (FFIEC). The 1997 data will not become available until the middle of the summer. The reporting includes the number and type of loans correlated by race, gender and income of the applicants, the disposition of those applications in each Metropolitan Statistical area where loans are originated.

The lending record by applicant analysis covers applications for all conventional, single family owner occupied mortgages. Citibank took 13,899 of these applications in 1995 and 1996 and made 9,505 loans in the following MSAs: Baltimore, Chicago, Las Vegas, Los Angeles, Miami, New York, Oakland, San Jose, St. Louis and Washington, DC. The lending record by neighborhood analysis covers all single family, owner occupied mortgages, including FHA and VA loans, in six MSAs including: Baltimore, Chicago, New York, Oakland, and Washington DC. For both analyses Citibank operations which were examined included Citibank NA, Citibank FSB, Citibank Mortgage, Citibank Nevada, and Citibank New York State.

Traveling to Travelers: Travelers Homeowners Insurance Agents Located Far from Inner City Homes

Summary

Travelers homeowners insurance business primarily operates in the suburban, wealthier, whiter neighborhoods and caters to these customers while leaving minority and inner city neighborhoods alone. Its agents are located away from inner city neighborhoods and frequently at some distance from downtown areas. It markets its products and services aggressively on the internet but weakly in the yellow pages. These factors suggest that Travelers is actively pursuing wealthier clientele while ignoring inner city minority communities.

In general, the pattern of locating agents beyond inner city minority neighborhoods effectively redlines those areas out of Travelers' business. Most of an agent's business comes within 3 miles of their office location, according to industry studies, and agent location was a key element of the Justice Department's Fair Housing suit against American Family in 1995[i]. Many academic studies have demonstrated the correlation between agent location, service, and race. ACORN's preliminary look at the locations of Travelers agents and its advertising practices raises serious concerns about the company's commitment to inner city, and particularly, minority neighborhoods.

Findings

- The racial composition of the zip codes where Travelers agents are located are measurably whiter than the overall racial breakdown of the cities studied. Three out of four Travelers agents are located in zip codes where whites make up more than 85% of the population. The metropolitan areas of the ten cities on average were made up of 76% white residents and 16% African American residents. In comparison, Travelers agents were located in zip codes which were 86% white and only 6% African American, meaning the agent locations are in zip codes that markedly whiter and more than two thirds less African American than the overall makeup of the metropolitan areas.

- Travelers agents are located predominantly in suburban areas, particularly whiter more affluent areas. In the metro areas studied, fewer than one third of the agents were located within city limits. Some cities were particularly ignored: only 2% of Travelers agents were within Philadelphia city limits, 8% within the borders of Bridgeport, and only 13% within the District of Columbia.

- Travelers agents are located some distance from inner city minority neighborhoods. On average, Travelers agents were more than 17 miles away from ACORN offices, typically located to be accessible to our low- and moderate-income constituency. In New York, the average distance from ACORN's centrally located Brooklyn office was over 24 miles. In Philadelphia Travelers agents were an average of more than 20 miles away from ACORN's North Philadelphia office. Importantly, the vast majority of the Travelers agents are located further than three miles from ACORN neighborhoods, which is the range where agents do the bulk of their business. On average, 93% of all of Travelers agents studied were further than three miles from ACORN neighborhoods. Even in Dallas, the city with the highest density of Travelers agents within three miles, less than 20% of the agents were within that distance.

- Little information about Travelers is available for average consumers. Travelers has a paltry presence in commercial telephone directories with few agents listed at all and a complete lack of advertising (including the absence of the company umbrella logo unlike its competitors Prudential, State Farm, Nationwide, MetLife). To the extent there is a presence in the phone book, it is more likely to be in suburban editions than the city directories.

- In contrast, the company's internet home page lists many more agents than in the phone book. An extensive examination of inner city and suburban telephone directories in Chicago and Philadelphia found that there were three and two and a half times as many agents respectively on the internet than in the phone book. This demonstrates Travelers focus on white clients, who make up the majority of internet users.

Methodology

ACORN examined Travelers agent locations in ten cities across the country both through a survey of business telephone directories as well as an analysis of the company's agent locations provided by its internet home page. The telephone directory survey consisted of comparing the agent listings in inner city and suburban directories. The internet site survey consisted of comparing the locations of the agents listed on its "Travelers Agent Locator" site within a fifty mile radius of an inner city location. The site provides addresses which were plotted on maps to show the geographic spread of its agents. Fifty miles was chosen to ensure as many agents within the metropolitan area could be examined as possible.

The cities studied were Bridgeport, Chicago, Dallas, Denver, Houston, Milwaukee, Minneapolis-St. Paul, New York, Philadelphia, and Washington DC. A phone book survey was additionally compiled for New Orleans. The zip codes of ACORN offices were used to measure the distance from Travelers agents. In general, ACORN offices are either located in central business districts or minority communities. The racial composition of the zip codes where Travelers agents are located was determined from census bureau data.

Internet "Travelers Agent Locator" Survey

In general, Travelers agents were located far from inner city residents and well beyond the distance most agents would conduct business. Agents primarily solicit business through direct mail, cold calling and telemarketing within three miles of their location. On average, 93% of Travelers agents are further than three miles from ACORN neighborhoods. Philadelphia and Houston have no agents within three miles of ACORN neighborhoods. Even the city with the highest concentration of agents within city limits was less than 20%. This demonstrates a pattern of racial redlining on the part of Travelers to avoid serving these communities.

The average distance to a Travelers agent was more than 17 miles from ACORN neighborhoods. Bridgeport had the highest average distance of nearly 35 miles, New York ranked second averaging 24 miles, and Philadelphia was third averaging more than 20 miles. Only in Houston and Minneapolis-St. Paul was the average under 10 miles, averaging 8 miles each. On average, more than two thirds of the Travelers agents were located outside the city limits, a figure which is somewhat inflated by the high density of agents in Houston and Dallas which have very large city boundaries. The average without Houston and Dallas would be 20%, and none of the other metro area examined had the majority of agents within its boundaries.

Telephone Directory Survey

ACORN examined the Travelers telephone listings in the major commercial yellow pages in each city and surrounding suburbs and found that there were more listings in suburban directories than those in the inner city directories. In all cases, Travelers had very limited advertising presence. It did not purchase advertising space, instead listing only the company name and a list of its agents. In some cases the agents were set apart from other listings with a box. Clearly one could easily overlook the limited Travelers listing in a section of the phone book which is often thirty pages long.

For example, there were two listings for Travelers agents in the Philadelphia Bell Atlantic Yellow Pages 1999 directory. One of those was downtown, the other was in the Northeast, a predominantly white and upper-middle class area of the city. However, there were twelve listings in the suburban Montgomery County and Bucks County directories. A thirty year examination of the county seat of Montgomery County shows Travelers increasing its suburban presence. In 1966, the Norristown phone book listed no Travelers agents, in 1978 it listed two, and in 1997 it listed five.

In Chicago's Consumer Yellow Pages, there are three Travelers agents listed, but four are listed in the suburban Winnetka, Lake Forest and Oak Park directories. In Manhattan, New York, there are eight agents listed for Travelers, but there are only four agents listed in Brooklyn and none in the Queens directory. In comparison, there are twelve agents listed in the suburban Nassau county directory. There were 67 agents listed on the Travelers home page for Denver, but there were no listings for Travelers in the Central Denver US West 1996-1997 yellow pages.

Recommendations

- Department of Justice and Housing and Urban Development should start a Fair Housing investigation of Travelers agent location and underwriting practices along with an aggressive matched pair testing program and bring charges against any and all violations of the law.

- The Federal Reserve should reject the application for Travelers to merge with Citibank. The pending merger should be rejected on Community Reinvestment Act grounds since neither partner has an acceptable service record. ACORN documented Citibank's record in a study released last month.

- The state insurance commissioners should investigate Travelers for fair housing violations to determine whether there are patterns of discrimination or bias around service and underwriting guidelines.

City by City Analysis

Bridgeport: While there is one agent located in Bridgeport, there are no other agents located within twenty miles of the city. The majority of the agents are located in wealthy suburban areas including Danbury, Waterbury and Stamford. 71% of the agents are located in zip codes where whites make up more than 85% of the population.

Chicago: Of the four Travelers agents located within the city border, one is in the Loop, two are on the far north side and one is in the southwest on the border with Burbank. The majority of the agents are located in the suburbs, on average 18 miles from downtown. There are offices in River Forest, Hinsdale, and Lake Bluff but none in the predominantly minority areas of the south side and west side of Chicago.

Dallas: There are no Travelers' agents in the "southern sector" except for one office in the suburb of Cedar Hill. There are no offices in Oak Cliff, with a population of over 300,000. The southern sector is also the area with the largest concentration of minorities and low- and moderate-income families. In contrast, the exclusive enclaves of Highland Park and University Park, where the average house price is three times as high as for the metro area, each have a Travelers agent. 85% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

Denver: Travelers has dozens of branches in the predominantly white and affluent south east Denver and none in the African American and Latino areas of north and north east Denver. In comparison, in the mountain town of Evergreen there are three agents. 82% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

Houston: The Travelers offices are primarily located in more affluent areas of the Memorial or Galleria along with Bellaire, an upper middle class suburb. A few other agents are clustered in West Houston, another more affluent area. 64% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

Milwaukee: Travelers agents are primarily located in the more affluent suburbs like West Allis, Brookfield, and Wauwatosa. None are located in the minority and low- and moderate-income areas. The average agent is located 15 miles from downtown. Every single agent is located in zip codes where whites make up more than 85% of the population.

Minneapolis-St. Paul: The majority of Travelers agents wealthier and whiter suburbs including Minnetonka and Eden Prairie. Of the agents in St. Paul, one of the two is located in the posh Macalester-Groveland neighborhood. 64% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

New Orleans: From a phone book survey ACORN found that 66% of the Travelers agents are located in zip codes where whites exceed 85% of the population. One of the two offices located in a more integrated zip code is instead in a central business district with a markedly smaller population. ACORN made several test calls to Travelers agents and found that they would not provide Travelers policies for properties valued under $50,000, which is above many inner city home values in New Orleans.

New York: The vast bulk of Travelers agents are on Long Island and north of Westchester County. The majority of the 20% of Travelers agents which are located within the five borough area are in downtown Manhattan. Two more are in Staten Island, one is in Brooklyn Heights, with two more in Brooklyn, two in the Bronx, and two in Flushing. 71% of the Travelers agents in the metro area are located in zip codes where whites make up more than 85% of the population.

Philadelphia: The only Travelers agent located within the city limits is in the Northeast, well over three miles from the concentrations of African Americans in the north and west of the city. 98% of the agents are located in the suburbs. There are six agents in Bucks County's seat, Doylestown, and three in Montgomery County's seat, Norristown. 91% of Travelers agents in the metro area are in zip codes where whites make up more than 85% of the population.

Washington: Only two agents are located with the city boundary, one just north of the White House and one in Georgetown. The remainder of the metro area's Travelers agents are in suburban Maryland (College Park, Wheaton, and Bethesda) and even further away in Virginia (including Manassas, Woodbridge, King George, and Montross). Three out of four agents are located in zip codes where whites make up more than 85% of the population.

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[i] Ritter, Richard J., "Racial Justice and the Role of the US Department of Justice in Combating Insurance Redlining," printed in Insurance Redlining: Disinvestment, Reinvestment, and the Evolving Role of Financial Institutions, 1997. Also, Gregory Squires, William Bellows, Karl Taeuber, "Insurance Redlining, Agency Location, and the Process of Urban Disinvestment." Urban Affairs Quarterly, 1991, vol. 26, no iv, pp 567-588.

PUBLIC ADVOCATE FOR THE CITY OF NEW YORK

MARK GREEN
Public Advocate

STATEMENT OF MARK GREEN
PUBLIC ADVOCATE FOR THE CITY OF NEW YORK
AT THE
FEDERAL RESERVE BOARD PUBLIC MEETING
ON THE PROPOSAL OF TRAVELERS GROUP TO ACQUIRE CITICORP

June 25, 1998

If you approve the Travelers Group application, you will be giving a green light to the restructuring of the bulk of the nation's financial services industry into a handful of massive financial services conglomerates. I urge you to say no to this application because such a restructuring would occur in the absence of crucial laws to protect consumers, because it would expose taxpayers to enormous liability, and because it would likely diminish the effectiveness of the Community Reinvestment Act (CRA).

Members of Citicorp-Travelers Watch will testify today and tomorrow on the threat your approval could pose to the CRA. They will also document Citicorp's comparatively poor community reinvestment record and Travelers' virtual absence from inner-city communities. I will focus my comments on consumer issues such as cross-marketing and personal privacy and on how the current regulatory oversight system is inadequate for multi-faceted financial services conglomerates such as the proposed Citigroup.

Cross-marketing and *de facto* product tying.

Although Citicorp and Travelers have stated that their chief merger motivation is to cross-market their wide array financial services and products, the applicant did not answer the Board's explicit request for "detailed information" about cross-marketing plans. In its reply to your written questions, Travelers Group said that while there are "no detailed plans" for cross-marketing, they "will develop over time."

Since cross-marketing presents serious consumer pitfalls, it is important to know now-- not after you've reached your decision -- how Citigroup is going to cross-market among its affiliates. One of these pitfalls is "product tying" -- the *de facto* requirement for a customer buying one financial product to purchase another one at the same time. Consider the position of someone applying for a car loan from one Citigroup affiliate who is handed a credit insurance application from another Citigroup affiliate. It would be very

and banking affiliates serves only to increase the motivation to cross-market these products. Rep. John Dingell has proposed giving the SEC more power to regulate brokerage activities in banks because current protections are insufficient. The Travelers Group acquisition of Citicorp would occur without such necessary new protections

NationsBank is not an isolated case. A May 1996 study by the FDIC found that more than one-fourth of the banks surveyed failed to tell on-site customers that products are not insured and 55 percent failed to inform telephone customers.

Consumers are vulnerable to misinformation and manipulation. A 1994 survey conducted for the American Association of Retired Persons and the North American Securities Administrators Association found that fewer than one in five bank customers understood that products such as mutual funds and annuities are uninsured.

Consumer privacy

The Consumer Electronic Payments Task Force, headed by the Comptroller of the Currency, released a report in May 1998 that raised a number of serious concerns about the possible misuse of personal financial information. One of the report's findings was that Americans are concerned about the use of transaction information for purposes other than the original transaction. This is exactly what Travelers and Citicorp intend to do, since their proposed acquisition is premised in large part on using consumer information obtained in one transaction for other purposes. The Board should not approve the Travelers application until new privacy protections applying to financial services conglomerates are enacted into law.

Primerica, Credit Corporation, Citibank, and Salomon Smith Barney possess intimate, private information about tens of millions Americans. Through loan applications they know about the jobs many people hold, from credit card records they know about recent purchases, from mortgage applications they know the age and value of their residences, from auto insurance files they know about driving records, and from banking files they know if there was recently a large deposit in an account. Travelers recently sold an HMO which provided access to personal medical data such as records of visits to mental therapists; Travelers could re-enter the health insurance business and regain access to health information. Nothing prevents the proposed Citigroup from disseminating this kind of very sensitive personal information among its far-flung affiliates.

Travelers has told you that it would deal with information dissemination issues by adopting an "opt out" system by which consumers could affirmatively indicate to Citigroup that they do not want their personal information shared. Travelers did not explain how this "opt out" would function. However, Acting Comptroller of the Currency Julie Williams, in a May 8th speech before a banking organization on privacy concerns, warned of serious problems with the "opt out" method where currently used, such as that the "opt out" disclosures are "buried in the middle or near the end of a multi-page agreement." A much better approach would to require consumers to affirmatively "opt in" to approve dissemination of personal information among Citigroup affiliates.

Putting taxpayers on the line.

When Citicorp was on the brink of insolvency earlier this decade, it was widely believed that the government would not let it collapse because it was "too big to fail"-- i.e., the repercussions on the banking system and the economy would have been too serious. Citigroup would be more than twice as big as Citibank. Practically speaking, to make extra sure that such a behemoth never fails, Citigroup as a whole would need to be regulated and monitored more rigorously than at present. Unfortunately, the regulatory structure required to virtually eliminate the possibility of a Citigroup failure doesn't exist. And the inadequacy of current fire walls separating banking, insurance, and securities affiliates pose a special threat to the bank deposit insurance funds.

Fire walls. Although it is claimed that Citigroup's affiliates would stand alone under all circumstances, realistically speaking, serious reverses and losses in one affiliate would redound on the entire holding company. It is highly improbable that regulators would permit a major non-bank affiliate of a financial services holding company such as Citigroup to fail or even to come close to failure because such a development could destroy public confidence in the holding company's government-insured affiliates. Ultimately, a failure of a non-bank affiliate could lead to a bail-out using either deposit insurance funds or funds appropriated by Congress. This is a particular concern with Citigroup. Since the non-insured portion of Citigroup would be larger than the insured portion, large losses at one of the non-insured affiliates could have a very significant impact on public confidence in Citibank.

The current good times aren't going to last forever. The Clinton Administration is properly concerned that an Asian economic meltdown triggered by Japan could have severe repercussions for U.S. banks, securities firms and even insurance companies. So it is essential that the Board move very slowly and cautiously when considering the approval of a new financial structure like Citigroup that could become very unstable in times of economic stress.

It shouldn't be forgotten that only a few years ago Citibank itself was in trouble and was saved by a $2.6 billion capital investment in the bank by a Middle Eastern prince and by low rates charged by the Federal Reserve System that allowed it to make large lending profits .

Regulatory oversight. Nearly one-quarter of Citigroup's total revenue would come from insurance, based on 1997 figures. Although it would now be linked to Citibank and its billions of dollars of FDIC-insured deposits, Travelers' insurance subsidiaries would essentially remain free of any federal safety and soundness oversight since insurance companies are entirely regulated by the states.

State insurance department examinations, capital requirements and regulatory enforcement would continue to apply to insurance companies owned by financial services holding companies such as Citigroup. Many states' insurance departments are under-funded, understaffed and uncomfortably close to the industry they are supposed to oversee. This was a conclusion of the report the Oversight Subcommittee of the House Commerce Committee in 1990, which found "numerous weaknesses and breakdowns in this [state insurance regulation] system, including lack of coordination and cooperation, infrequent examinations based on outdated information, insufficient capital requirements and licensing procedures, failure to require use of actuaries and independent audits, and improper influence on regulators." One must remember that approval of this application will set the mold for more to come. Practically speaking, a joinder of Citicorp and Travelers -- and more such combinations now being considered -- would extend government deposit insurance to questionably state-insurance affiliates.

There also are serious concerns about the coordination of regulatory oversight among numerous federal bodies that regulate banking and securities. Each agency has its own area of expertise, while what is really needed is a single body with a wide range of expertise that can closely monitor the entire financial services holding company. The General Accounting Office has been very critical of the lack of regulatory coordination that results from mixing insurance, securities, and banking in one entity.

Therefore, Travelers Group's application should not be approved absent the establishment of an effective overall regulatory structure.

Conclusion

There is no emergency requiring approval of this application at this time. And with our financial institutions doing very well in worldwide competition, any arguments that we need massive banks" and mega-holding companies such as Citigroup to compete effectively in financial services are groundless.

The only benefit for consumers that the applicant seems to be able to cite are one-stop shopping and more personalized service. The American people are not clamoring for these supposed benefits. Therefore, since the proposed nonbanking activities cannot be reasonably expected to produce benefits to the public that outweigh the possible adverse effects, the application should be rejected.

REMARKS BY
MICHAEL D. LAPPIN, PRESIDENT
THE COMMUNITY PRESERVATION CORPORATION
AT FEDERAL RESERVE BANK OF NEW YORK PUBLIC MEETING
REGARDING TRAVELERS GROUP, INC. AND CITICORP
JUNE 25, 1998

Thank you for this opportunity to speak before the Federal Reserve regarding Citibank's support of The Community Preservation Corporation.

CPC is an affordable housing lending consortium that operates throughout New York State and will shortly open office to serve New Jersey. Our mission is to provide financing to help preserve low and moderate income communities. CPC is one of the largest affordable housing lenders in the country, having to date invested over $1.8 billion for the rehabilitation, development and preservation of almost 62,000 housing units.

Citibank is one of our founding banks, dating back to 1974 when our first credit agreements were signed. Since then, Citibank has been unwavering in its commitment to CPC. It has had a director and mortgage officer sit on our Board and our Mortgage Committee since inception. Currently, Pam Flaherty serves on our Board, our audit committee, and our strategic planning committee.

Bernice Giscombe serves on our New York City mortgage committee. Both are highly valued participants in CPC, and give freely of their time and experience in guiding our company and our investments.

Citibank's standing financial commitments to CPC total over $26 million. Additionally, they have made investments and grants in other projects CPC is involved in, most recently the Nehemiah housing program where they have made a sizable no-interest loan to help rebuild this blighted community with 600 new homes. Citibank has always been among the first institutions to sign up for new CPC initiatives, and have encouraged others to do the same. They will be a founding participant in CPC's expansion to New Jersey.

Citibank is providing enthusiastic support for our efforts to revitalize the 12,000-unit Parkchester condominium complex in the Bronx. They have signed an expression of interest to provide up to $20 million in financing for the property, and are working closely with us regarding end loans.

The bank has also provided longstanding support for the many initiatives we have made on legislative issues regarding affordable housing.

In closing, Citibank's 23 years of support and financing have been a crucial underpinning to CPC's success in helping the affordable housing needs of the low and moderate income neighborhoods we serve.

STATEMENT of KAREN M. THOMAS
INDEPENDENT BANKERS ASSOCIATION of AMERICA
Travelers/Citicorp Hearing
Federal Reserve Bank of New York
June 25, 1998

Good morning. Thank you for the opportunity to present the views of the Independent Bankers Association of America[1] on the Travelers/Citicorp merger. I am Karen Thomas, Director of Regulatory Affairs for IBAA. Today, IBAA will file extensive written comments strongly opposing the application. This morning I will summarize the major reasons we oppose.

The proposed merger carries serious adverse consequences for the nation's consumers, community banks and for the entire financial services industry. In fact, the merger is the largest in American business history, and portends awesome restructuring of the financial services industry. There are a lot of problems with this union, but the gratuitous way it treats U.S. banking law and regulation is, perhaps, the most unsettling. It is an illegal merger, announced with the express intent of pressuring Congress into making it legal.

The proposed merger violates two major bulwarks of U.S. banking law. First, it violates the Bank Holding Company Act by seeking to combine insurance underwriting and banking, under the guise of a conditional promise to divest the prohibited insurance activities. Second, it violates the Glass-Steagall Act by invading the barriers between investment and commercial banking established by Congress 65 years ago.

With a hubris not often exhibited to the Federal Reserve Board, the merger parties have frankly admitted they are well aware that existing law prohibits the retention of Travelers' offending insurance activities. They ask the Board to allow the merger anyway, in the hope that Congress will change the law.

Contrary to the merger parties' belief, the divestiture provisions of the Bank Holding Company Act do not allow Citigroup up to five years to warehouse its insurance activities. The divestiture provision is intended to allow an orderly disposition of impermissible activities within two years. It is not available to a bank holding company that has no bona fide present intent or plan to divest, and is vigorously lobbying to change the law to avoid divestiture.

Despite thousands of pages filed with the Fed, Citigroup fails to set forth even the beginnings of an approach to divestiture. No where does Citigroup say it will, as the law now requires, divest its underwriting companies--precisely because it has no such intention. At an April 6th press conference, Travelers CEO Sanford Weill casually dismissed the need for divestiture saying, "I don't think we have

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[1] IBAA is the only national trade association that exclusively represents the interests of the nation's community banks. IBAA speaks for 5,500 institutions with more than 16,000 locations nationwide. Community banks are independently owned and operated banks characterized by attention to customer service, lower fees and a focus on small business, agricultural and consumer lending.

- over -

to spin anything off to make this happen. We are hopeful ... the legislation will change, maybe what we are doing will cause the legislation to change." Citicorp CEO John Reed added he "reasonably believes" that there "will not be a legal problem," but noted that pending legislation would "make this merger, in fact, quite legal." He can't have it both ways.

The Federal Reserve's policy statement on divestiture says that an affected company should "submit a divestiture plan promptly" and "complete the divestiture as early as possible during the specified two-year period." Extensions are not to be granted unless the company "has made substantial and continuous good faith efforts to accomplish the divestiture within the prescribed period." Even if divestiture were available to Citigroup, it has no intention of complying with this policy statement because it has no honest intent to divest.

Equally unprecedented is the scope of the merger's combination of banking and securities activities in violation of Section 20 of the Glass-Steagall Act. The new Citigroup's Section 20 subsidiaries would have combined capital of $23 billion, making it the second largest securities firm in the nation, behind only Merrill Lynch. It would be one of the top five lead managers of securities underwritings, the second largest in debt underwriting and the fourth largest in bank-ineligible equity underwriting.

The unprecedented impact and size of these securities activities render the Board's current 25-percent-of-revenues test ineffective and an inappropriate measure of what constitutes "engaged principally" in securities underwriting. Indeed, back in 1988 when the U.S. Court of Appeals for the Second Circuit reviewed the appropriateness of the then five-percent-of-revenues cap set by the Board, the court said that size alone could contravene Section 20. The court specifically rejected one interpretation of "engaged principally" because it would have allowed a bank to be affiliated with "one of the nation's largest investment bankers," Merrill Lynch -- a result the court said is inconsistent with Congressional intent.

The Board has already approved a number of securities firm acquisitions by bank holding companies using the 25 percent revenue test. However, those firms were on a totally different scale from those in the present application. If Salomon Smith Barney and Robinson-Humphrey are permitted to coalesce into commercial banking, Section 20 of Glass-Steagall has no meaning at all.

Finally, approval of the application would violate the separation of powers doctrine embodied in the Constitution. Approval would improperly usurp the powers of Congress at the very time that Congress is considering legislation--supported by the Board--that would amend both the Bank Holding Company Act and the Glass-Steagall Act to permit the proposed transaction. The transaction is unique. It would create a new bank holding company with assets of almost $700 billion, engaged at the outset in a number of activities Congress has thus far prohibited for bank holding companies. The transaction is essentially too big to unravel as required by current law. Under the circumstances, approval of the application would effectively coerce Congress to amend the law to legitimize the transaction. The Board is being asked to tie Citigroup to the railroad tracks and as the time for divestiture approaches, Congress will have little practical choice but to save the day by amending the law.

The Federal Reserve has always recognized the importance of the rule of law *as the law exists,* not as some might wish it to be. We urge the Board to resist the temptation to advance a legislative agenda through preemption of Congress's current options. The Board should deny the application.

Testimony before the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE
Regarding the Proposed Merger of Citicorp and Travelers Group
June 25, 1998
New York City, New York

Presented by:

Mark Silverman
Summer Law Clerk
Citicorp-Travelers Watch
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My name is Mark Silverman. I am speaking today on behalf of Citicorp-Travelers Watch. Citicorp-Travelers Watch is a coalition of advocates and community groups concerned about the impact of the proposed merger of Citicorp and Travelers on communities and consumers. We formed this coalition because we believe that the proposed merger is one of such unprecedented magnitude and complexity that it warranted special scrutiny.

Citicorp-Travelers Watch is opposed to this proposed merger for several reasons.

First, this merger is illegal. The affiliation between Citibank, as a member bank of the Federal Reserve Board (the Board), and Travelers' subsidiaries that are engaged principally in securities dealings, is simply prohibited by the Glass-Steagall Act. Further, the proposed Citigroup would be in violation of the Bank Holding Company Act by continuing to hold Travelers' subsidiaries dealing in insurance.

Citicorp and Travelers are relying on a two-year grace period under the law to divest themselves of their impermissible insurance holdings. But to date, Citicorp and Travelers have not put forward any plan for divestiture. Although, in its application, Travelers promises that Citigroup would divest itself of its insurance holdings within two years, that promise is conditional, and even grudging. As they candidly admit in the application, Citicorp's and Travelers' real aim is to use the two-year period to get the law changed so that they do not have to divest. Indeed, they have already begun to lobby Congress to that end.

The Board should not allow Citicorp and Travelers to follow this strategy, for at least three reasons.

First, this is not what the two-year provision was designed to do. It is supposed to give newly-formed bank holding companies time to conform to the law, not time to force the law to conform to them.

Second, the law may well not change within that time, and if not, the proposed Citigroup hardly could simultaneously divest from, and integrate into itself, the very same impermissible insurance holdings. More likely, in the absence of a change in the law, Citigroup will be forced into an ill-conceived, hurried divestiture that would threaten the health not only of itself, but, given its would-be status as the world's largest financial institution, the health of the financial markets as well.

Third, in deciding whether to pass financial modernization legislation, Congress should be concerned only with legitimate policy arguments regarding what is best for communities, consumers and the economy. If the Board approves this merger prior to any change in the law, Congress, pressured by Citigroup and concerned about the consequences of a forced divestiture, could enact one of the most embarrassingly blatant pieces of private-interest legislation in recent memory. In short, by serving as an accomplice to Citicorp's and Travelers' strategy of manipulating the law to ends not originally within its contemplation, the Board risks undermining the legitimacy of itself and the legislature, and robs the public of a policy-focused debate over financial modernization.

Further, as documented in Citicorp-Travelers Watch's written comments to be filed with the Board, Citicorp's extremely poor service and lending record is in clear violation of the Community Reinvestment Act, and as such requires denial of the merger application. In addition, the proposed activities of Citigroup clearly fail the public benefits test of the Bank Holding Company Act, and thereby similarly require denial of the application.

Citicorp-Travelers Watch is also concerned that our repeated and reasonable requests for information from theses companies have been largely met with delay and denial. Travelers has been particularly unresponsive, providing us with almost none of the information requested. Citicorp, while responding to more of our request than Travelers, took until just yesterday to do so, and still is unresponsive to certain crucial elements of our request. Further, in response to the Board's own requests for information, Citicorp and Travelers continue, on their own authority, to deem certain information confidential. The public must be given the opportunity to adequately analyze all aspects of this merger by having full access to information, and the Board should be cognizant of its role in ensuring that access.

Finally, Citicorp-Travelers Watch requests that the Board ask all parties testifying before it at this meeting to disclose any financial contributions they may have received from Citicorp or Travelers. We believe that such disclosures are crucial to preserving the legitimacy and propriety of this public meeting.

In sum, the poor service records of both Travelers and Citicorp, the clear legislative mandates of Glass-Steagall and the Bank Holding Company Act, and the cynical strategy of Citicorp and Travelers in manipulating the law, all require denial of this application to merge as a matter of both law and policy. Thank you.

Testimony before the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE
Regarding the Proposed Merger of Citicorp and Travelers Group
June 25, 1998

Hilary Botein, Esq.
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My name is Hilary Botein, and I am the associate director of the Neighborhood Economic Development Advocacy Project (NEDAP). NEDAP is a member of the coalition Citicorp-Travelers Watch. I would like to thank the Federal Reserve Board for holding this public meeting, as it is one critical step in soliciting input from the public about this merger of unprecedented size and complexity.

NEDAP is a resource center for groups and advocates working on economic justice issues in low income neighborhoods and communities of color in New York City, and thus has a unique perspective on community reinvestment issues as they affect neighborhoods all over the city. Accordingly, my testimony will focus on the impact of Citicorp and Travelers' practices on local economies and residents in the neighborhoods where we work. It is worth noting that many organizations testifying in support of the merger are recipients of Citibank grants. We urge you to ask all testifiers if their organizations receive funding from Citibank.

My comments here are limited by time but also by the complexity of the merger. We have not had sufficient time to digest all the material in the application and elsewhere. We have urged the Board, and do so again, to extend the comment period. Furthermore, Citicorp and Travelers have been barely responsive to requests that they provide basic information about their companies, further hindering our ability to analyze the impact of the merger. Travelers has been particularly unforthcoming, which is one of the reasons why my testimony will focus primarily on Citibank's record.

As a threshold matter, NEDAP's position is that the proposed merger is illegal, as it will create an affiliation between a bank holding company and securities and insurance companies that is prohibited by the Glass-Steagall Act and the Bank Holding Company Act, as discussed in more detail by Citicorp-Travelers Watch. If the Board approves the merger without developing standards to be applied to such an unprecedented transaction, it will make a mockery of the regulatory process, by allowing Citicorp and Travelers to brazenly violate existing law.

In addition, Citibank has violated the Community Reinvestment Act, by failing to meet the credit needs of low income communities. From the neighborhood perspective, Citibank is an elusive entity, with scant presence in terms of bank services, loans, or community reinvestment personnel, as I will discuss.

Citibank's retail banking services utterly disregard the needs of low income communities and consumers. Only 6 of the bank's 200 New York City branches are located in low income neighborhoods. In 1996, Citibank closed and downgraded to ATM service a total of 55 branches, harming low income neighborhoods disproportionately. The bank is now promoting 2 new "video branches" in low income neighborhoods, where customers will have no opportunity to speak to a teller or loan officer in person. They might be able to reach a loan officer on the telephone, but the loan officer could be located in Tennessee or Idaho, completely unfamiliar with the unique credit needs of a New York City neighborhood. This plan is an insult to residents, who might well wonder why this special new technology is not appearing in upper-income areas.

By raising its minimum deposit amount for free checking to $6,000 in linked accounts, Citibank sent a further message that it is not interested in the business of low income people, as does its increased emphasis on computer banking, despite the bank's absurd claim in its application to the Board that "Citibank-sponsored research shows that a large percentage of this population plans to buy a computer in the near future." Meanwhile, ironically, a Citicorp subsidiary, Citibank EBT Services, will soon be profiting from electronic delivery of public assistance benefits and food stamps to New York State recipients, while Citibank fails to provide meaningful banking services to precisely the neighborhoods where most public assistance recipients live.

Citibank's own reported Home Mortgage Disclosure Act (HMDA) data demonstrate that the bank targets its home mortgage lending to affluent white borrowers and communities. For example, in 1996, Citibank made only 6 loans to low income neighborhoods in the New York City metropolitan area. Citibank rejected African-American and Latino applicants for conventional home purchase mortgages 2 1/2 times more frequently than white applicants. In Manhattan, predominantly white neighborhoods received 75% of Citibank's loans in 1996. This redlining of low income and minority neighborhoods sets the stage for predatory lenders such as Travelers' subsidiaries Primerica and Commercial Credit, to target their high-rate loan products at low income communities, stepping into the credit void created by Citibank.

In 1996, Citibank made *no* permanent direct loans for purchase of multifamily housing in all of the New York City metropolitan area, where most residents -- at all income levels -- live in multifamily rental housing. Instead, the bank finances multifamily housing only through large intermediary organizations. The bank has failed consistently to provide innovative support to community development projects, choosing instead to invest in low-risk projects in which many other banks are already involved.

Given Citibank's failure to provide retail banking services or loans to low income neighborhoods, it is perhaps not surprising that the bank's community reinvestment staff -- the people who are charged with ensuring that Citibank meets the credit needs of all communities that it serves -- display very little familiarity with communities and their needs. Groups have commented to us that Citibank is reluctant to send high-level staff to community meetings, and that staff, when they do appear, are defensive and combative.

Citicorp and Travelers' $115 billion community reinvestment commitment is yet another example of their complete failure to ascertain or meet community needs. The commitment makes no reference to particular geographic areas where Citicorp and Travelers expect to make loans and investments. More than half of the commitment is earmarked for student loans, credit cards, and other consumer loans.

If the Board approves this merger, it will be approving the unprecedented creation of a financial services giant that subscribes to a "separate and unequal" philosophy. Affluent customers will continue to avail themselves of Citibank's loans, private banking services, and electronic innovations. Low income customers will be served by Primerica, Consumer Credit, and Citibank EBT Services. NEDAP joins with the nine other members of Citicorp-Travelers Watch in urging the Board to deny the application.

TESTIMONY PRESENTED TO THE FEDERAL RESERVE BOARD OF GOVERNORS AT THE PUBLIC MEETING REGARDING CITICORP AND TRAVELERS GROUP

June 25, 1998

PRESENTED BY:
Sarah Ludwig, Esq.
on behalf of the
New York City Community Reinvestment Task Force

Thank you for the opportunity to testify today to register our absolute opposition to the proposed merger of Travelers Group and Citicorp. I am testifying in my capacity as coordinator of the New York City Community Reinvestment Task Force. The Task Force was established in 1995 to promote meaningful reinvestment in affordable housing preservation and development, microenterprise, and community development financial institutions, in New York City's low income communities. Since then, the Task Force network has grown to more than 100 community and city-wide organizations from throughout New York City. Through its Regulatory Working Group, the Task Force has engaged in meetings over the past eight months with each of the federal banking agencies, including representatives of the Federal Reserve Bank of New York, to discuss deficiencies community groups and advocates see in regulators' enforcement of the Community Reinvestment Act (CRA).

It would be impossible to convey all of the grave and wide-ranging concerns we have regarding the proposed Citicorp-Travelers merger in the five minutes allotted, so I'll keep it simple:

The Federal Reserve Board must not approve Travelers' application because the proposed transaction is illegal. To sign off on the merger would constitute an affront to the public, and underscore that large and powerful corporations influence government decision-making even to the point of obtaining approval on illegal transactions. Some would argue that structural changes in the financial services industry are well underway, and that our laws are antiquated and need to be revamped to reflect these changes. The Glass-Steagall and Bank Holding Company Acts are still on the books, however, and the Task Force's firm position is that as long as laws forbid this merger, the Fed will be grossly overstepping its bounds to approve it.

Second, approving the application would constitute hideously unsound policy on the part of the Federal Reserve Board. Travelers and Citicorp would have us think that the proposed merger is simply a routine application to create a bank holding company, and that no special scrutiny is warranted. As we all know, however, the planned Citigroup would be the first of its kind in this country, a new and mammoth holding company that engages in banking, securities, and insurance business. The largest in the country's history, the proposed merger has implications for people and economies at local, regional, national, and global levels. It presents serious new regulatory questions, contrary to what Travelers and Citicorp purport, for which the Federal Reserve has yet to develop a set of standards. It is not surprising that many regard this proposed merger not only as a *fait accompli*, but as a brazen attempt by powerful companies to take advantage of regulatory and legislative processes to create a giant company organized to maximize profits, at whatever expense to communities and consumers.

And then there's Citibank and Travelers' respective records. The Task Force has frequently heard reports concerning Citibank's lack of presence in low income communities throughout New York City. Citibank's practices first came to the Task Force's attention when the bank engaged in aggressive branch closings and conversions to ATM service only, a few years ago. Most Task Force members see a direct correlation between Citibank's lack of branch presence in low income neighborhoods and the bank's failure to engage in direct lending in low income neighborhoods. The OCC recently confirmed that Citibank has reported no direct permanent loans for multi-family lending in the entire New York City Metropolitan Statistical Area for the past several years.

You will hear today and tomorrow from a long list of people representing intermediaries and other organizations, who will testify on behalf of Citibank and the proposed merger -- even though many of them personally agree that the merger is legally impermissible. Many are even keenly aware that Citibank is notorious for its inadequate community reinvestment record in the very neighborhoods their organizations serve. We understand that the proposed merger -- and the bank's public relations efforts surrounding it -- results in sometimes even unspoken pressure on groups to register their support with regulators. The situation we find at this public meeting is especially problematic and disturbing, because *every single person and organization* testifying on behalf of Citibank, Travelers, and the proposed merger is a beneficiary of Citibank (and in a few instances, Travelers). We request that you ask each panelist, as part of his or her testimony, first, to disclose all benefits received from Citibank and Travelers, and, second, to indicate whether or not he or she was asked to testify by either Citibank or Travelers. If you decline this request, we trust you will seriously consider the influence that the companies' largesse has on groups testifying in support of this merger application.

Task Force members have been flabbergasted by Citicorp and Travelers' $115 billion commitment, which dedicates more than half of the ten-year pledge to student loans, credit cards and consumer finance, making the commitment a farse among many local community groups.

The Task Force has been, since its inception, greatly concerned about implications of the rapidly consolidating banking industry for communities and for the CRA. In the instance of the proposed Citigroup, we see numerous contradictory aspects to the proposed merger. Citigroup would constitute an enormous concentration of economic and political power, with both companies working to reduce their on-the-street operations, and instead using their networks to cross-market products. By definition, the proposed entity is too big to address local community needs. We have already seen Citibank limiting its presence in low income communities. Citicorp has found a way to profit from low income people, however. Through electronic benefits transfer programs, Citicorp will continue to play a part in low income people's lives, without ever having actually to step into the communities in which they live. One part of the company would continue to target white affluent communities, while another part would provide sub-prime lending in the very communities Citibank and other mainstream lenders have failed adequately to serve. Travelers, for its part, says it is prepared to divest itself of insurance and securities business if it is unsuccessful in lobbying Congress for the financial modernization legislation it seeks. But we also know the whole deal revolves around cross-marketing and integration of products.

We urge the Federal Reserve Board to hold off on deciding this application as long as the transaction is illegal. We also request that you ensure that Citicorp and Travelers are not improperly withholding information from the public by improperly deeming material confidential, and that the public is included in all relevant communications.

We take for granted that Citicorp and Travelers will push for all they can get. It is up to the Federal Reserve Board to do what's right.

REMARKS BY HOWARD F. SOMMER
PRESIDENT & CEO OF NEW YORK COMMUNITY INVESTMENT COMPANY L.L.C. ("NYCIC")

GOOD MORNING. I AM PLEASED TO HAVE THIS OPPORTUNITY TO BRIEFLY SHARE WITH YOU THE ACTIVITIES OF NYCIC (NEW YORK COMMUNITY INVESTMENT COMPANY), AN INVESTMENT AND LOAN FUND LOCATED IN MANHATTAN AND SERVICING THE CAPITAL NEEDS OF SMALL BUSINESSES THROUGHOUT THE CITY OF NEW YORK, AS WELL AS COMMENT ON THE IMPORTANT ROLE PLAYED BY CITIBANK IN THAT EFFORT.

NYCIC WAS CREATED IN 1995 AS A NEW YORK CLEARINGHOUSE ASSOCIATION MULTI-BANK EFFORT TO MEET THE LACK OF INSTITUTIONAL SOURCES OF EQUITY CAPITAL AND SUBORDINATED DEBT TO THE SMALL BUSINESS COMMUNITY. TRADITIONAL SOURCES OF SUCH FUNDING-VENTURE CAPITAL FUNDS, SBICs, AND INVESTMENT BANKING FIRMS-ALMOST EXCLUSIVELY FOCUS ON LARGER COMPANIES, WITH RELATIVELY HIGH FUNDING REQUIREMENTS, AND WITH POTENTIAL TO CONVERT TO PUBLIC OWNERSHIP WITHIN A FEW YEARS. THE OVERWHELMING SHARE OF SMALL BUSINESSES, PRIVATELY OWNED, WITH SALES OF $500,000 OR $5,000,000, WHOSE FUNDING NEED IS $100,000 OR EVEN $1,000,000, WITH NO NEAR-TERM IPO POTENTIAL, BUT WITH POTENTIAL FOR REVENUE GROWTH AND EMPLOYMENT GAINS, HAVE NO CHOICE BUT TO RELY ON LIMITED PERSONAL FUNDS, EXCESSIVE DEBT LEVELS OR, AS IS OFTEN THE CASE, CONCLUDE THAT THEY ARE UNABLE TO PURSUE EXPANSION OPPORTUNITIES. THIS PROBLEM IS EVEN MORE ACUTE AMONG WOMAN AND MINORITY-OWNED BUSINESSES AND THOSE LOCATED IN AND NEAR THE CITY'S LO AND MODERATE-INCOME AREAS.

A RELATED GOAL OF NYCIC IS TO PROVIDE SIMILAR TYPES OF RISK CAPITAL TO NON-BUSINESS ECONOMIC DEVELOPMENT EFFORTS, INCLUDING PRIVATE SECTOR INITIATIVES LAUNCHED BY NOT-FOR-PROFIT GROUPS, AND OTHER COMMUNITY-BASED ACTIVITIES RELATED TO FOSTERING ENTREPRENERIAL ENERGIES.

FOR THE PAST TWO AND ONE-HALF YEARS, NYCIC HAS BEEN IDENTIFYING GROWING SMALL COMPANIES WITH A NEED FOR PATIENT RISK-CAPITAL IN THE RANGE OF $50,000 TO $1,000,000. WE ARE CLOSE TO FUNDING OUR TWENTIETH DEAL, PUSHING OUR INVESTMENT LEVEL PAST THE $5 MILLION LEVEL. EQUALLY IMPORTANT IS THE FACT THAT NYCIC's MONIES HAS LEVERAGED AN ADDITIONAL $8 MILLION IN CO-INVESTOR AND BANK SUPPORT, THEREBY CAUSING OVER $13 MILLION OF INVESTMENT FUNDS TO SUPPORT NEW YORK CITY'S SMALL BUSINESSES. I SHOULD ALSO ADD THAT CLOSE TO 80% OF CLOSED DEALS WERE TO COMPANIES EITHER WOMAN-OWNED, MINORITY-OWNED OR LOCATED IN LMI CENSUS TRACTS.

CITIBANK'S ACTIVE ROLE IN THIS SUCCESS STORY HAS BEEN MOST IMPRESSIVE. CITIBANK COMMUNITY DEVELOPMENT AND ITS DIRECTOR, MARY COSGROVE, PLAYED A PIVOTAL AND LEADING PART DURING THE CONCEPT AND PLANNING STAGES AS EVIDENCED BY MS. COSGROVE'S

ELECTION TO THE POSITION OF VICE-CHAIRMAN. THIS LEADERSHIP ROLE HAS BEEN FURTHER ENHANCED BY CITIBANK'S FINANCIAL SUPPORT, WHERE THE BANK PARTICIPATED AT THE HIGHEST OF THREE LEVELS OF BANK INVESTMENT AT OVER ONE MILLION DOLLARS. CITIBANK COMMUNITY DEVELOPMENT CONTINUES, ON AN ON-GOING BASIS, TO OFFER ITS FINANCIAL, CREATIVE AND PERSONNEL RESOURCES TO ADVANCE NYCIC's IMPORTANT MISSION. EXAMPLES INCLUDE REFERRALS OF SMALL BUSINESS CLIENTS AND PROSPECTS IN NEED OF LONG-TERM PATIENT CAPITAL AND ACCESS TO AND FUNDING OF A VARIETY OF NYCIC SALES AND MARKETING ACTIVITIES.

EQUALLY IMPORTANT HAS BEEN CITIBANK's COMMITMENT TO THE SPIRIT OF NYCIC's MISSION. MY PERSONAL WORKING EXPERIENCE WITH MS. COSGROVE AND OTHER CITIBANK PERSONNEL HAS BEEN CLEARLY EVIDENCED BY A DEVOTION TO THE CAUSE OF COMMUNITY DEVELOPMENT AND, IN NYCIC's PARTICULAR CASE, TO THE ADVANCEMENT OF ECONOMIC DEVELOPMENT THROUGHOUT THE FIVE BOROUGHS OF THE CITY.

BEFORE CONCLUDING, I MIGHT ADD THAT MORE RECENTLY I HAVE HAD OPPORTUNITY TO WORK WITH THE OTHER PARTY TO THIS MERGER, TRAVELERS GROUP, ON A SIMILAR PROJECT. THE STATE OF NEW YORK RECENTLY PASSED LEGISLATION ESTABLISHING CERTIFIED CAPITAL COMPANIES ELIGIBLE TO RAISE FUNDS FROM THE INSURANCE INDUSTRY FOR VENTURE CAPITAL INVESTING WITHIN THE STATE. NYCIC AND ANOTHER CITY-ORIENTED FUND, THE NEW YORK CITY INVESTMENT FUND, SUCCESFULLY CO-MANAGED THE FORMATION OF A CAPCO AND RAISED SUBSTANTIAL SUMS TO INVEST IN SMALL BUSINESSES, PRIMARILY IN NEW YORK CITY AND SURROUNDING AREAS. TRAVELERS, THROUGH TRAVELERS INSURANCE AND SALOMON SMITH BARNEY, PLAYED LEADING ROLES IN THIS IMPORTANT ENDEAVOR. THE NEW YORK SMALL BUSINESS FUND, CO-MANAGED BY NYCIC AND NYCIF, WOULD NOT HAVE BEEN CAPABLE OF CREATING A NEW $30 MILLION SMALL BUSINESS INVESTMENT VENTURE FUND WITHOUT THEIR TIRELESS SUPPORT. ONCE AGAIN, FROM PERSONAL EXPERIENCE, I CAN WITHOUT HESITATION LAUD TRAVELERS', AND CITIBANK's, COMMITMENT TO THE SPIRIT OF THESE EFFORTS ALONG WITH THEIR TANGIBLE CONTRIBUTIONS.

THANK YOU FOR YOUR TIME. I TRUST THESE FEW COMMENTS ARE HELPFUL.

Federal Reserve Board Public Hearing on Travelers Group/Citicorp Merger
Federal Reserve Bank of New York
June 25, 1998

National Academy Foundation Support of Travelers Group/Citicorp Merger
Written Submission of Testimony of John J. Ferrandino

Description of the NAF and the Academy of Finance

The National Academy Foundation (NAF) is a nonprofit educational organization that combines the knowledge and experience of education, business, and government leaders to better prepare public high school students for their futures: as college students, members of the American workforce, and beyond. NAF accomplishes these goals by seeking out and supporting partnerships between business and public schools. These partnerships take the shape of Academies—essentially, schools within schools—which prepare students for careers in finance, travel and tourism, and public service through a combination of in-school curriculum and work-based paid internships. Each local program has its own advisory board comprising local business leaders and educators who collectively support Academy activities and provide industry training for teachers. All NAF Academies have at least one college partner to provide students with an introduction to college level course work in their chosen Academy field of study.

The first Academy, in the area of finance, opened at one Brooklyn, New York high school in 1982 with 35 students. As of this September 1998, NAF will have nearly 300 Academies in Finance, Travel & Tourism, and Public Service in 33 states across the country, plus the District of Columbia. In just three years, projections indicate a total of 500 NAF Academies in all 50 states. In each of the three subject areas, NAF Academies support career-relevant secondary education and training. Over 90% of NAF graduates continue their education at a two- or four-year college. **Attached is a *General Statistical Overview of the National Academy Foundation* which further illustrates the great success of NAF programs.**

Through its extensive outreach and expansion, NAF is today at the forefront of the school-to-work movement. It is a focus of and model for education reform efforts nationwide. It is the only national organization that successfully builds career academies into the decentralized system of American public education. Of the more than 20,000 students who are or have been NAF Academy students, an estimated 65% have been identified as being at risk of dropping out of school due to their socio-economic circumstances, and over 65% are identified as members of minority populations. NAF's rapid expansion is indicative of a great demand among public schools for a successful reform model.

Travelers Group Support of NAF

The Travelers Group and Sanford I. Weill have served as key factors in the growth and development of the National Academy Foundation from one Academy of Finance in 1982 to a national leader in the school-to-career movement. Roundly acknowledged as the founder of the Academy of Finance, Mr. Weill, then Chairman & CEO of Shearson Loeb Rhodes, approached the New York City Board of Education in 1980 with the goal of developing an educational component that would prepare young people for careers in the financial services operations. In 1982, when Mr. Weill was the President of American Express, he and American Express helped to open the first Academy of Finance, which was designed by educators as a replicable model appropriate for various industries and geographic regions with measurable benefits to young people, teachers, schools, and the corporate community at large. With this "win-win" proposition in place, the Academy model has grown rapidly, with broad corporate support, nationwide.

After leaving American Express to head Commercial Credit, which became Primerica, which then became Travelers Group, Mr. Weill increasingly supplemented his personal leadership with that of the Travelers Group corporate structure. This has provided NAF and its member programs with Travelers Foundation support, internship placements in all subsidiary companies, and Advisory Board participation from both middle and upper management employees.

From 1990 to the present Travelers Group has donated over $4.5 million to NAF which has helped to support the development of computerized, industry-validated curriculum, comprehensive staff development (i.e., teacher training), and technical assistance and quality assurance from the NAF national office to its Academy programs nationwide. These essential services that NAF provides to its member programs are the pillars on which successful NAF Academies are built.

Travelers Group Support of Local Academies

In addition to the support provided to NAF's national activities, Travelers Group -- its subsidiaries, local offices, employees, and The Travelers Foundation -- sponsors paid internships, scholarships, grants to local programs and other services that directly impact the education and improve the lives of the young people involved in NAF Academy programs. In New York City alone, Travelers Group sponsors approximately 100 paid internships for public high school students in the Academy of Finance on an annual basis and provides additional internships for Academy of Finance teachers.

Together, Salomon Smith Barney and The Copeland Companies – both Travelers Group subsidiaries – provide business Advisory Board leadership, paid internships and scholarships for Academy of Finance students in nearly every major city in the United States where NAF has a significant presence. Employees from Primerica Financial Services and other Travelers Group employees serve as guest speakers in Academy of Finance classrooms and Travelers Group employees from all of the subsidiaries have served as mentors and donated vast amounts of time to help students with such things as resume writing and interviewing skills. These same employees may also make personal donations to scholarship funds for Academy students to go on to college.

The Travelers Foundation makes grant funding available for every Academy of Finance program that demonstrates Travelers Group employee involvement. These grants are designed to fund supplemental curriculum materials, student competitions and classroom simulations, state of the art computers and computer software and financial services related field trips.

Travelers Group Industry Leadership to Support NAF Programs

While Travelers Group has made significant contributions to NAF and the Academy of Finance as an individual corporation, its impact on broadening the base of NAF's support to serve more young people has been and, NAF believes will continue to be, one of its major contributions and legacies to American education. Under the leadership of Mr. Weill, the National Academy Foundation's Board of Directors and base of support has expanded to include Merril Lynch, Inc., Prudential Securities, and Bloomberg Information Services. The addition of these companies as NAF's National Partners is the first in what NAF believes will be a series of steps to ensure that students in the Academy of Finance program will receive paid internships, recognition and employment opportunities from an increasing number of firms in the financial services industry. As the Academy of Finance student population is comprised of over 70% minorities and over 60% female, the continuing efforts of Travelers Group to involve more and more financial services companies with NAF Academies will logically serve to increase minority and female employment and influence in the financial services industry as a whole. NAF believes that the merger between Travelers Group and Citicorp is yet another positive step that will enable NAF to involve more financial services industry firms in its mission to serve all students.

Conclusion

Travelers Group support for the National Academy Foundation has a great and positive impact on more than 13,000 high school students. NAF sincerely believes that the merger between Travelers Group and Citicorp will greatly increase NAF's ability to provide quality educational opportunities to America's young people and will create a more diverse workforce for the financial services industry of the 21st century. It is for these reasons that the National Academy Foundation wholeheartedly supports the merger between Travelers Group and Citicorp. NAF thanks the Federal Reserve Board for the opportunity to express that support.

NATIONAL ACADEMY FOUNDATION

GENERAL STATISTICAL OVERVIEW

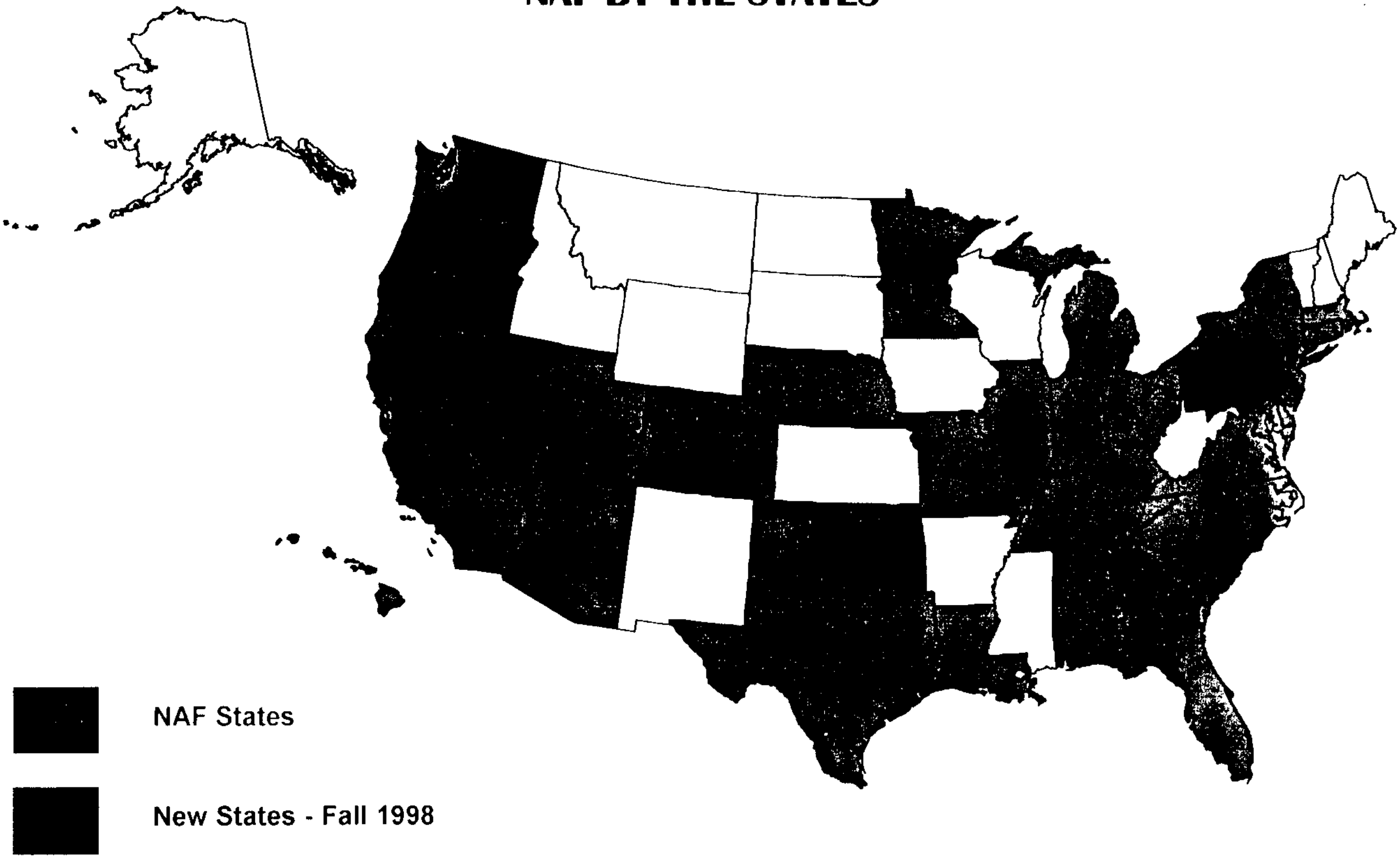
ACADEMY OF FINANCE

ACADEMY OF TRAVEL & TOURISM

ACADEMY OF PUBLIC SERVICE

1997-1998 School Year

NAF BY THE STATES



Business Partnerships
For
American Education

PROGRAM SITES
1997 - 1998 Academic Year

<u>NAF Programs are located in</u>:

238 High Schools

117 School Systems

31 States and the District of Columbia

<u>AOF Programs are located in</u>:

136 High Schools

83 School Systems

30 States

<u>AOTT Programs are located in</u>:

90 High Schools

57 School Systems

24 States and the District of Columbia

<u>APS Programs are Located in</u>:

12 High Schools

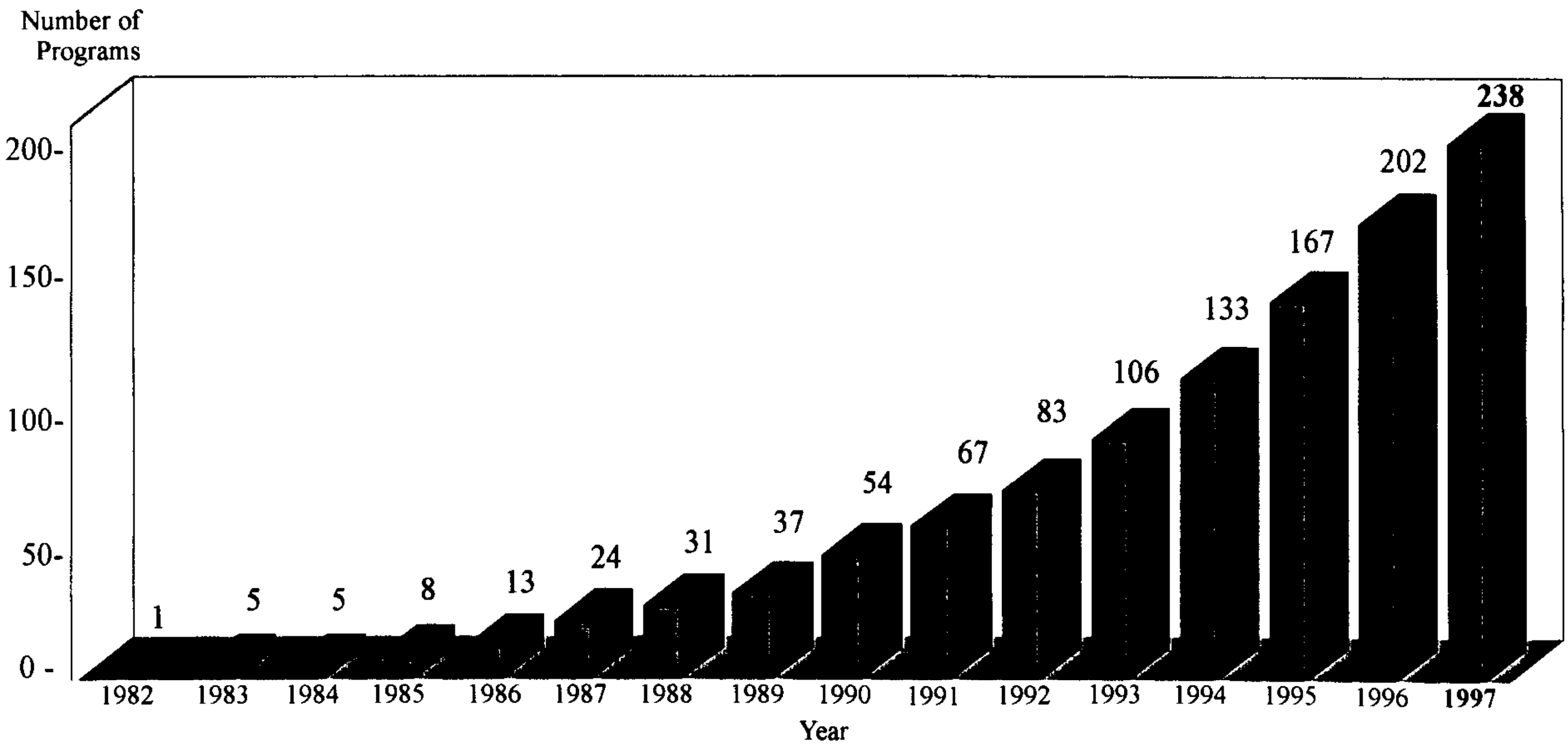
9 School Systems

7 States

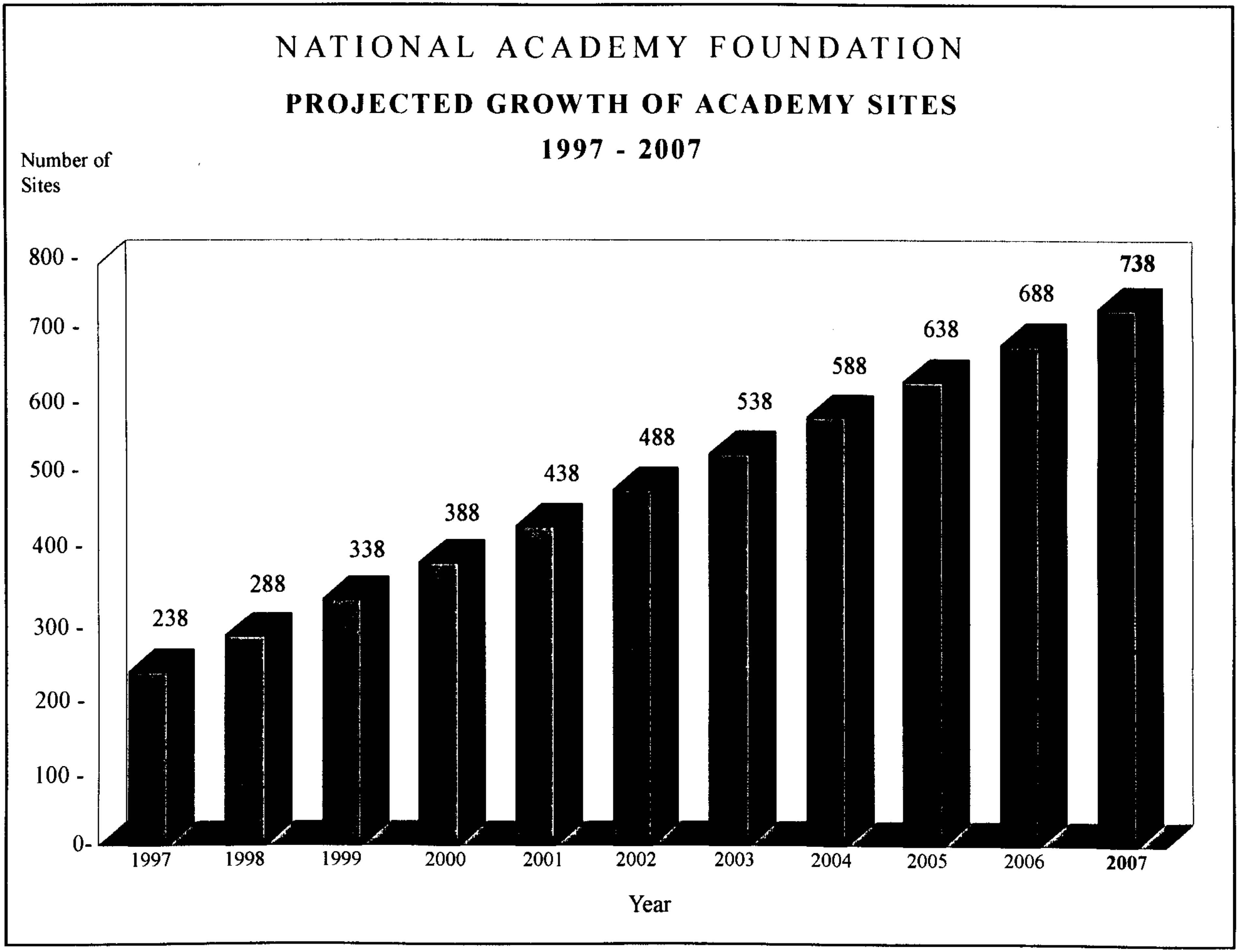
NATIONAL ACADEMY FOUNDATION

NAF PROGRAM EXPANSION

1982 - 1997



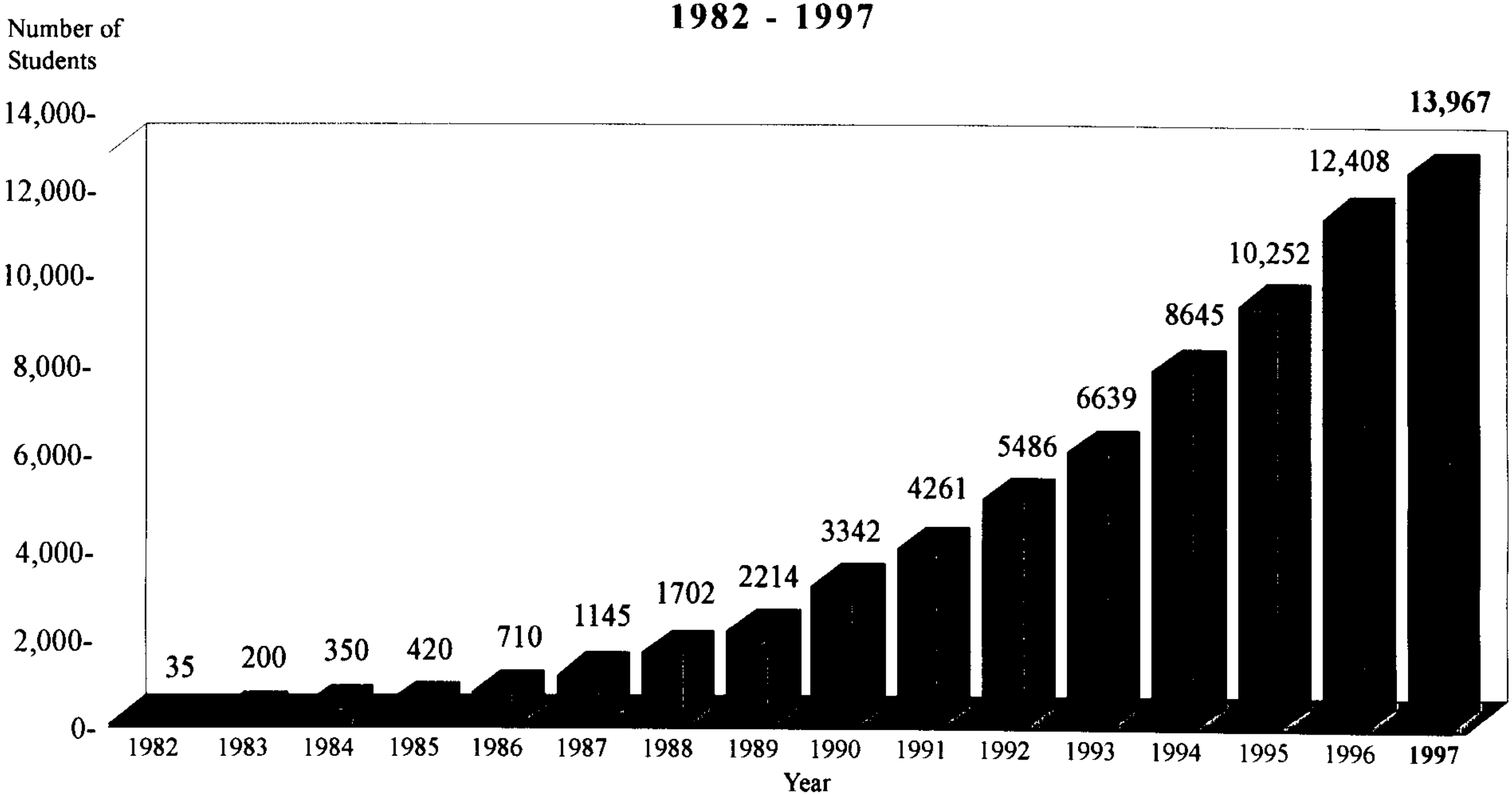
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
AOF	1	5	5	8	13	22	29	35	45	50	58	60	76	93	114	136
AOTT						2	2	2	8	12	19	38	49	64	78	90
APS									1	5	6	8	8	10	10	12
TOTAL	1	5	5	8	13	24	31	37	54	67	83	106	133	167	202	**238**


NATIONAL ACADEMY FOUNDATION
PROJECTED GROWTH OF ACADEMY SITES
1997 - 2007
Number of Sites
800
700
600
500
400
300
200
100
0
238
288
338
388
438
488
538
588
638
688
738
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Year

NATIONAL ACADEMY FOUNDATION

NAF STUDENT ENROLLMENT HISTORY

1982 - 1997

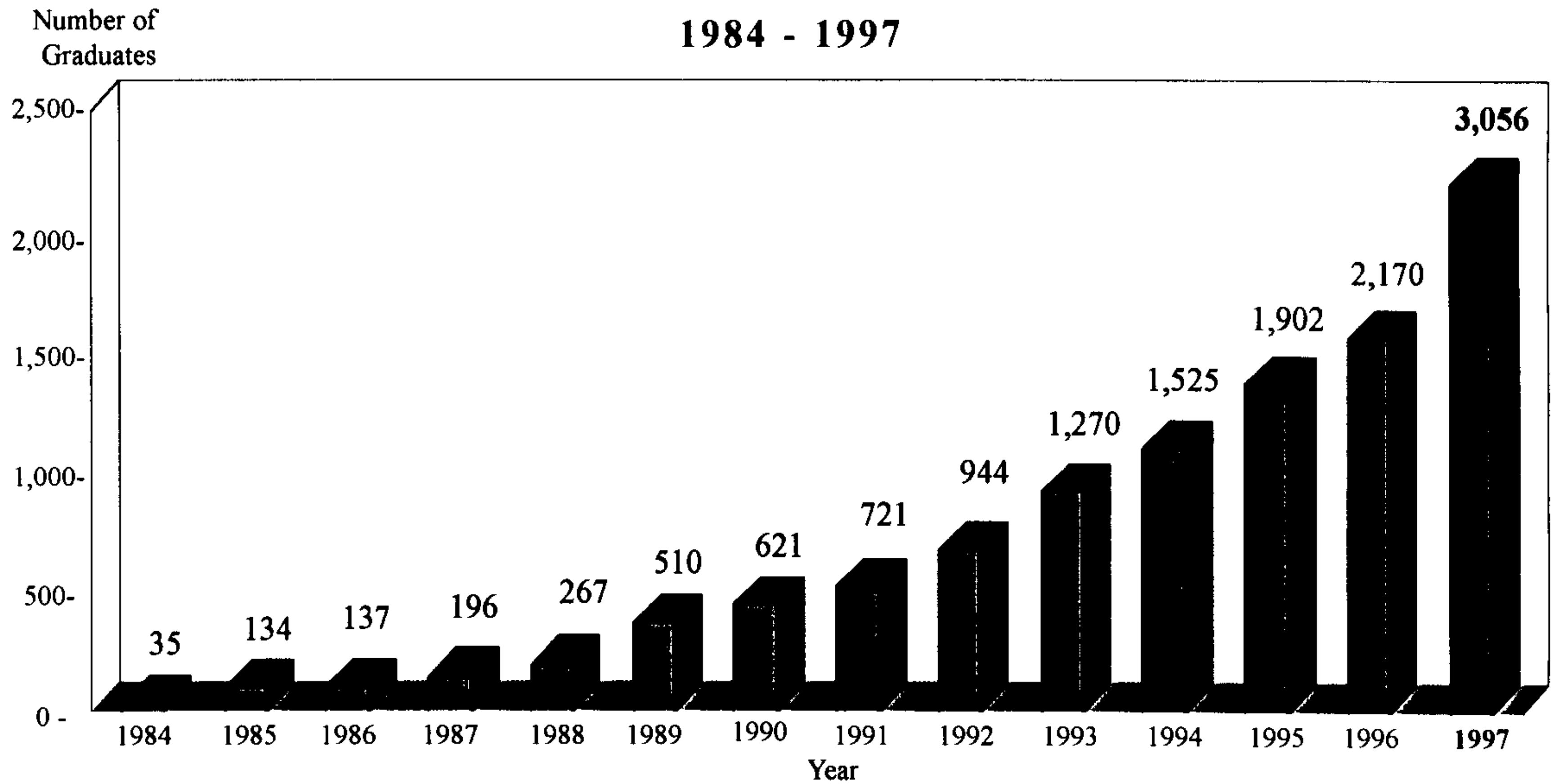


YEAR	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
AOF	35	200	350	420	710	1069	1541	2019	2715	3169	3628	4139	5340	6226	7127	8163
AOTT						76	61	195	564	904	1519	2006	2878	3659	4510	4968
APS									63	188	339	494	427	367	771	836
TOTAL	35	200	350	420	710	1145	1702	2214	3342	4261	5486	6639	8645	10,252	12,408	**13,967**

NATIONAL ACADEMY FOUNDATION

NAF GRADUATE HISTORY

1984 - 1997



	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
AOF	35	134	137	196	267	458	547	639	757	926	1028	1112	1350	1950
AOTT						52	74	82	187	248	384	654	687	924
APS										96	113	136	133	182
TOTAL	35	134	137	196	267	510	621	721	944	1,270	1,525	1,902	2,170	**3,056**

TOTAL NUMBER OF ACADEMY GRADUATES = 13,488

NATIONAL ACADEMY FOUNDATION

COLLEGE BOUND
NAF ACADEMY GRADUATES
1989 - 1997

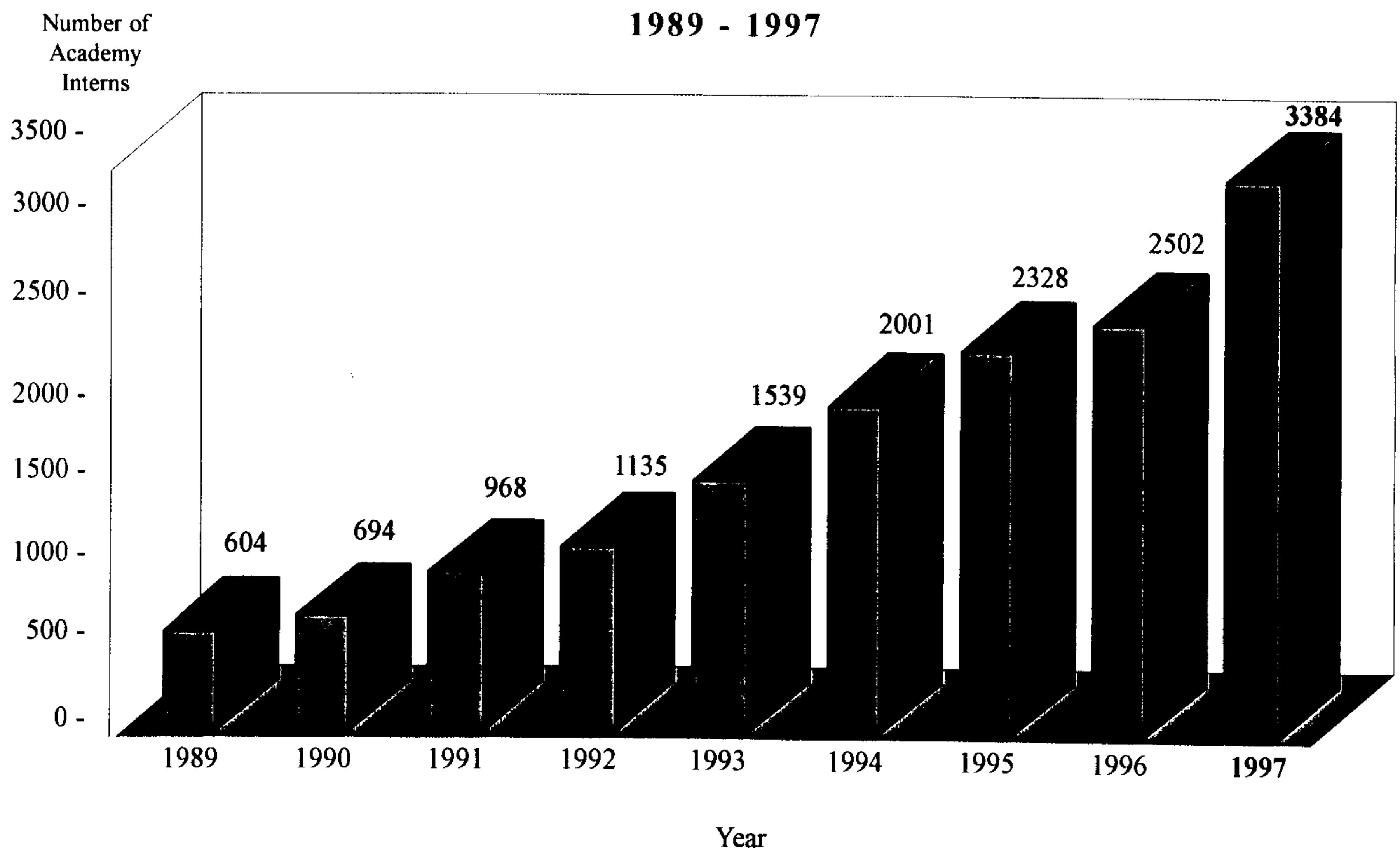
	1989	1990	1991	1992	1993*	1994*	1995*	1996*	1997*
Graduates	510	621	721	944	1270	1525	1902	2170	3056
College Bound	464	558	670	861	1139	1393	1708	1953	2719
College Bound	91%	90%	93%	91%	90%	91%	90%	90%	90%

* Figures include Academies of Finance, Travel & Tourism and Public Service graduates

NATIONAL ACADEMY FOUNDATION

ACADEMY INTERNS

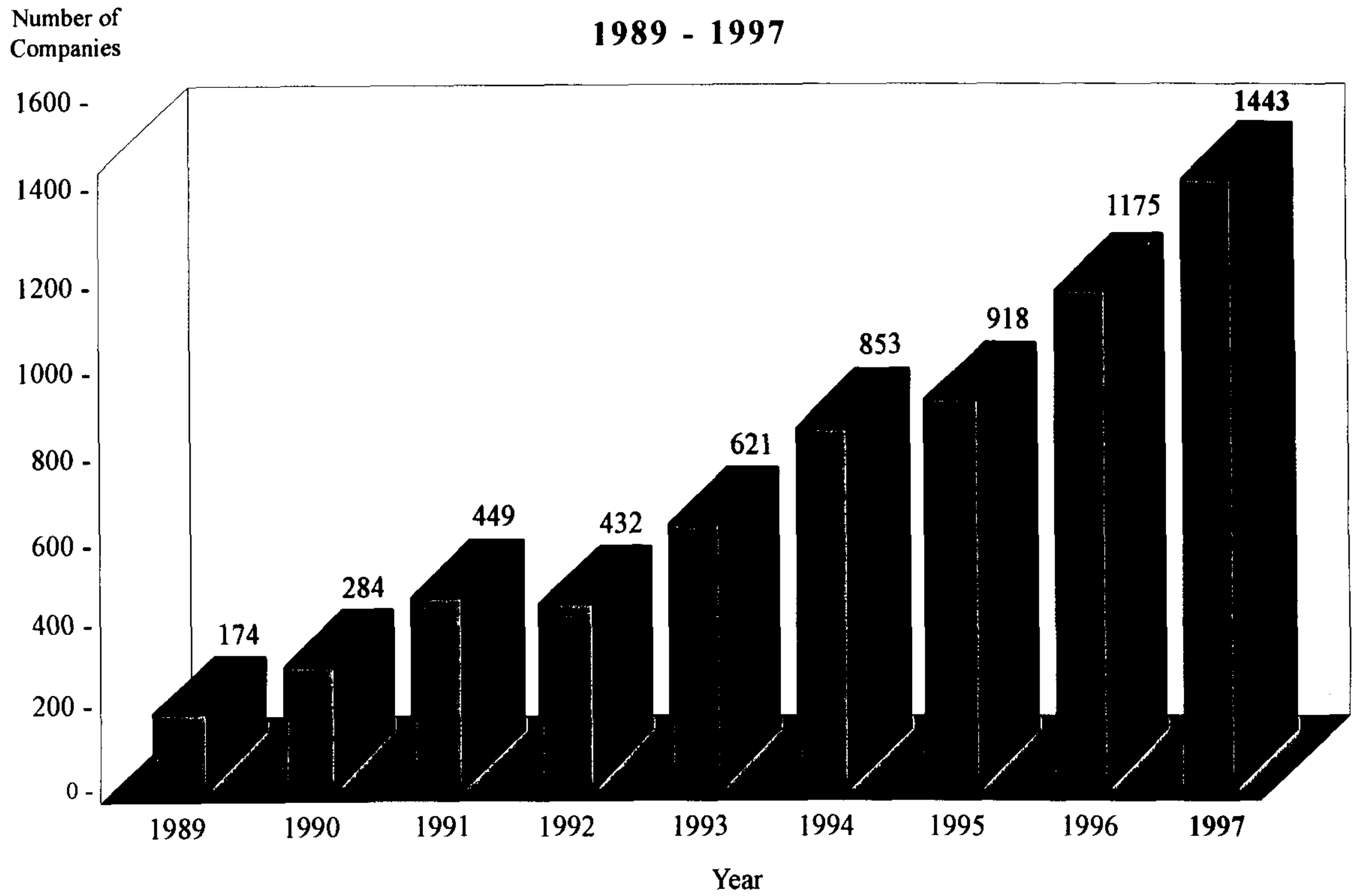
1989 - 1997



NATIONAL ACADEMY FOUNDATION

INTERNSHIP PROVIDERS

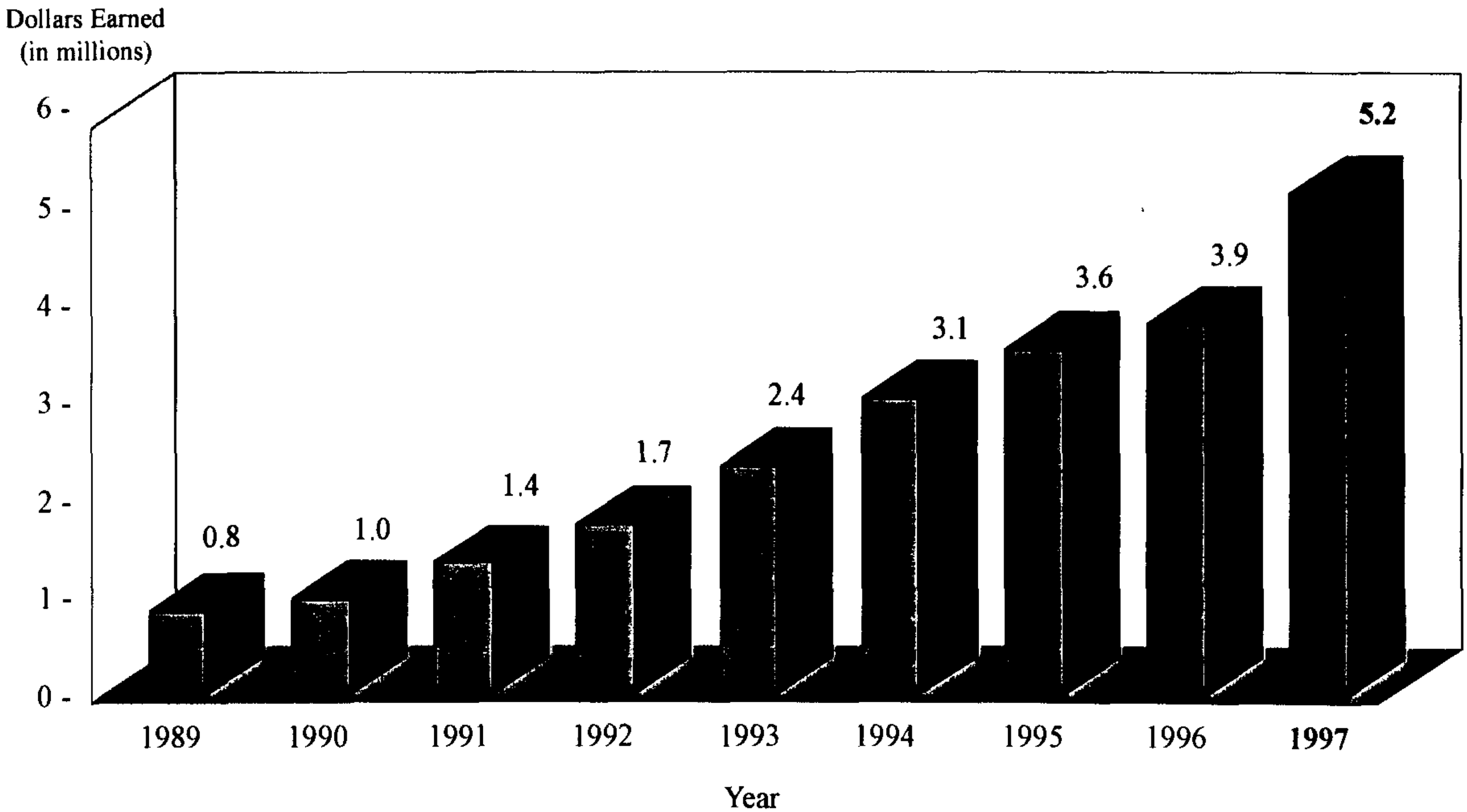
1989 - 1997



NATIONAL ACADEMY FOUNDATION

INTERNSHIP EARNINGS

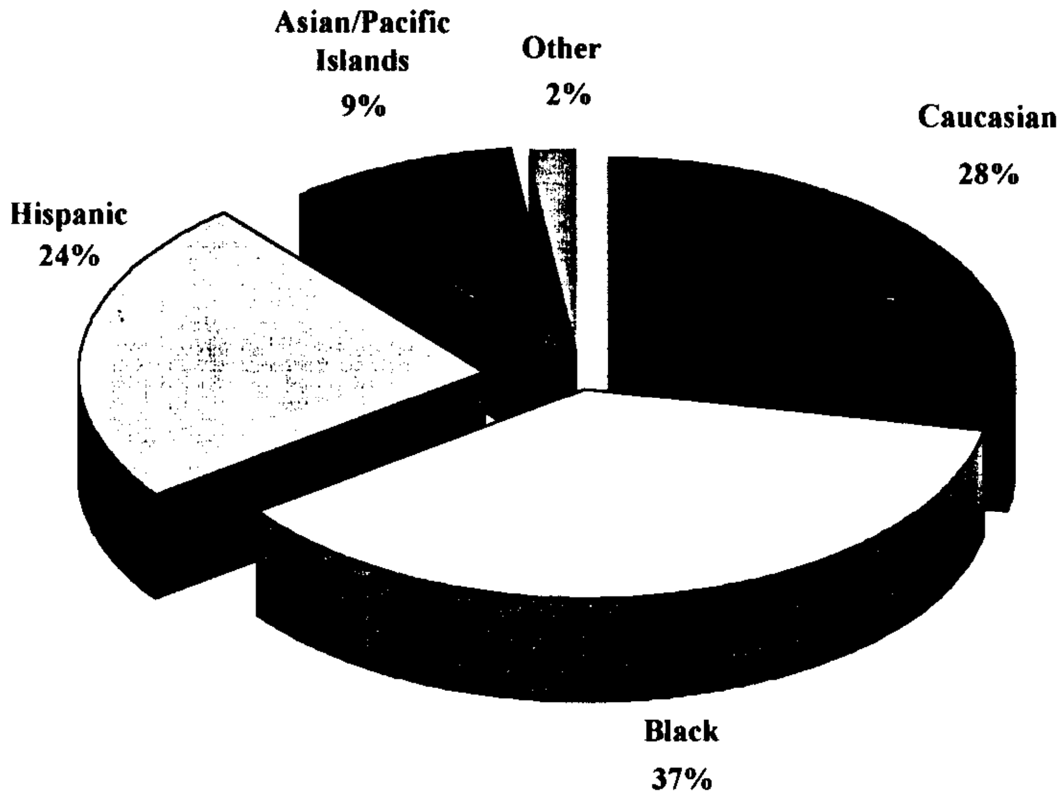
1989 - 1997



*Salaries for 1989, 1990 and 1991 valued at $5 per hour for 7 weeks
1992-1997 figures calculated at $5.50 per hour for 7 weeks

NATIONAL ACADEMY FOUNDATION

NAF ETHNIC/RACIAL COMPOSITION
1997 - 1998 Academic Year



FEMALE = 62% MALE = 38%

NATIONAL ACADEMY FOUNDATION

NEW PROGRAM SITES
1997 - 1998 Academic Year

ACADEMY OF FINANCE

Program Sites	# of Programs
Montgomery, AL	1
San Jose (East), CA	1
Stamford, CT	1
Bay County, FL	1
Brevard County, FL	1
Broward County, FL	1
Dade County, FL	1
Volusia County, FL	1
Chicago, IL	1
Jefferson Parish, LA	1
Calvert County, MD	1
St. Paul, MN	2
Kansas City, MO	1
St. Louis, MO	1
Albany, NY	1
Middletown, NY	1
West Seneca, NY	1
Las Vegas, NV	1
Warwick, RI	1
East Providence, RI	1
Beaufort County, SC	1
Nashville, TN	1
San Antonio, TX	1
TOTAL NEW AOF	**24**

ACADEMY OF TRAVEL & TOURISM

Program Sites	# of Programs
Broward County, FL	1
Atlanta, GA	3
Chicago, IL	1
Jefferson Parish, LA	2
Orleans Parish, LA	1
Anne Arundel County, MD	1
Berkshire County, MA	1
Newark, NJ	1
New York, NY	1
Charlotte, NC	2
Woonsocket, RI	1
Nashville, TN	1
Dallas, TX	1
Salt Lake City, UT	1
TOTAL NEW AOTT	**18**

ACADEMY OF PUBLIC SERVICE

Program Sites	# of Programs
Anne Arundel County, MD	2
TOTAL NEW APS	**2**

TOTAL NEW SITES: 44

ACADEMY OF FINANCE

PROGRAM SITES
1997 - 1998 Academic Year

Program Sites	# of Programs	Program Sites	# of Programs
Montgomery, AL	1	Prince George's County, MD	4
Burbank, CA	1	Boston, MA	1
Los Angeles, CA	6	Detroit, MI	1
San Francisco, CA	7	St. Paul, MN	2
San Jose (East), CA	3	Kansas City, MO	1
San Jose (Unified), CA	1	St. Louis, MO	1
Denver, CO	1	Omaha, NE	3
East Hartford, CT	1	Las Vegas, NV	1
Hartford, CT	1	Jersey City, NJ	1
Stamford, CT	1	Red Bank, NJ	1
Wilmington, DE	1	Albany, NY	1
Alachua County, FL	1	Buffalo, NY	1
Bay County, FL	1	Middletown, NY	1
Brevard County, FL	1	New Hyde Park, NY	1
Broward County, FL	7	New York City, NY	11
Dade County, FL	3	Northport, NY	1
Duval County, FL	1	West Seneca, NY	2
Hillsborough County, FL	1	Yonkers, NY	1
Lee County, FL	1	Charlotte, NC	2
Orange County, FL	2	Cumberland County, NC	1
Osceola County, FL	1	Durham, NC	1
Palm Beach County, FL	1	Iredell County, NC	1
Polk County, FL	1	Union County, NC	1
St. John's County, FL	1	Wake County, NC	1
St. Lucie County, FL	1	Cincinnati, OH	1
Seminole County, FL	1	Cleveland, OH	1
Volusia County, FL	1	East Providence, RI	1
Clayton County, GA	3	Providence, RI	1
Henry County, GA	1	Warwick, RI	1
Honolulu, HI	2	Anderson County, SC	1
Chicago, IL	2	Beaufort County, SC	1
Indianapolis, IN	1	Oconee County, SC	1
Jefferson County, KY	2	Pickens County, SC	1
Mercer County, KY	1	Chattanooga, TN	1
Jefferson Parish, LA	4	Nashville, TN	1
Orleans Parish, LA	2	Dallas, TX	1
Anne Arundel County, MD	1	San Antonio, TX	1
Baltimore, MD	1	Salt Lake City, UT	3
Baltimore County, MD	2	Gloucester, VA	1
Calvert County, MD	1	Seattle, WA	3
Montgomery County, MD	2		

AOF TOTAL: 136

ACADEMY OF TRAVEL & TOURISM

PROGRAM SITES
1997 - 1998 Academic Year

Program Sites	# of Programs	Program Sites	# of Programs
Deer Valley, AZ	1	Orleans Parish, LA	3
Burbank, CA	1	Anne Arundel County, MD	1
Culver City, CA	1	Baltimore, MD	1
Los Angeles, CA	2	Berkshire County, MA	1
Monterey, CA	1	Boston, MA	1
San Francisco, CA	2	Detroit, MI	1
San Jose (East), CA	1	Minneapolis, MN	1
Sweetwater Union, CA	1	Newark, NJ	2
Denver, CO	2	Nassau County, NY	1
Washington, DC	1	Las Vegas, NV	1
Broward County, FL	4	New York City, NY	6
Dade County, FL	3	Westchester County, NY	1
Duval County, FL	1	Charlotte, NC	3
Lee County, FL	1	Chariho, RI	1
Martin County, FL	1	Cranston, RI	1
Orange County, FL	1	Newport, RI	1
Osceola County, FL	1	Providence, RI	1
Palm Beach County, FL	1	Warwick, RI	1
St. Lucie County, FL	1	Woonsocket, RI	1
Seminole County, FL	1	Beaufort/Jasper County, SC	1
Volusia County, FL	1	Hilton Head Island, SC	1
Atlanta, GA	3	Chattanooga, TN	1
Honolulu, HI	1	Nashville, TN	1
Kauai, HI	1	Dallas, TX	6
Maui, HI	3	Jordan, UT	1
Chicago, IL	3	Salt Lake City, UT	2
North Chicago, IL	1	Roanoke, VA	1
Fayette County, KY	1	King County, WA	1
Jefferson Parish, LA	4		

AOTT TOTAL: 90

PROGRAM SITES
1997 - 1998 Academic Year

Program Sites	# of Programs
Mobile, AL	1
San Jose (East), CA	1
Hillsborough County, FL	1
Tallahassee, FL	1
Anne Arundel County, MD	2
Boston, MA	1
Buffalo, NY	1
New York City, NY	3
Chattanooga, TN	1

APS TOTAL: 12

Federal Reserve Board Public Meeting on Travelers Acquisition of Citicorp
Thursday, June 25, 1998
Federal Reserve Bank of New York
New York City
11:25 a.m.

Mark A. Emmert
Chancellor
University of Connecticut

Testimony:

I am Mark A. Emmert, chancellor of the University of Connecticut. I welcome the opportunity provided by the Federal Reserve Board to participate in this public meeting regarding the proposal by Travelers Group Inc. to acquire Citicorp. I would like to speak specifically of Travelers' record of corporate responsibility as manifested in its relationship with the University of Connecticut and in its support of education and community development in the City of Hartford and the State of Connecticut.

The University of Connecticut, founded in 1881, is a Land Grant and Sea Grant university as well as a Space Grant consortium institution. It is one of only two Research 1 public universities in New England and the only Ph.D. granting public university in the State. It is designated in the State Constitution as Connecticut's flagship university. There are some 22,000 students at the University, studying in 17 schools and colleges offering more than 100 undergraduate and some 80 graduate and professional degree programs. The main campus is in Storrs. Additionally there are five undergraduate regional campuses [in Avery Point, Greater Hartford, Stamford, Torrington, and Waterbury], Schools of Social Work and Law in Greater Hartford, and a complex of health and educational facilities comprising the University of Connecticut Health Center in Farmington.

The University, given its mission, has a specific role in fulfilling the needs of the State, its citizens, and its economic institutions. Further, it has a strategic goal of fostering a sense of partnership with various entities in the State. The success of the University in meeting Connecticut's educational, economic, and social needs depends on its developing active, mutually supportive partnerships.
The University's already substantial contributions –in supplying an educated citizenry, in economic development, social outreach, the arts, and scientific advances, among others—can only enhanced through partnerships such as that which exists between the University and Travelers.

Earlier this year [on January 6], the University and Travelers announced a major agreement under which Travelers donated 30,000 square feet of space in the Travelers Education Center in Hartford to the University for three years. [*Travelers values this donation at $1.7 million.*]. The Travelers Education Center gives the University a superior platform from which to offer courses and programs which will enhance the vitality of Hartford's insurance, financial services and managed care industries. It also permits the University to extend our educational activities in Connecticut's urban business centers. It also enables us to offer additional courses with a solid information technology base. Travelers' participation in this public-private partnership is not only direct evidence of its sense of corporate responsibility, it is also another example of the confidence to meet their needs that business leaders have shown in the University.

The Travelers Education Center is a superior educational facility—with computer laboratories, classroom space, Internet access, and potential for distance learning—for offering business-related courses and programs. Under the Education Center agreement with Travelers we are able to offer undergraduate general studies courses in information systems/operations management as well as MBA level courses. We have just decided to offer our recently-approved Master of Science in Accounting Program in two Hartford area venues including the Travelers Education Center. In this way we are able to use resources more effectively and to serve a larger market. Both the University and those who employ accountants win. Other classes to be offered will include professional insurance certification courses and computer programming. Future course offerings will be market-driven and will respond to employer demand for well-trained employees in Greater Hartford's information technology, health care, insurance, and financial service industries.

Travelers Group Chairman and Chief Executive Officer Sanford Weill announced the Education Center agreement in the context of a call for educational development as the engine of economic growth in the Hartford, Connecticut region. He said, "the central strategy for developing a healthy, vibrant economy in a community is the creation of a well-educated pool of professionals." Travelers' corporate good sense acknowledges that "a reliable flow of talent" is attractive to corporations and creates new jobs.

Travelers' efforts to foster economic development are multipartite. Higher educational and corporate goals come to a confluence once again in its promoting the business education of talented high school students through its continuing support of the Academy of Finance programs in two Hartford area high schools. Since its founding in 1982 by Sanford Weill and the New York City Board of Education, the Academy of Finance program has had excellent success: more than 90 percent of its students continue their education at two-or four-year colleges and more than 50 percent of those eventually go on to work in the financial services industry. The University will match the scholarship commitment supported by the $150,000 endowed Travelers Scholarship Fund by offering tuition scholarships to several Academy of Finance graduates attending the University.

These most recent actions on the part of Travelers are extensions of the University's long history of partnership with the company. Travelers has supported numerous programs at the University including the School of Education, the School of Business Administration, Actuarial Sciences, the Law School and the Health Center. Its nearly $2 million in contributions to the University--beyond the recent Education Center donation--include the Travelers Chair in Geriatrics and Gerontology at the Health Center, continuing support for the Travelers Center on Aging, scholarships, and a variety of contributions to the University's Research Foundation to assist faculty efforts in high school writing and math/science laboratories, corporate training, small business development, pharmacy studies, and evaluation of tutorial programs for Hispanic school children.

I am pleased, on behalf of the higher education community and the University of Connecticut, to come before you today to give testimony to Travelers well-defined and productive sense of corporate responsibility and to underline the positive impact it is having on education and community development in Connecticut.

Thank you.

John Shemo
Testimony re: Travelers Group to acquire Citicorp
Federal Reserve Bank at New York
June 25, 1998

Good afternoon, [names or titles].

My name is John Shemo and I am here on behalf of the Connecticut Capitol Region Growth Council, which is the lead economic development organization for the 29-town MetroHartford region. I serve as the agency's Executive Vice President.

I am pleased to have this opportunity to testify before you in favor of the Travelers Group proposal to acquire Citicorp. There are two reasons that we at the Growth Council support this merger. The first is job preservation and growth. The second is Travelers' long history of — and, we believe, even stronger prospects for — being a good corporate citizen in our community.

The mission of the Growth Council is to boost the local economy by fostering job growth in MetroHartford. It is our opinion that the Travelers/Citicorp merger would not only preserve the thousands of jobs these companies currently provide in MetroHartford, but also would offer the potential of expanding the local employment bases of the two companies.

Travelers has always been a key employer for MetroHartford. Before the company's earlier merger with Primerica, about 6,000 Travelers' jobs were lost and thousands more were at serious risk. Since that merger, the company has reversed this situation, returned to profitability and begun to grow its workforce again. The Travelers Group now employs roughly 7,000 people in Hartford. Plus, another 2,000 jobs were saved by Travelers selling its health benefits operations to another insurer.

In effect, Travelers' practices of strategic acquisition and restructuring has preserved 9,000 jobs for MetroHartford residents.

Separately, the Growth Council recently completed successful negotiations to bring a Citicorp in-bound call center to MetroHartford. This customer service center will employ between 550 and 600 people. We believe that the Travelers/Citicorp merger will have a positive impact on this operation as well, as the two companies begin cross-selling their products through telemarketing efforts. As the company's customer base expands, so, too, should the call center.

The second reason that the Growth Council supports this merger is, as I said, because of Travelers' strong track record in our community. We believe that, as a larger company, its ability to promote the region's economic development will be enhanced.

Travelers was an original incorporator of and investor in the Growth Council. The company is again funding our efforts this year.

There are several other examples of Travelers' community support, of which I will cite just two.

Travelers currently provides the use of its Education Center to the University of Connecticut as a downtown campus. We view this as a first step in creating an even larger Downtown Hartford higher education center, combining course offerings from many of the local colleges and universities. The higher education center is high on our list of projects that would both draw more people downtown and benefit the city's current employers and workers.

Riverfront Recapture, which has revitalized recreational activities on the Connecticut River, also has been a recipient of Travelers' generosity. To date, the company has invested more than $1.1 million in Riverfront programs, which give new life to the region and attract both residents and visitors to Hartford, East Hartford, and other towns along the river.

It is our opinion that the Travelers/Citicorp merger would serve the best interests of the MetroHartford region. We urge you to consider it favorably.

Thank you.

Statement By
F. Peter Libassi, President
Children's Fund of Connecticut, Inc.
Before the
Federal Reserve Bank of New York
Travelers Group and Citicorp
June 25, 1998

My name is F. Peter Libassi. I am a Travelers retiree and a Travelers shareholder.

I am here today in my capacity as President of the Children's Fund of Connecticut, Inc., a grant making foundation. The leadership role played by the Travelers Corporation in the establishment of this foundation and the public benefits which have followed are the subject of my statement.

What are the most important health needs facing Hartford's children?

In 1992, the Newington Children's Hospital, in Newington Connecticut, an orthopedic hospital, proposed that it close and reopen as a specialized children's hospital in the City of Hartford. In reviewing the health needs of children in the City of Hartford, the Travelers saw a serious need for primary and preventive health care services. The issues which appeared to be most in need of attention were teen age pregnancy, pre-natal care, low birth weight and premature babies, immunization, well baby check-ups, quality early child care and the prevention and identification of developmental delays and deficiencies. Travelers raised the question of whether in fact a high tech specialized hospital as proposed would actually address the health needs of city children.

Travelers launches study of children health needs.

With this question as its focus, Travelers announced that it would fund an independent study of child health needs. Thereafter, other corporations in the Greater Hartford area asked to join project. The study completed by Lewin/ICF and Associates concluded that a children's hospital was in fact needed, albeit a much smaller hospital than was originally proposed. However, in addition, the study concluded, as Travelers had argued, that the health needs of the children of Hartford would only be served if a serious campaign were launched focused on primary and preventive health care for children.

Addressing the need for primary and preventive health care services.

As a result, the Children's Fund of Connecticut was established with a leadership grant from the Travelers Corporation of $1 million dollars. With gifts from other corporations and area hospitals this Fund has grown to $17 million dollars. It is the mission of the Fund to support community-based primary and preventive health care initiatives in Connecticut, primarily focused on underserved children, in order to improve the quality of their lives.

The Children's Fund focus:

Early childhood development

Training for those who provide care for children

The Board of the Fund decided to focus its attention on early childhood development, the prevention of developmental delays and deficiencies, and on the linking of health and child care services. Before committing its resources to these issues, the Fund undertook an extensive information gathering effort.

This drive included a study by the Yale Bush Center, interviews with over 350 of the most knowledgeable representatives of public and private agencies, and five independent focus group sessions.

From this information, the Fund's Board reached several conclusions, one of which provided that: There is an immediate need for a statewide education, information and training capacity focused on primary and preventive care for children.

Based on this conclusion, the Board agreed to establish a statewide Training Academy which would help those who provide care and services for children to:

- Learn of recent research findings related to children's health, and to
- Accelerate the application of this knowledge and best practices in child care.

The Role of the Training Academy

As an example of the "catalyst" role made possible by the Travelers leadership, in 1997, the first assignment for the Training Academy was to initiate the formation of a consortium of four state agencies and three private organizations to launch a statewide training program in best practices for child care providers.

The Department of Social Services (DSS), the State Department of Education (SDE), the Connecticut Commission on Children (CCC), the University of Connecticut Health Center's AHEC Program, Wheeler Clinic, Connecticut Charts-A-Course (CCAC) and the Children's Fund joined forces and resources.

Within less than five months, in March of this year, twenty-one training sites were identified, and contracts were approved for the training of over 1600 home care providers following an approved curriculum to be delivered by approved faculty.

In addition, funds were set aside to finance 1800 voluntary onsite visits with home care providers by approved consultants.

This public-private partnership combined $200,000 from the Children's Fund with $620,000 in resources and talents from four state agencies to launch Connecticut's first large scale statewide training program for child care providers. In September, over 10,000 children will reap the benefit of being under the care of providers who are receiving the very finest in child care training.

There is no question that these activities would not now be underway if it had not been for the leadership and foresight of the Travelers Corporation.

Thank you.

Background:

The best known microenterprise peer lending program in the world is the Grameen Bank in Bangladesh. It was founded in 1976 by US trained economist, Dr. Muhammad Yunus, to offer access to credit to the poorest of the poor who had no collateral except their willingness to be self-employed. The extraordinary success of Grameen , which now has more than 2 million borrowers and creates a lending cycle in excess of 25 million U.S. dollars, has spawned replication efforts around the world.

In the United States, there are forty loan funds based on the Grameen model, the most successful of which is Working Capital, headquartered in Cambridge Massachusetts. In addition to Florida, Working Capital has office Hubs in Maine, Vermont, New Hampshire, Delaware, Massachusetts, Metropolitan Boston, Atlanta and Russia.
Working Capital Florida was one of seven national agencies who received the first Presidential Award for Excellence in Microenterprise Development, presented by President and Mrs. Clinton.

Economic Impact:

Even the smallest businesses can become increasingly productive with access to those advantages enjoyed by larger companies, namely, access to capital, sales leads and business connections, practical business education and support from peers. At the $500 loan level, microenterprise borrowers in the United States report an increase in monthly sales between 50% and 100%. Microenterprise peer lending has demonstrated that increased sales for member-owned businesses recycles for greater economic growth, employment and community revitalization.

Funding:

Working Capital / Partners for Self-Employment obtains loan funds from local and regional banks. Initial funding for program operations came from the state of Florida Hurricane Andrew Trust Fund Metropolitan Dade County's Department of Business and Economic Development Metro Miami Action Plan (MMAP). Other funding comes from private foundations, corporations and individuals.

WORKING CAPITAL FLORIDA

Partners for Self-Employment

Business Credit and Training for the Self-Employed

Working Capital Florida is a nonprofit corporation dedicated to providing the self-employed with access to credit, loans, business training and peer support. Through the program participants can:

- obtain a business loan of $500 to $5,000
- build a credit record
- develop stronger business skills
- meet and share ideas with other business owners

Small Business Owners:

- join a Business Loan Group of 6 to 10 persons
- apply directly to their Group for loans (The Group reviews loan applications and decides which to approve.)
- repay their loans to Working Capital Florida
- participate regularly in business training and networking events

Types of Businesses:

Members can use loans to start and operate a variety of businesses including: arts and crafts; beauty and hair care; business services; clothing; education; entertainment; food services; health services; home services, import/export; etc.

Who can Join:

Any US citizen or resident alien who owns a business or intends to start a business may join Working Capital Florida. Minority groups are welcome.

How to Join:

Interested borrowers can contact participating community organizations, business associations, social agencies and universities, as well as civic and religious groups in Dade County.

Working Capital Florida
(305) 670-7411 (phone)
(305) 670-7419 (fax)

9200 South Dadeland Boulevard Suite 103 Miami, FL 33156

Working Capital Florida

A Few Facts
As of June 1, 1998

Program Founded:	1994
Communities Served:	Dade County: Allapattah, Carol City, Little Haiti, Little Havana, North Miami, North Miami Beach, Model City, Opa-Locka, Overtown, Perrine, Kendall, Coconut Grove, Princeon, Florida City, Goulds, Homestead, Richmond Heights and South Miami Heights.

Total Number of Members:	**348**
Total Number of Borrowers:	**274**
Number of Loan Groups Formed:	**57**
Total Number of Loans:	**397**
$ Value of Loans Disbursed:	**$289,600**
Average Loan Size:	**$729.47**
Average Loan Term:	**7.76 Months**

Working Capital Florida Loan Fund Participants

Central Bank
Chase Manhattan Bank
Citicorp Foundation
City National Bank of Florida
Commercebank, N.A.
First National Bank of Homestead
First National Bank of South Miami
Helm Bank
Sun Trust Bank, Miami, N.A.
United National Bank

3000 Biscayne Blvd., Ste 101A ♦ Miami, Florida 33137
Phone (305) 438-1407 ♦ Fax (305) 438-1411

Working Capital's name says it all

National program offers start-up loans as small as $500

By FRAN BRENNAN
Herald Staff Writer

For James Rowells, a growing family meant growing bills — bills he found more and more difficult to cover with his weekly paycheck.

Moonlighting as a house painter gave him extra income, and a taste for self-employment. But with little credit and less hope of getting a small-business loan, Rowells knew it would be years before he might become his own boss.

Elisa Crespo had no choice. After losing her job to corporate downsizing, the single mother of two in Westchester turned her sideline, teaching CPR and other safety classes, into a home-based business.

Both Rowells and Crespo got a leg up in their struggle for financial independence from Working Capital, a national program that offers very small loans ($500 to $5,000) to very small businesses — loans and businesses that most banks wouldn't bother with. Borrowers pay 12 percent interest on their loans, a rate comparable to those charged by banks.

Working Capital, which got its start in Massachusetts in 1990, now helps businesses in 10 states. The Dade County chapter began loaning money in 1994 and has already helped about 300 people work their way toward a better future.

"And we're just scratching the surface," said Betty Meyer, executive director of the Dade group. "We really hope to reach thousands of borrowers, not just a few."

For people like Rowells and Crespo, Working Capital provides just that, working capital.

Initial loans are $500, enough for Crespo to buy her own demonstration dummies rather than pay to rent them. Enough for Rowells to buy costly brushes, put a down payment on a pressure cleaner and do more than just word-of-mouth advertising. He now hopes to become his own boss much sooner than he had expected.

"I never had a loan to start my business," said Rowells, 46, who joined Working Capital with several other men from his Coconut Grove church. "This has helped my business tremendously. What I'm looking at now is long-range goals. I'm looking to buy a bigger truck later on, after I make bigger loans. Now, I'm really looking to the future."

The idea for such loans began in Bangladesh in the 1970s, where a similar program has helped millions of poor people — most of them women — reach secure financial footing. Jeffrey Ashe, a veteran of the Peace Corps, founded Working Capital in the United States.

> **WHERE TO CALL**
>
> ■ For more information about Working Capital and loans for start-up businesses, call Betty Meyer at (305) 670-7411.

President and Mrs. Clinton are big fans and consider microcredit one of the country's best means for helping Americans to get off welfare and into business. At the first Microcredit Summit, last month in Washington, Ashe received one of the first Presidential Awards for Excellence in Microenterprise.

In Dade, money for the loans comes from a consortium that includes Citibank, SunTrust Bank and Commercebank, among others. Money to run the program comes from another group, whose members include the Beacon Council and the MacArthur Foundation.

Although individuals get loans for their own businesses, borrowers must belong to a borrowing group. These groups meet regularly to trade business tips, offer advice and ensure that everyone can make their loan payments.

If one person defaults, the entire group pays. So far, Working Capital's repayment rate is 98 percent.

"The reason this works is because people are entrusted to review the paperwork of their peers," said Elaine Black, executive director of Dade's Tools for Change. Her office is one of several affiliates of Working Capital. The affiliates — mostly agencies helping inner-city and low-income communities — identify possible borrowers, help organize groups, provide technical training and administer the loans.

Tools for Change, an affiliate since 1995, targets South Dade. The agency has 122 loans outstanding and has paid back 20.

In its 19 borrowing groups, there are people running lawn services, house-cleaning services, medical-billing and hair-care businesses. About 80 percent are women.

"We target very low-income people," Black said. "They're generally women who want to get a break and make some money for themselves and take care of their families. It's just a fantastic program. It makes a huge difference."

Elisa Crespo can attest to that.

"Now I have the flexibility to make a living for my family and spend time with my children," she said. "I couldn't have done this without it."

This has helped my business tremendously. What I'm looking at now is long-range goals. I'm looking to buy a bigger truck later on, after I make bigger loans. Now, I'm really looking to the future.'

JAMES ROWELLS, painter

RANDY BAZEMORE / Herald Staff

C.W. GRIFFIN / Herald Staff

'Now I have the flexibility to make a living for my family and spend time with my children. I couldn't have done this without [Working Capital].'

ELISA CRESPO, safety instructor

The Miami Herald

JOHN S. KNIGHT (1894-1981) JAMES L. KNIGHT (1909-1991)

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MARTHA MUSGROVE and JOE OGLESBY, Associate Editors · LARRY OLMSTEAD, Managing Editor

Small loans, big results

MICROCREDIT PROGRAMS

Loans as little as $500 spawn entrepreneurs and an alternative to poverty.

Collapsing Asian economies and their domino effect have caused alarm lately. Much to blame is "crony capitalism," which not only thrived on bad loans to friends of those in power, but made the rich richer while further miring the poor in poverty.

Yet another financial philosophy from Asia promises just the opposite, an antidote to savage capitalism. Microcredit programs, in which tiny amounts are lent to nontraditional borrowers, have proved to be an exceptionally sound lending practice while encouraging the poor to build businesses and income.

A year ago a Microcredit Summit in Washington, D.C., rallied 3,000 people from 137 countries toward the goal of reaching 100 million people, especially women, with these tiny loans for self-employment by 2005. That's an ambitious stretch from the eight million to 10 million people worldwide now in microcredit programs.

Pioneered by Muhammad Yunus and his Grameen Bank in Bangladesh, the microcredit concept has spread and adapted — even to urban South Florida. Working Capital Florida, a local nonprofit group patterned on the Grameen model, serves some 350 businesses in Miami-Dade. Loans average $725 (internationally it's $150) and are paid back in less than a year. Borrowers are organized into groups, each with a business adviser. The entire group must approve every microloan to individual members. Default rates are extraordinarily low, because no group member gets more credit should another default on a loan.

Many borrowers are single mothers, mostly blacks and Hispanics. Typical is Vickie Lucas, who leveraged a $500 loan in 1994 into Alvi's Take Out and Catering in Naranja. She now is expanding with a $50,000 loan through the U.S. Small Business Administration. The beauty of microcredit, Ms. Lucas says, "is not just the loans but the education about business."

A new three-year, $450,000 grant from the Mott Foundation will allow Working Capital Florida to expand its good work into Broward and Palm Beach, says Kathleen Gordon, its president. Support from other private sources, commercial banks, and state and federal governments would help the group grow further.

Certainly the goal is worthy. Working Capital Florida and other microcredit programs push economic opportunity toward the people who need it most. As Ms. Gordon aptly suggests: "The real economic engine will be from the bottom up, not from the top down."

Man behind microcredit revolution visits S. Fla.

MICROCREDIT, FROM 7B

United States have little in common economically, Yunus says the underlying principles that make the Grameen model a success still apply here.

"A tiny success in the first round [resulting from the first small loan] gives you the energy to take bigger challenges," Yunus said. "You get a boost in self-esteem."

For example, the bamboo weaver was making just 2 cents a day when Yunus met her in 1976. But she used her tiny loan to go into business for herself and her income jumped to $1.25 daily. When Yunus returned to visit her years later, he found she had built a house and educated her children.

That same model has real potential in the United States, Yunus says. He first saw it in action in Arkansas. President Clinton, then the state's governor, invited him to Arkansas to start a Grameen model in the 1980s.

The resulting Good Faith Fund continues to this day. "I've seen how little towns accepted it in neighborhood after neighborhood," Yunus said. "When the money comes, creative minds start to tick."

In Bangladesh, 94 percent of Grameen's borrowers are women, and poor women now are the target of most microcredit programs around the world. But that wasn't Yunus' original idea.

Initially, he set about assuring that 50 percent of Grameen's borrowers were women. It took six years to achieve that goal. "Women said, 'Don't give us money; give it to our husbands,'" he says.

But then Yunus started to notice an interesting phenomenon: Money that went to the family through the woman was much more beneficial to the family unit. Nutrition improved; the children went to school; shelter improved.

"The women demonstrated long-term vision, and were more cautious with the money," he says. "The men were more interested in having a good time in the present."

At that point, Grameen switched emphasis, giving more priority to loans to women. "We lent to women with no experience with money, with no experience in business," Yunus says. "They were scared, but over time they became good businesswomen."

That's why he's hopeful for microcredit's application to the welfare reform process. But, he says, in the United States myriad licensing requirements and other regulations act as barriers for small-scale entrepreneurs.

He suggests that welfare recipients starting small businesses be given a one- or two-year waiver that frees them from regulatory requirements. "Allow this bridging time until they come up to a certain level," he proposes, "and then have them come into the mainstream. Government's role should be creating an enabling environment."

The microcredit movement is gaining steam in Florida.

Kathleen Gordon led a Miami group to Bangladesh in 1994 to observe Grameen Bank's operations. The group was so inspired that it formed Working Capital Florida on its return.

"He's won awards from around the world for his work, yet he's so unpretentious and absolutely committed to helping the poor," says Gordon, the organization's chairwoman.

Working Capital Florida, which now operates in Miami-Dade County, is in the process of expanding its reach to Broward and Palm Beach counties. It hopes to have its first loans out in those counties by late August.

Enterprise Florida, the state's public/private economic development agency, is holding a conference June 2 on microenterprise development at the Radisson Plaza Hotel in Orlando.

MicroEnterprise, an Enterprise Florida program, has granted $800,000 to 17 community organizations that will enable them to make loans and provide training and technical assistance to microentrepreneurs.

"This is the richest country in the world," Yunus says. "I don't see why anyone should remain poor here. You can create your own job and your own business."

Very small loans to start very small businesses

Man behind microcredit revolution visits South Florida

By MIMI WHITEFIELD
Herald Business Writer

When economist Muhammad Yunus lent $3 to a bamboo weaver in his native Bangladesh some two decades ago, he had no inkling he was starting the microcredit revolution.

But that loan grew into a lending program to the poorest of the poor, spawned the Grameen Bank, which now operates in 38,000 Bangladeshi villages, and eventually led to an international movement built on the idea that the poor can create their own jobs if given access to credit.

Yunus, the fa...r of the so-...lled Grameen Movement, arrives in South Florida today for a series of speaking engagements and meetings with bankers, foundations, politicians, university professors and the media.

This evening he'll speak at a dinner organized by Working Capital Florida, which has made more than $300,000 in very small loans (average size: $725) to South Florida entrepreneurs with very small businesses.

Working Capital Florida borrows a page from the Grameen Bank, which Yunus founded in October 1983. The bank sought out borrowers whom traditional banks shunned because they were too poor and had no credit history or collateral.

Now some 2.3 million borrowers later, Grameen Bank has a loan repayment rate of 98 percent and turns a profit.

Yunus visits South Florida at a time when job creation in Miami-Dade is sluggish and the area is struggling to find jobs for thousands of welfare recipients who are making the transition from welfare to work.

Microcredit, Yunus says, can be part of the solution to the challenges of welfare reform.

Though Bangladesh, one of the poorest countries in the world with a per capita annual income of just $250, and the

PLEASE SEE MICROCREDIT, 9B

Yunus comes to South Florida at a time when the area is struggling to find jobs for thousands of welfare recipients who are making the transition from welfare to work. Microcredit, Yunus says, can be part of the solution to the challenges of welfare reform.

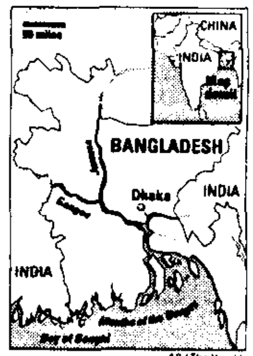
Herald file art

PAVEL RATHMAN/AP

As part of his plans to help the Bangladeshi poor, Yunus has launched a project to distribute cellular phones to thousands of remote villages.

FACTS ABOUT GRAMEEN BANK

- Loans to the poorest of the poor.
- Reaches 38,000 of Bangladesh's 68,000 villages.
- 2.3 million borrowers.
- Lends about $1.5 million per day to the people of Bangladesh.
- 13,000 employees.
- 98 percent repayment rate.
- 94 percent of loans are to women.



AP / The Herald

WORKING CAPITAL FLORIDA DINNER

When: Today. Reception at 6:30 p.m., dinner at 7:30 p.m.
Where: Wyndham Hotel Ballroom, 1601 Biscayne Blvd., Miami
Highlights: Muhammad Yunus will speak. Former Rep. Dante Fascell, an early supporter of microcredit, will be honored.
Tickets: $125 a plate ($50 for non-profit organizations). Call Working Capital Florida, (305) 670-7411.

THE HERALD, SATURDAY, JUNE 6, 1998

The Miami Herald

LOANS

Muhammad Yunus

For poor: Opportunity to thrive

Re Julianne Malveaux's excellent May 11 Viewpoints Page column, *Who'll fight for the poor?*, I have an answer — Muhammad Yunus, founder of the Grameen Bank in Bangladesh. Dr. Yunus has received innumerable awards from monarchs and other heads of state for his outstanding achievements in creating opportunities for the poor to pull themselves out of poverty.

Dr. Yunus is not just a Bangladeshi hero. He does not belong to one country but is a world persona who has the caliber of the greatest world leaders. Yet he is a simple man with a simple message: Give the poor — especially women — access to credit for their own businesses, and they will show the same creativity, ingenuity, and dedication as the rest of the world's entrepreneurs.

Lending only to the most destitute, the Grameen Bank is being replicated worldwide. Some 10 million borrowers are repaying their loans, setting aside savings, sending their children to school, and providing nourishing meals for their families. A recent study of a Grameen replication in Malaysia shows that after completing a second lending cycle, two-thirds of the women borrowers successfully had led their families out of poverty. This is remarkable.

No, Ms. Malveaux, the baton carried by Martin Luther King Jr. and others has not been dropped. This "Poor People's March" is resounding to the chorus of "We're doing it ourselves."

GAIL E. NEUMANN
Miami

[Editor's Note: Locally, the group Working Capital Florida has made loans to about 400 poor people in South Florida. It aspires to have 3,000 borrowers by the year 2000. For more information, call (305) 438-1407.]

THE HERALD, THURSDAY, MAY 28, 1998

The Miami Herald

JOHN S. KNIGHT (1894-1981) JAMES L. KNIGHT (1909-1991)

DAVID LAWRENCE JR., *Publisher and Chairman*

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MARTHA MUSGROVE and JOE OGLESBY *Associate Editors* LARRY OLMSTEAD *Managing Editor*

Credit where it's due

MUHAMMAD YUNUS

Replacing poverty with self-sufficiency.

The only question is, Should he get the Nobel Prize for economics or peace? That "he," of course, is Muhammad Yunus, whose idea of lending tiny amounts to the most destitute of folks has lifted untold millions from poverty and its hopelessness.

South Florida is fortunate to have him visiting again. After speaking at yesterday's fund-raising dinner for Working Capital Florida, a nonprofit group that ably applies his microcredit model, Dr. Yunus this morning is to talk with those trying to spur economic development in South Florida. Would that all are inspired by his story.

With a doctorate in theoretical economics from Vanderbilt University in hand, Dr. Yunus was unprepared for what he saw when he returned to his native Bangladesh, among Earth's poorest nations. Entire villages were living on the edge of starvation, despite peasants working 16 hours a day. In 1976 he lent a few dollars to a woman who was weaving bamboo stools. Once in business for herself, she prospered, and he founded the Grameen Bank on the novel concept of lending money to those who have none.

Today this bank lends half a billion dollars to more than 2.3 million borrowers, 96 percent of them illiterate women borrowing an average of $150. Grameen is 90-percent owned by its borrowers, has a 98-percent repayment rate that rivals any commercial bank, and is making a profit.

Worldwide, another six million people now borrow under the microcredit models popularized by Dr. Yunus.

Poverty, he believes, is among today's biggest threats to peace. The antidote is to create financial and other institutions that remove social and economic barriers keeping the poor from prosperity.

"We can build a poverty-free world at a fraction of what we spend on war preparations," Dr. Yunus has said. "As long as one single human being in this vast world dies of hunger or fails to take care of the minimum human needs for survival with dignity, our society will be less than the society mankind deserves." Well said, sir.

GIVING CREDIT
WHERE CREDIT'S DUE

by **Robert E. Graham**

FROM FLORIDA TO BANGLADESH, MICROCREDIT IS PROVING TO BE A POTENT ANTIPOVERTY TOOL, ENRICHING THE LIVES OF BOTH BORROWERS AND LENDERS.

I think everyone's heart skips a beat when meeting a celebrity or a hero. Last fall I met someone who is both of these to me—Muhammad Yunus. Along with 20 members from the board, staff and major donor rolls of the Katalysis North/South Development Partnership—the nonprofit my wife, Wendy, and I founded—I listened with fascination as the gentle, scholarly Yunus talked about the passion of his life: microcredit. "Microcredit is not about money," he said. "It's about dignity. It's about opening doors."

Yunus, now 57, was deeply influenced by the civil rights movement while studying for a Ph.D. in economics at Vanderbilt University. Confident that young people could change society, he returned to his native Bangladesh in 1972. There, he challenged his students at Chittagong University to close their textbooks and learn about economics by getting involved with the villagers who comprise 90 percent of Bangladesh's population.

After four years of interviewing people in the field, Yunus identified what he believed was his country's central problem: Its people had no access to working capital at a reasonable cost. As an experiment, he made his first loan, in the amount of $25, to a group of 42 people—which gave them 59 cents apiece, a small first step out of poverty.

Now, Yunus's Grameen Bank lends $1.5 million each working day at market interest rates. Grameen's 2.3 million borrowers are the poorest of the poor—landless, without credit history or banking collateral. Yet the payback rate of these customers is astounding: In the past 20 years, 97 percent of the $2.1 billion loans have been repaid—on time.

More impressive are the social returns. One-third of Grameen borrowers have moved out of poverty, another one-third are nearing that point. Four hundred thousand new homes (costing from $300 to $600 each) have been built with Grameen loans. Infant mortality among borrowers is less than the national average and their voluntary family planning occurs at twice the national rate. Yunus insists that these positive changes have happened not because of Grameen, but because 94 percent of the bank's borrowers are women. "When women get in the driver's seat, they look around to see what else they can do to improve their lives," he told me. "They are the drivers for change in the family." I couldn't suppress an appreciative chuckle, because this had been my experience as well: Not only are women good at business, but they also spend the profits on their families, not on themselves.

A couple of years before I turned 50, I made the decision to begin devoting half my time and resources to service. My business partner dubbed it the "50–50 at 50" plan. In 1988, inspired by reports of Muhammad Yunus and the Grameen Bank, Wendy and I began experimenting in Honduras with microloans of less than $100. We quickly saw firsthand why microcredit is considered to be the most effective development methodology since the Marshall Plan. By 1997, Katalysis was focused exclusively on microcredit. We developed a partnership network with local community development organizations, and now have loaned approximately $3 million to

KATHLEEN
GORDON

Vickie Lucas couldn't imagine ever being committed to a job. For years, just barely squeaking by, she drifted—working construction, repairing refrigerators and doing several stints at what she calls the food factories (McDonald's and Burger King). These days, the single mother of four has a new attitude: She loves to get up in the morning, amazed to find herself totally committed to growing her Naranja, Florida, business, Alvi's Take Out & Catering. Not that it's been easy. "I used to think business owners were the richest people in the world," she says. "Now I know that if they are, it's because they worked for it."

Vickie Lucas is a client of Working Capital Florida, a microlending organization started by Kathleen Gordon, a Miami entrepreneur. Like Doña Ofelia, Lucas willingly recites the exact amount of each loan she's received: $500 in 1994 to prepare her legal papers and buy a fax machine; then $1,000 for supplies; then $1,500 to rent a storefront to move the business out of her house. "Tomorrow, I get a loan of three thousand dollars to stock up on inventory for the holidays," she says, excited about the money she'll save by buying in bulk. Gordon tells all of her clients that credit is like medicine. "Small amounts over time make you well," she says. "Overdose on it and you'll kill your credit rating and your business."

Gordon, 57, developed a complex of art galleries and a wholesale art business while in her 20s. She then married, moved to Miami, and turned her boundless energy to lobbying politicians on hunger, poverty and children's issues. She ultimately became one of the founders of a grassroots organization with the unwieldy name of Responsibility for Ending Starvation Using Legislation, Trim-Tabbing, & Support (RESULTS), which now has chapters and affiliates around the world.

In August of 1992, Gordon went to Bangladesh to meet Muhammad Yunus and learn about Grameen Bank. Just days after she returned, Hurricane Andrew hit, and she was faced with the kind of death and destruction that had previously seemed to happen only in places far away: "Some of us decided we needed a Grameen Bank right here," she says.

There was initial concern that the microcredit methodology, developed by Grameen in Bangladesh and ACCION in Latin America, would not translate in the U.S. The loans would have to be much bigger and borrowers would compete in a more competitive market with many more regulations, which would negatively affect the repayment rate. But there is now $126 million loaned out in the U.S. (through more than 300 programs). Although it's too early for statistical studies, the anecdotal evidence to date indicates a healthy repayment rate of approximately 90 percent.

One of the leaders in adapting Grameen-type microcredit to U.S. conditions is Working Capital, the Massachusetts-based organization founded by Jeff Ashe. Gordon decided to become one of its affiliates so she "didn't have to reinvent the wheel," and got a jump start with money from the Hurricane Andrew Recovery Fund and a $50,000 grant from the local community foundation. Five years later, Working Capital Florida has $300,000 in outstanding loans and about 400 borrowers, all with household incomes of less than $15,000. Almost half the borrowers live in south Dade County, which was hardest hit by the hurricane, but all told they come from

photographs by **Andrew Kaufman**

20,000 borrowers in Honduras, Guatemala and El Salvador.

When I'm asked what our borrowers are like, I tell Doña Ofelia's story. Doña Ofelia (who is probably in her early 40s, although like many of the women in this area, she looks 15 years older) owns a small restaurant in San Esteban, high in the scruffy hills above San Pedro Sula, Honduras. When we met there recently, I asked how business was. "With the loans from Nuestro Triunfo Community Bank and the training it provides, I've built this business," she said. In rapid-fire Spanish, she recited the exact amount of each loan: $37, $65, $102 and $190. "Each time I paid one back, I borrowed more and improved this place." She looked around at the restaurant: rough-hewn tables, walls made of white-painted boards; candles on each table not for ambience but to defend against the village's power failures. Smiling with pride, she told me of her plans to expand because she has so many customers. Doña Ofelia is a widow with six children—her business success means that the two still at home will be better clothed and better fed and will stay in school longer than their older siblings. "I need another employee, though," she tells me.

MUHAMMAD YUNUS told his students that if they wished to understand the economics of Bangladesh, they should close their textbooks and study the lives of the villagers.

When I asked what the hours would be, Ofelia said, "The same as mine. Four in the morning until nine at night, every day, no days off." The pay? "Fifteen *lempiras* a day [$2.17] and something to eat."

Although women perform two-thirds of the world's work, they earn only one-tenth its income. And in the Majority World—the nonindustrialized countries where 80 percent of the world's population resides—those are typical wages and hours for women. The proliferation of large-scale plantation-grown crops and the increasing population pressures on the environment mean that women must walk miles farther to find safe water, firewood and land suitable for farming. And worldwide cuts in spending on health, family planning and education continue to make the lives of women more difficult.

Yet, as Yunus explains, "The basic question these poor people respond to is, 'Can I take care of myself?' " Doña Ofelia, like millions of Grameen borrowers, is able to answer with confidence: "Yes, if I have a chance, I can take care of myself."

It is this sense of yes, plus the solid results posted by Grameen, Katalysis, ACCION, Working Capital and several thousand other nonprofit microcredit lenders around the world, that makes microcredit the most promising antipoverty methodology. There are now 8 to 10 million microcredit borrowers worldwide, and the goal of the 1997 Microcredit Summit Campaign is to provide credit to 100 million of the world's poorest families by the year 2005. Increasing numbers of private and public foundations are rising to the challenge. Corporations, led by Monsanto, and banks, including Citicorp, Bankers Trust and J.P. Morgan, recognize the great benefits (humanitarian and financial) associated with microlending.

Critics, of course, carefully point out that microcredit is not a panacea. There are many problems, such as literacy, population, health and environmental issues, that small loans may help but are certainly not designed to solve. Thus, it's important for funding to those areas to be maintained.

A number of individuals from the private sector have devoted significant working hours and financial resources to making loans available. Recently I interviewed Kathleen Gordon, Bill Clapp and Rosalind Copisarow to learn what motivated them to undertake service to others through microcredit.

BILL CLAPP

With his striking blue eyes, Bill Clapp has the appearance of a man who has given himself, and the world he lives in, a lot of thought. And he has. As chairman of Matthew G. Norton Co., a family holding company in Seattle, Clapp has spent much of his life in corporate boardrooms. In 1989, for reasons hard to explain, he decided to take a six-month sabbatical, during which he read extensively. He was especially influenced by Peter Russell's book *The Global Brain*, which prompted him to reflect on how to best use his personal abilities and his wealth to serve a broader purpose in life. Clapp stretched his sabbatical from 6 to 18 months, so that he could do even more thinking.

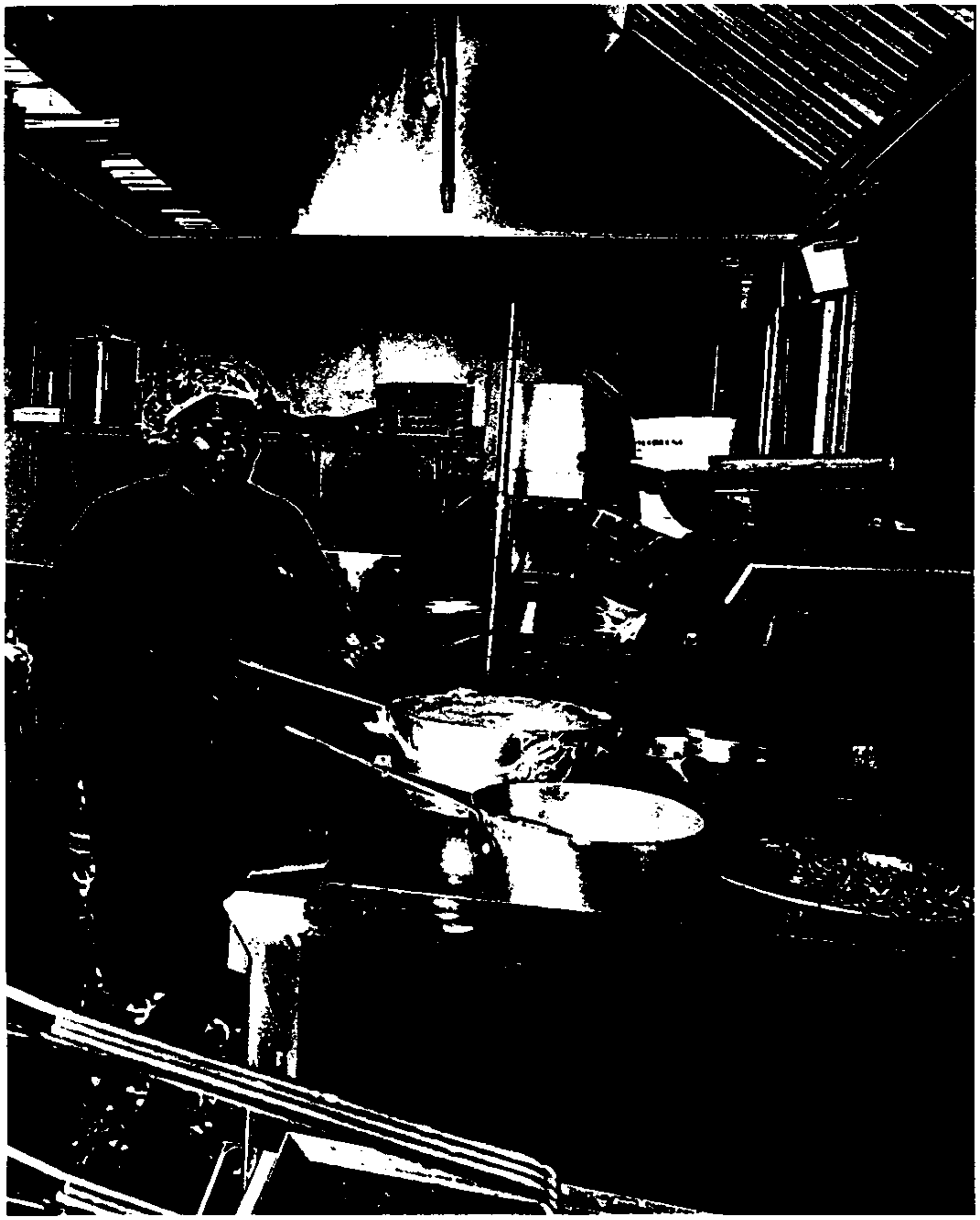
"I saw that I'm best as an experiential learner," he reports. "If I wanted to be of service, the thing for me to do was get involved." A descendant of a distinguished pioneer family in the Seattle area (his great-grandfather was one of the founders of Weyerhaeuser, one of the largest timber companies in the world), Clapp began his service career at a men's shelter—not as chairman of its board, but as a volunteer. "That opened my eyes to a lot of things," he says.

Clapp's interest in microcredit turned into action when RESULTS offered him a free plane ticket to one of their projects in El Salvador. When he told his wife, Paula, where he was headed, she announced that he wasn't going without her. "So I had to pay some money after all," he quips.

Clapp found microcredit to be "entrepreneurially exciting and challenging," and he and his wife continued visiting different projects in other nonindustrialized countries. "In those travels we saw a richness of human spirit in circumstances that I would have thought to be completely devastating." They thought they were prepared for Bangladesh but were shaken by what they saw. "It was hard to anticipate the chaos of masses of humanity, the extreme poverty, the sickness and the heat in Dhaka," says Clapp. "But we experienced people's bravery and ingenuity, especially in the villages where Grameen was operating."

Inspired, the Clapps started their own nonprofit in 1994. Global Partnerships (GP) may be the only microcredit program in the U.S. entirely funded from private sources (mostly donations from the Seattle business community). In partnership with the Foundation for International Community Assistance (FINCA), a U.S.-based microlending organization started in the early '80s by John Hatch, GP set up a program that reached 4,000 women borrowers in Guatemala. "The loans enable the women to increase their income, save money and get their families out of poverty," says Clapp. GP now assists other microlenders in Central America as well.

Like everyone involved in microcredit, Clapp has experienced setbacks. But he perseveres because it works. "It's not like welfare. It's a loan, and it enhances the self-esteem of the borrowers." Not surprisingly, it's enriched his own life as well, which he says has become infinitely more rewarding. "Every single day thirty-five thousand children die from poverty-related diseases," Clapp says. "That's the devastating equivalent of a 747 airplane crash every twenty minutes." And yet he estimates that it would take only $25 billion per year for the next decade to eliminate the worst aspects of severe poverty worldwide. "Expensive? We'll spend more than that on weight-loss programs in the U.S. alone in the same period," he says. "This is not an insurmountable task; we just lack leadership."



KATHLEEN GORDON (above, and left) in the kitchen of Alvi's Take Out & Catering. Owner Vickie Lucas started Alvi's with a $500 loan from Gordon's Working Capital Florida. "I've learned that I'm stronger than I thought I was," says Lucas.

17 communities, including Little Haiti and Little Havana.

The challenge for most microlending organizations is to make enough money from the interest charged on loans to finance operating expenses. A consortium of local banks makes loans to Working Capital Florida at 7 to 8 percent—which they then lend at 12 percent. The point spread funds some of Working Capital Florida's operating expenses, but the majority still comes from donations. Gordon is determined to become self-sustaining, which she figures will take a loan portfolio of $5 million loaned to 5,000 borrowers at a five-point spread. "Our program is not charity for our participants; we don't want the organization to be on the charitable end of things either," she says.

When I asked about her repayment rate, Gordon was characteristically blunt: "Our rate is unacceptable." Nationally, Working Capital has a 97 percent rate; the Florida affiliate is somewhere in the 80s. Gordon partly blames the culture: "Accountability has not been a strong suit of our social-service environment." But she suggests another reason: 40 percent of her borrowers are men. Although Gordon doesn't break out repayment rate statistics by gender, she's certain it's better for women. However, in the U.S., she explains, you can't discriminate against any group if you receive public money (such as Working Capital Florida's grant from the Hurricane Andrew Recovery Fund). Nevertheless, Gordon is determined to collect delinquent loans. "You know, charity makes the giver feel good, but it can demean the receiver. It can create codependency."

There is certainly nothing about Vickie Lucas that suggests codependency. When I asked what she'd learned from this experience, she said, "That I am stronger than I thought I was." Lucas says that the greatest thing Working Capital did for her was to open her eyes to what was possible. She and her mother, Albertha Notice (who is also her business partner), have been busy strategizing. With their stellar credit history, they've put together a business plan in preparation for making an application to the Small Business Association for "a big loan," Lucas says. "Fifty thousand dollars. Big enough for us to rent the space next door and turn it into a real sit-down restaurant."

ROSALIND COPISAROW (right, and above) visits with her client Danuta Trzeciak, who embroiders banners for the army and the fire squads. Trzeciak currently employs 12 other women.

couldn't get it. Suddenly, I had a clear vision of those entrepreneurs getting the loans they needed."

Copisarow admits that she had no clue as to how she might do this, but she was struck by the novelty of being directly involved with the people and businesses that she loaned to. "Here I was, making loans in units of one hundred million—some deals for chemical plants and oil fields were for a billion—and I never actually saw where the money went, let alone the people who put it to use."

A few weeks later, J.P. Morgan hosted a dinner party for Polish government officials and Copisarow found herself seated beside Leszek Balcerowicz, then finance minister. Curious, she asked Balcerowicz if he had heard of the Grameen Bank. He replied that he thought it was an extraordinary financial innovation.

"Well, then, what would you think of a crazy foreign woman bringing the Grameen concept of microcredit to Poland?" Copisarow asked, not quite believing the words she heard herself speaking.

He replied, "Rosalind, if you are willing to give up your career to do that, I promise you I'll give you my support in every way possible. I'll make introductions, write articles . . . "

"My stomach fell to the floor," Copisarow remembers, "and I moaned inwardly, 'Please don't say that.' "

That Christmas, she took a holiday at her family's cottage on the English coast to consider the microcredit possibility. One blustery day as she walked the beach, two images came to her. "I saw myself on my deathbed. In the first image, I had always taken the safe option and despised myself for it. In the second, I had gone ahead with the microcredit project and it had failed. It had been a risky venture and the money was lost. But I felt good, because I had given it my best and been stretched to the limits of my capabilities."

On July 7, 1994, President Bill Clinton announced to the Polish Parliament that the Polish-American Enterprise Fund (established under President Bush in 1990) was donating $24 million to Fundusz Mikro to launch a microlending institution in Poland. The founder, chairwoman, and chief executive officer of Fundusz Mikro was, and is, Rosalind Copisarow.

"We started with freedom, lots of money and complete ignorance about what would work," she says. With a small staff, she examined 200 different lending methodologies—including goat loans, where the first two female kids to be born were re-lent to others. "Our object was to discover what models resonated with the traditions of the country." They tested nine pilot models for about a year before deciding on a program design.

"In addition to individuals, we also lend to small groups of four to seven people. It's important for borrowers to feel they have a choice," says Copisarow. "And we don't make ideological speeches to them—in Poland, the disillusionment with ideology runs very deep."

Fundusz Mikro now has 20 branches lending to 4,000 clients, with a repayment rate that rivals Grameen's: 98.5 percent of $10 million in loans has been repaid on time. In addition, 2,000 new jobs have been created and 3,000 former clients have graduated to the formal economy.

By 2002, Copisarow wants Fundusz Mikro to be self-supporting, with a full banking license. Given what she's accomplished so far, there's little doubt that she will make it happen. "When I reflect on my previous banking career, it seems so two-dimensional," Copisarow says. "It lacked soul. What I do now has put real meaning in my work—and therefore in my life." ■

photograph by **Colin Bell**

BILL CLAPP (above, and left) takes time off during one of his frequent trips to Central America to visit with children in an orphanage in Salvador City, El Salvador.

He tells the story of Muhammad Yunus's visit with the Clapp family in Seattle. At breakfast one day, he asked Yunus if he had any advice for his 17-year-old son, who was just about to go to college. "Yunus looked at my son thoughtfully and said, 'Well, Ned, I suggest you think about how you want the world to be . . . and then set out to make it that way.' "

ROSALIND COPISAROW

This was the scenario in 1993: Rosalind Copisarow was 36, with a bachelor's degree from Oxford and an MBA from Wharton. She spoke four languages (English, French, Spanish and Polish), had a dozen years of investment-banking experience, and had singlehandedly developed J.P. Morgan's business in Poland, where her position was vice president and country officer for Poland. In the previous three years, she hadn't made a loan for less than $100 million, and Morgan was talking about a promotion to China or India. Then, in a life-changing about-face, Copisarow gave it all up for a scratch-start, nonprofit microcredit operation in Poland, which meant living in a Warsaw flat that frequently lacked heat and hot water, and rising at 4:30 A.M. to take hours-long train rides out of the city almost every day of the week.

It all began one day while Copisarow was on her regular British Airways commute from London to Warsaw. "I always sat in a middle seat, in order to double the amount of market information I obtained from my neighbors," she explains. "Usually I wore more 'arty' clothes and carried women's magazines, which made it easier for men to talk to me, to tell me about their business deals." But on that fateful day, Copisarow was dressed in a business suit. She was sitting between two banking competitors, which meant she couldn't safely take work material out of her briefcase. Instead, she began to read the *Financial Times*, which happened to include a supplement on Bangladesh—with a story on Grameen Bank. "I read that more than a million of the country's poorest women had proven themselves to be more creditworthy than the rich, with a repayment rate of ninety-six percent on unsecured loans," she says. "Meanwhile, in Poland, there were more than one million microbusinesses that needed money to expand and

photograph by **Rex Rystedt**

BUSINESS

A FRIDAY, MARCH 6, 1998 The Herald

World Bank's message to lenders: Think small

By GLENN GARVIN
Herald Staff Writer

MANAGUA — Instead of the mega-loans of bygone big-government eras, multilateral lenders need to concentrate on getting sums as small as a few hundred dollars out into ramshackle little towns where they may pay a big peace dividend, World Bank President James Wolfensohn said Thursday.

"People in these tiny rural communities don't care how their market compares to the rest of the world," Wolfensohn said. "They want to get some dollars to buy a few extra cows and pigs and some machinery to collect their crops. They want a road so they can trade with the next village. . . .

"You must deal with the issues of rural poverty, and — depending on the country — the rights of indigenous people, to have peace," he said. "You don't just have to make international bankers more effective. You need to help the people who don't have enough food."

Wolfensohn, a former Wall Street investment banker, made his comments in an interview with The Herald during an overnight stop in Nicaragua, halfway through a week-long tour of six Central American countries.

Wolfensohn is meeting with local leaders as well as getting an up-close look at some World Bank-funded projects in the region. There also has been some unplanned excitement: In Nicara-

PLEASE SEE BANK, 3C

World Bank's message to lenders: Think small

BANK, FROM 1C

gua alone, he had to dodge a tornado, fly in a helicopter with a broken fuel tank, and endure an hour-long blackout at his hotel in sweltering 95-degree heat.

The tornado and broken fuel tank were part of a visit to a rural zone in northwestern Nicaragua where the World Bank is providing small loans of up to $600 to local agricultural producers, precisely the kind of small-scale project Wolfensohn said the bank needs to do more of.

"There are 1.3 billion people in the world living on less than $1 a day," he said. "And there are 3 billion people living on less than $2 a day. . . . Obviously a single big project doesn't get to a billion people. You've got to spread it out; you've got to distribute the lending."

That wasn't always the way the World Bank looked at things, Wolfensohn acknowledged. For years, the philosophy was the more loans the better, no matter how much red ink got splashed around on the ledger sheets of small developing countries with dubious ability to repay. More money didn't necessarily mean better.

Nicaragua — with a foreig debt of $6 billion, one of the highest per-capita debts in the worl — is a prime example of wha sometimes resulted.

"The bank has been changing a lot in terms of recognizing tha there needs to be a balanc between large infrastructure projects, which you still have to do and small things targeted on communities," he said.

International Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

For Europe's Jobless, Self-Employment Might Work

By Flora Lewis

PARIS — Muhammad Yunus — the Bangladeshi professor who, 21 years ago, launched an effective worldwide movement to reduce poverty by handing out $27 in loans — has a certain disdain for the way industrial states, especially those in Europe, are dealing with their chronic massive unemployment.

"The world has forgotten the human tradition of self-employment," he says. "When people lived in caves they went out to help themselves. There was no state to ask for help."

His Grameen Bank, now copied by 458 programs serving nearly 15 million borrowers on all continents, is deliberately aimed at helping the very poorest climb onto the economic ladder. The thesis is microcredit: very small loans to people who have nothing to start with but who want to help themselves.

It has proved self-sustaining. They pay back at the rate of 98 percent, which any commercial banker would envy, and go on from there.

There has been little effort to adapt the idea to the very different circumstances in industrial countries, where the answer to unemployment has become benefits until jobs are created. But it is an idea well suited to changing modern economies, as well as to the fight against endemic poverty.

The notion of jobs, after all, is a direct consequence of the Industrial Revolution. People have always labored, but it was not until production began to be organized around the machine that they needed a job, someone to assign them a place in the organization and someone to pay them for it.

The new economic revolution reopens the question. Big factories and offices are laying off workers, but the possibilities for self-employment have been little explored. The assumption is that someone must hire you.

Great pools of skill and knowledge are left untapped when people are told they must look for a job but cannot find one. Mr. Yunus is convinced that the magic breakthrough tool is credit — microcredit — at commercial rates but without the commercial requirement of collateral or existing earnings.

Two more elements would be needed to bring broad-scale results in industrial countries.

One would be the provision of advice on how to do business, set prices and so on. The U.S. Small Business Administration gives some successful examples, but a big new bureaucracy is not necessary. With earlier retirements and longer life spans, there are many people who would be glad to volunteer as a kind of commercial godparent to the would-be self-employed.

Mr. Yunus thinks the beneficiaries should pay for the advice, even a tiny amount, so that they value it.

The second requirement would be an important reform of the huge jumble of regulations, licenses, permits and so on that countries impose on new small businesses.

It is worth serious consideration. France is an example of a country where growth has resumed, with good economic indicators, but where job offers have not. Unemployment remains stuck at more than 12 percent.

The distress has brought a new kind of confrontation. The unemployed have organized to demand more benefits, in effect seeking recognition of their plight as a new kind of social status.

It is a striking contrast with the slogan of the 1848 revolution, recalled now on the 150th anniversary of the founding of France's short-lived Second Republic. The demand at the barricades then was "the right to work instead of to charity."

The government has promised to provide 150,000 new jobs for unemployed youth and proclaims that its legislation to impose a 35-hour workweek will lead to a large number of new hires. The response has been highly skeptical. Meanwhile, it is not doing anything to encourage self-employment.

Of course, there exists a category of self-employment on a large scale in many countries: the black market.

"It should be called the golden market," says Mr. Yunus. Governments do not like it because it escapes taxes and regulation. He suggests that under a certain maximum, self-employed people who do not hire others should be freed from taxes. It would cost less than paying unemployment benefits and supporting make-work.

Microcredit has proved its worth among the poorest. It should be given a chance to break the unemployment impasse in countries obliged to shift to postindustrial economic structures. The capacity to do useful work is there. That is not necessarily synonymous with having a job. The alternative is self-employment, and this form of credit is needed to make that possible for a lot more people.

Flora Lewis

The Miami Herald

JOHN S. KNIGHT (1894-1981) JAMES L. KNIGHT (1909-1991)

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LARRY OLMSTEAD, Managing Editor

Small loans, big results

MICROCREDIT PROGRAMS

Loans as little as $500 spawn entrepreneurs and an alternative to poverty.

Collapsing Asian economies and their domino effect have caused alarm lately. Much to blame is "crony capitalism," which not only thrived on bad loans to friends of those in power, but made the rich richer while further miring the poor in poverty.

Yet another financial philosophy from Asia promises just the opposite, an antidote to savage capitalism. Microcredit programs, in which tiny amounts are lent to nontraditional borrowers, have proved to be an exceptionally sound lending practice while encouraging the poor to build businesses and income.

A year ago a Microcredit Summit in Washington, D.C., rallied 3,000 people from 137 countries toward the goal of reaching 100 million people, especially women, with these tiny loans for self-employment by 2005. That's an ambitious stretch from the eight million to 10 million people worldwide now in microcredit programs.

Pioneered by Muhammad Yunus and his Grameen Bank in Bangladesh, the microcredit concept has spread and adapted — even to urban South Florida. Working Capital Florida, a local nonprofit group patterned on the Grameen model, serves some 350 businesses in Miami-Dade. Loans average $725 (internationally it's $150) and are paid back in less than a year. Borrowers are organized into groups, each with a business adviser. The entire group must approve every microloan to individual members. Default rates are extraordinarily low, because no group member gets more credit should another default on a loan.

Many borrowers are single mothers, mostly blacks and Hispanics. Typical is Vickie Lucas, who leveraged a $500 loan in 1994 into Alvi's Take Out and Catering in Naranja. She now is expanding with a $50,000 loan through the U.S. Small Business Administration. The beauty of microcredit, Ms. Lucas says, "is not just the loans but the education about business."

A new three-year, $450,000 grant from the Mott Foundation will allow Working Capital Florida to expand its good work into Broward and Palm Beach, says Kathleen Gordon, its president. Support from other private sources, commercial banks, and state and federal governments would help the group grow further.

Certainly the goal is worthy. Working Capital Florida and other microcredit programs push economic opportunity toward the people who need it most. As Ms. Gordon aptly suggests: "The real economic engine will be from the bottom up, not from the top down."

The Miami Herald

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THE READERS' FORUM

Microcredit bill to stress under-$300 loans

Thank you for your excellent Feb. 21 editorial *Small loans, big results* about bottom-up economic development through microcredit for self-employment. Millions of the world's poor have pulled themselves out of poverty with such small loans.

Congress has been increasingly impressed with the positive results of microcredit, and foreign-aid dollars have been channeled into microcredit programs in developing countries since 1987.

However, the U.S. Agency for International Development recently reported that microcredit spending has declined since 1994. The latest figures available (1996) show that scarcely 38 percent of total micro-enterprise funding went to anti-poverty lending programs.

The only way to ensure that foreign-aid dollars go where Congress recommends is to require it by law. A new bill to be introduced soon in Congress will specify that half of total microcredit funding go to programs making loans of less than $300. This is not a call for increased-foreign aid dollars, but for aid more wisely spent.

STEPHANIE NEUMANN
Miami

Miami RESULTS Partner

Center for Youth
after school tutoring at
Betances & Sanchez Schools
Readers Club
Camp Center City

Peter's Retreat
supportive AIDS residence
scattered site housing

248 Laurel Street
transitional living for those
with severe mental illness

Social Services
emergency food and fuel
for families in crisis

WESP
on site and home delivered
meals to seniors
on the weekend

Center for Hope
breakfast, lunch five days
a week for homeless

Federal Reserve Board
Federal Reserve Bank of New York
Public Meeting Regarding Citicorp and Travelers Group
June 25, 1998

Members of the Federal Reserve Board panel, my name is Paul Christie. I am the Executive Director of Center City Churches, Inc.

Center City Churches is a not for profit, non-sectarian, human services agency in Hartford, CT. Started in 1967, we are now comprised of twelve congregations, representing ten religious traditions.

Our mission is to be a partnership of congregations, institutions and individuals which cares for the city by finding innovative and effective ways to help Hartford's neediest residents work toward self-sufficiency.

Since our beginning, we have relied on active partnerships to fulfill our mission. Today, with the help of over 400 volunteers annually, dozens of corporate, foundation, public and private commitments, we operate six programs. Among them:

Peter's Retreat, the first and largest AIDS housing program in CT.
Laurel Street, the only state licensed group home for the chronically mentally ill in Hartford.
Center for Hope, offspring of the first soup kitchen in the city.
Center for Youth, the most comprehensive school tutoring and arts enrichment program in Hartford, serving over 400 children weekly.

The Travelers Group, Inc. plays a pivotal role in helping us fulfill our mission. Here are some of the ways Travelers puts energy into being a community partner with Center City Churches:

Travelers is providing a three year grant for the Center for Youth which enables us to double the number of children we serve by adding a second school to our program.

Travelers purchased a van so we can transport our program participants safely.

Travelers donates staff time to find office space for our agency and secures furnishings for the space; consultations to revise our personnel policies and upgrade our pension plan, excluding themselves from being considered as a vendor.

100 Constitution Plaza, Suite 721, Hartford, Connecticut 06103-1721
Phone: 860-728-3201 Fax: 860-549-8550

Travelers recruits board members and school tutors.

This Spring, Travelers developed an ongoing art gallery in their offices to display our students' work and that of their employees and other community groups; building bridges between the neighborhood and the Board room. Already, Travelers personnel have purchased some of the students' work and underwritten an Artist's Residency at both Betances and Sanchez Schools.

My daughters' crew experiences in college illustrate what I am trying to say about Travelers as a community partner. Every seat has a name and a task in crew. The "Stroke" is the team member who sets the pace for the boat. By example, all the other rowers align themselves with him or her. The "Stroke" sets the standard. In Center City Churches' experience, Travelers is the corporate "Stroke" for community involvement.

National Federation of
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Credit Unions

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NFCDCU

Statement by

Carol Aranjo

Chairperson, Board of Directors
National Federation of
Community Development Credit Unions

on the Proposed Acquisition
of Citicorp by Travelers Group Inc.

June 25, 1998

My name is Carol Aranjo and I represent the National Federation of Community Development Credit Unions. The National Federation of CDCUs represents 170 credit unions that specialize in serving low-income and minority communities in 40 states. Our members are located both in urban and rural areas. Many of our member credit unions have served their communities for decades -- in some cases, for as long as fifty years.

Our credit unions serve people and communities who have often been ignored or neglected by banks. For the most part, the members of CDCUs have small savings and need small loans. Sometimes they have credit histories that would make them unacceptable to banks. Serving this market is not very profitable, which is why many banks have retreated from our communities.

Our community development credit unions, or "CDCUs," have decades of experience in trying to fill the banking gap, and bringing services to the underserved. But it's not an easy job, by any means. It can take many years and enormous sacrifice for CDCUs to achieve the levels of assets and capital they need to serve their members adequately. Often, our credit unions need help getting to those levels.

Citibank has provided that kind of help to the CDCU movement. It's not always easy to convince a bank that it should help institutions which some bankers call "competitors" — namely, credit unions. But Citibank looked beyond this, to the needs of low-income communities. They decided that if their bank's presence wasn't sufficient in a community, it would be important for low-income people to have access to a CDCU, an accessible, nonprofit financial institution owned by the community itself.

So, in 1996, Citibank made a contribution of more than $1 million to the CDCU movement, to help our credit unions carry out their work of serving low-income people. Through the National Federation's Capitalization program, these grant funds have helped build the net worth, or equity capital, of our CDCUs, which is crucial since our credit unions are government-regulated financial institutions. Citicorp's grant was the largest of its kind by any bank. Citicorp helped us help CDCUs in New York, but also in all the other cities and rural areas where Citibank had a presence. The program was bold, innovative, and most helpful to us.

In many other ways, large and small, Citibank has helped CDCUs and the National Federation with our work. Whether it was producing marketing material, providing consultants, developing training programs, or thinking through strategies to better serve low-income people, Citibank and its staff helped. Sometimes they didn't even wait to be asked, but freely volunteered their assistance.

We **hope** that this kind of assistance will continue in the future. We **expect** that it will. Citibank's continuing investment and involvement are going to be very important in our work of bringing community-owned financial services to increasing numbers of low-income communities and consumers.

Thank you for your attention. I would be pleased to answer any questions.

CALIFORNIA REINVESTMENT COMMITTEE

June 24, 1998

Glenn E. Loney
Presiding Officer
Board of Governors
Federal Reserve System
Washington, D.C. 20551

RE: California Reinvestment Committee testimony for Citicorp / Travelers merger.

Dear Mr. Loney,

The California Reinvestment Committee regrets it cannot present this testimony in person. We authorize the Inner City Press / Community on the Move to enter our testimony into the record, and request your consent on this matter.

Sincerely,

Alan Fisher
Executive Director

474 Valencia Street, Suite 110, San Francisco, California 94103 Tel: (415) 864-3980 Fax: 864-3981 reinvest@igc.apc.org

Testimony of the California Reinvestment Committee
RE: Citicorp / Travelers Merger
June 25, 1998
Panel Eight

We would like to extend our appreciation to the Federal Reserve for inviting public comment on the Citicorp/Travelers proposed merger. I am ____________ representing the California Reinvestment Committee (CRC) from San Francisco, California. We regret that we cannot attend in person and with our coalition members, who represent nearly 200 community-based organizations around California.

For a number of critical reasons described below, we urgently request that the Federal Reserve deny Travelers application to acquire Citicorp. The crux of our argument rests on the records Travlers and Citicorp have established in communities of color, and on how this merger will adversely affect low-income communities. As you have heard or may hear in subsequent testimony from other groups, both Travelers and Citicorp have programs supporting community investment and charitable giving. Yet, both groups also have poor histories of serving people of color, and of underserving low-income communities. In addition, the announced $115 billion dollar CRA pledge lacks scope, size, and detail for an institution the size and scope of the proposed Citigroup.

Citibank has one of the worst reinvestment programs for a major California financial institution. The bank has a record of severely underserving Hispanics in the state. California is at least 30% Hispanic, yet only 12% of mortgage applications taken by Citibank in California in 1995 were from Hispanics. In 1996, that number plummeted to only 4% of mortgage applications. Over that same period of time, the number of applications accepted from white applicants increased nearly 10%.

For many years the bank received below satisfactory ratings on its CRA performance evaluations. Oddly enough, the CRA rating for Citibank improved in 1996 as their lending record to Hispanics was decimated. And just when their rating began to improve, the Bank also dropped its commitment to low-income people and began to pander to moderate- and high-income people. The Bank has systematically eliminated low-cost products, such as those Citibank competitors offer specifically designed to meet the needs of low-income consumers. According to Citibank literature, the "Basic Banking Account" has a monthly service charge of $6.50, and is only free if you do $10,000 dollars in business with them. The new EZ Checking program is a no fee account only if you keep a balance of $1,500 dollars. Clearly, low-income account holders were not in mind when these programs were developed.

The Citibank developed a small-business loan product which has a minimum loan requirement of $100,000 dollars. This minimum requirement prevents most small businesses owned by people of color or businesses that reside in low-income communities from qualifying. Instead, these communities needs loans in amounts of $10,000 to $40,000.

The California Reinvestment Committee has tried unsuccessfully to work with Citibank. Since 1992, Citibank has refused to adopt community reinvestment recommendations provided by The California Reinvestment Committee.

If one looks at Travelers' record of serving people of color, the picture is equally harrowing to that of Citibank's. As you may already know, there is an outstanding housing discrimination complaint against TravelersGroup. The suit alleges that Travelers discriminates in the provision, underwriting, and terms and conditions of homeowners insurance to homeowners and homes in African-American and/or Latino neighborhoods. Travelers maintains a minimum policy value of $250,000 dollars in metropolitan Washington, D.C. This excludes more than 90% of homes in predominantly African-American and Latino neighborhoods from qualifying for Travelers homeowners insurance.

In what may be an effort to right their wrongs, Travelers and Citicorp have delivered a $115 billion dollar commitment to communities. Unfortunately, this pledge is minuscule for an institution the size of the proposed Citigroup. The California Reinvestment Committee has been working with banks for 11 years to develop community reinvestment goals and in all our time we have not had one bank measure its goals based on the bank's deposit base. Banks such as Bank of America, Washington Mutual, Wells Fargo, as well as others, have measured their CRA goals based on a percentage of the bank's assets. Currently, the industry standard is 8% of assets. If the proposed Citigroup were to revise its goal amount to reflect its assets, as it should, the pledge would need to be increased from $115 billion to $560 billion, nearly a 500% increase.

But more important than the size of the commitment, is how the commitment will impact communities. This commitment provides zero assurance that it will benefit low-income people because the commitment lacks details on how programs will be developed and delivered. For example, the proposed Citigroup pledges to "expand the availability of commercial and homeowners insurance coverage to low and moderate income customers," yet does not describe any details on how this program will be developed and delivered. Considering Citibank's and Traveler's histories of underserving communities of color, we are not convinced that this pledge is backed up by a clear understanding of the needs of low-income areas and communities of color, nor a concrete commitment that the proposed Citigroup will indeed serve these chronically underserved communities.

It is also discouraging that over half of the commitment, or $59 billion dollars, is committed to consumer credit which includes student loans, credit cards, and other consumer loans. Loans, such as those for students, are not usually included or appropriate in CRA commitments. In addition, there is no language in the commitment that say these products will be priced for low-income consumers.

Aside from the egregious CRA record of both lending institutions and the apparent lack of commitment to CRA in the proposed institution, this merger raises serious concerns regarding safe and sound banking practices and unfair competition.

Federal deposit insurance, normally reserved just for banks, does not protect insurance activities. There are no protections that shield deposits should the insurance affiliate in Citigroup encounter problems. In our opinion, depositors are exposed to undue risk if Bank's deposits are used to help a failing insurance affiliate.

The merged institutions would create unfair competition. No other financial institutions are allowed to combine banking and insurance at the level that Travelers and Citicorp proposed to do. Approving the merger would give the proposed Citigroup unfair market advantage. It is also our understanding that Travelers is requesting to account for the merger as a "pooling of interest." Using this form of accounting method makes the new institution appear financially stronger than it really is, thereby wrongfully attracting investors.

The CRC and its 190 member organizations strongly recommend that the Federal Reserve deny Travelers application to acquire Citicorp. The merging institutions have extremely inadequate records serving communities of color and the 1998 CRA pledge is a hollow and meager offering. The merger creates unfair competition, and is, at this time, not in the long-term interest of the law. It is an unsafe merger, and one that shows no concrete promise to serve the communities where it does business.

To whom it may concern at the Federal Reserve:

I authorize Matthew Lee of Inner City Press, or whomever he designates, to read the following comments during my scheduled appearance at the Citicorp/Travelers merger hearings on Thursday, May 25 in New York City on my behalf as a representative of the Wisconsin Rural Development Center. Matthew Lee is also authorized to answer any questions that may arise regarding these comments.
I would have preferred to make these comments myself, but unfortunately the Federal Reserve has not agreed to use readily available technologies to allow testimony from people who can not afford to travel to New York.

Sincerely,

S--------------------

Hubert J. Van Tol
Banking Issues Consultant
Wisconsin Rural Development Center

Wisconsin Rural Development Center testimony to the Federal Reserve on the CitiCorp/Travelers mergers.

June 25, 1998
New York City

My name is ----------- . Hubert Van Tol of Sparta, Wisconsin, has asked me to present these comments today on behalf of the Wisconsin Rural Development Center. Mr. Van Tol also serves as a board member of the National Community Reinvestment Coalition and is a co-chair of NCRC's Legislative/Regulatory committee.

Thank you for the opportunity to testify today. We would have preferred the opportunity to testify in a location more convenient to our membership, but we nonetheless bring this message to you from our members. Don't allow this illegal merger to take place!

Wisconsin Rural Development Center has been assessing the credit needs of our communities and working with the banks of Wisconsin for the past five years. WRDC is a member of the National Community Reinvestment Coalition and we endorse NCRC's position on this merger as it has been communicated to the Federal Reserve in writing. Our members know that the consolidation in the banking industry has not provided them with benefits that are worth the increased fees. They doubt that further consolidation across the whole range of financial services will bring them any more benefits than banking consolidation has.

Our members are primarily from rural and small town Wisconsin. They are the people who work hard, play by the rules, and often find the deck stacked against them. Even if they could do so, our members would never dream of making an application to the Federal Reserve for the privilege of breaking the law. They don't think that way, and even if they did, they would have no hope of succeeding. When they hear the details of what Citicorp and Travelers are proposing to do with this merger they just shake their heads. They know why government regulators are so willing to bend and break the law on behalf of powerful corporations, but they wonder if our democracy really has to be that way.

The Bank Holding Company Act makes very clear that any bank holding company acquiring another company, which is engaged in activities which are impermissible for a bank, has two years to divest themselves of those impermissible activities. The Federal Reserve has ruled very explicitly in previous cases that during the two year waiver period the acquiring institution may not engage in cross-marketing and cross-selling between the bank and the business in question. The two year waiver period is granted in the law solely for the purpose of providing a reasonable length of time for the bank holding company to divest itself of the impermissible businesses, without having a fire sale. The three additional one year waivers were only intended for use in cases in which the bank holding company had made a good faith effort to divest itself during the two year period, but was unable to do so.

With this application Citicorp and Travelers are throwing the law, Federal Reserve precedent, and common sense out the window. They seek what they believe should be an automatic two year waiver, not so they will have time to divest their insurance underwriting business, but so they will have time to integrate the different businesses while convincing Congress to change the law. They present their application with the assumption that they are automatically entitled to a two year waiver -- and it seems the additional three one-year waivers as well--even though they have no intention of divesting their insurance underwriting business. They have made it very clear that they intend to use the two year period to build and develop their insurance business by cross marketing and cross selling between the banking and insurance sides of the business. They are rubbing our faces in their blatant disregard for current banking law.

It is clear that the Citicorp and Travelers want Congress to pass a financial modernization bill; it is also clear that the Federal Reserve wants

Congress to pass a financial modernization bill; but such a bill has not passed and in fact may not pass in the next two years. The responsibility of the Federal Reserve is to enforce the laws and regulations as they are written, not as particular Federal Reserve officials or arrogant corporate leaders may wish they were written.

While we agree that the Citicorp/Travelers CRA pledge, with nearly half of its dollars in credit card lending, is a bogus pledge, we are not raising community reinvestment issues or convenience and needs questions at this hearing. Any question of the adequacy of Citicorp's CRA record and the future CRA commitments of the merged entity is overshadowed by the legal questions raised by this proposed merger. If corporations like Citicorp and Travelers are allowed to ride rough shod over the law in this way it will mean that virtually everything about our democracy is up for sale.

We ask the Federal Reserve to do the right thing; deny this application and tell Citicorp and Travelers that if they wish to change the law, they are entitled to do that in the same way that everybody else in this country is; by petitioning Congress to change the law. But until that time they must play by the rules; just as our members do.

Thank you very much.

TESTIMONY ON CITICORP/TRAVELERS INSURANCE MERGER
Phyllis Salowe-Kaye, Executive Director
New Jersey Citizen Action

New Jersey Citizen Action, and the New Jersey Affordable Housing Network, emphatically opposes a merger of Citicorp with Travelers Insurance Group. We do so for the following reasons:

1) The merger is illegal under current law;
2) There is an issue of safety and soundness;
3) Citibank comes into this merger with a less than impressive record of service to low- moderate income communities in New Jersey, and
4) Travelers Insurance activities are not regulated under the requirements of the Community Reinvestment Act, a situation which is a threat to all low- moderate income residents of New Jersey.

Speaking to the first point, it almost seems silly to be addressing the illegality of this merger under current law when we all know that changing the law is what this is all about. Both entities have been lobbying Congress to pass The Financial Services Act of 1998 that would (PRESTO) make this all legal. But until that happens, this merger is premature and dangerous. (Afterwards, it will only be *dangerous*.) While Citigroup claims that the merger is legal so long as the new entity divests itself of Travelers underwriting business within two years, in their May 4th press release, there is no mention of such divestiture and no good faith attempt to share a plan for how this might happen. We don't believe they've given it a thought. Clearly, they expect to have one foot out of the gate when the legislation that they have lobbied for so heavily is finally passed. Why should the Federal Reserve give them that advantage?

On the second point, this merger brings up the issue of safety and soundness. no-one seems to know what this sewn together entity will look like or how it will behave once it has been created. It could be a monster. Godzilla is a fabrication. This one is real, and once it is set in motion with no rules to govern half of its limbs and part of its brain, it will be too late. This has the potential for exposing taxpayers to another situation like the S&L bailout. We oppose mixing insurance, banking and securities until there is a complete investigation of how to preserve financial safety and soundness in the context of unlimited cross-industry ownership. As a result of this merger, Citigroup could become dangerously exposed to sudden crises, either of their own making or due to events beyond their control that can wipe out assets. The Citigroup merger is being hailed by them as creating a diversified conglomerate offering an array of banking, insurance and securities products to 100 million customers in over 100 countries. Instead of diluting risk, Citigroup may actually overextend themselves and pursue even riskier loans and investments in an effort to grab market share and profits. This has been known to happen. Remember, Citicorp received constant oversight by the Federal Reserve Board and the OCC when it overextended itself in developing countries in the 1980s. This merger could create "companies too big to (be allowed to?) fail," which in times of trouble would mean costly government bailouts in order to prevent economic catastrophe. We do remember the S&L bailout. We'll never forget who paid for it.

In an event beyond their control, would some future emergency require huge policy payouts forcing Citigroup to draw down the resources of federally insured Citibank in order to bail out Travelers? Without protections would this leave the depository institution in precarious financial condition? Clearly, this particular $700 billion combination of banking, insurance and securities threatens the safety and soundness of this country's financial system.

The third issue, the poor quality of Citibank's service to low- moderate- income communities is a matter of record. While they claim some improvements over the last year, their 1996 New Jersey data is abysmal. Loans by Citicorp to African-Americans were denied 2.4 times more than Whites, a number far higher than the national denial rate of all banks. The record shows that this bank has clearly underserved a significant portion of minority and low and moderate income people and neighborhoods in New Jersey. They trail their peers in all categories we analyzed with the exception of having the same denial rates to Hispanics as all lenders. Citibank has made a lower percentage of its loans to African-Americans, Hispanics, potential borrowers in minority census tracts, low/moderate income households and low/moderate census tracts than <u>all</u> lenders as a group. They need to do better.

Although Citigroup has pledged $115 billion to lending and investing in low- moderate income communities and small business, it is difficult to project from that pledge how much of that money will actually find its way to low- moderate- income people in New Jersey when they include under "lending", student loans, credit cards and other types of consumer loans. Furthermore, the location of bank branches will become irrelevant criteria for determining service to urban areas and low- moderate-income residents if cross-marketing bank loans to policyholders becomes the primary means of marketing loans in New Jersey. And we are talking about a bank that strives for fully automated branches ... truly "people-less facilities."

Enter Travelers, and issue # 4.

Citizen Action and the Affordable Housing Network have held some promising meetings with Citibank about how they can better meet the needs of New Jersey, but nothing has been finalized yet and our recent discussions have only emphasized the lack of clarity regarding the intentions of their bride-to-be, Travelers Insurance Company.

Travelers is a real Neanderthal when it comes to recognizing and understanding their responsibilities to the low- and moderate income communities of New Jersey. Here's an example. Questioned about a Fair Housing Act complaint filed against Travelers last year which accused them of not insuring homes valued at less than $250,000, the answer of the attorney for First Trenton Indemnity, their property-casualty insurer in New Jersey was that actually, in New Jersey, they are most successful in marketing to homes of a <u>lower</u> value ..... somewhere between $200,000 and $225,000. That should make aspiring homeowners in Newark, Trenton and Camden breathe easier.

But that's not the worst of it. We still can't get any written answers about the size or composition of Traveler's property and casualty business in New Jersey and we have received conflicting information about Travelers from their own legal departments and well-meaning but unknowlegable members of Citibank's staff. On a Tuesday, we are told that New Jersey was one of the top ten markets for Travelers Property and Casualty and that they write lots of homeowners policies in New Jersey. On the following Monday we got a call telling us that almost all the wonderful things that were announced in the Citigroup Press Release won't be done in New Jersey because such an insignificant number of homeowners policies has been written by Travelers. Two days later, Citicorp tells me that Travelers market share is 4.9% and yesterday, the New Jersey Department of Banking and Insurance told me that Trenton Indemnity is the 6th largest insurer of homeowners in the state. Not great, but certainly not chump change. Am I missing something here?

Vague press releases with huge mega-pledges are useless if they are not accompanied by specific monetary and geographic commitments for products and programs that are developed with the input of the people who most affected by the merger ... and I don't mean the stockholders. Citigroup must sit down and discuss community reinvestment plans with community groups all over the country. The Citicorp/Travelers commitment makes no reference to particular geographic areas where they expect to make loans and investments. I hardly think this information will be more forthcoming when they are safely protected by a change in Federal rules about mergers unless full disclosure is required.

In their press release, Citigroup makes the following pledge: to be (and I quote) "fair and transparent in dealing with our customers and their communities, so we earn their trust and support." In light of the above lack of clarity and candor regarding the nature of Travelers current business in New Jersey, or its future commitment, or again, its plan to divest itself of underwriting business under the current law, I would say that "transparent" is light years away. They haven't made it yet out of "opaque" and into "translucent." The only thing that is transparent here is their clumsiness in trying to avoid making a clear commitment at all.
This merger must be stopped.

NEW JERSEY
CITIZENACTION

Phyllis Salowe-Kaye/Executive Director

June 10, 1998

James Michener, Esq.
General Counsel
Travelers Insurance P.C.
Tower Square
Hartford, CT 06183

Dear Mr. Michener:

It was a pleasure speaking with you. I would appreciate it if you would send me the following general information about Travelers, its operations and its policyholders.

Yes (1) A Travelers organizational chart showing the various businesses and products to better understand the relationships between them;

NO (2) Exact figures for the number of Travelers policyholders (both nationally and those that reside in New Jersey for all businesses);

NO (3) A breakdown of policyholders, nationally and in New Jersey, for the types, length and relative value of the policies they have;

NO (4) A demographic breakdown of Travelers policyholders in New Jersey, by the standard ways such things are broken down: age, gender, race, income, family status and census tract;

NO (5) Compensation figures for the top five highest-paid executives in the company for the past couple of years;

there are none (6) Some breakdown/accounting of the New Jersey based-investments Travelers has, especially those in low and moderate-income areas;

NO (portfolio) (7) A full description of Travelers' social investing program, including a list of social investments made in the past five years;

Yes (8) The 1997 Annual Report.

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Thank you for your cooperation.

Very truly yours,

Phyllis Salowe-Kaye

Phyllis Salowe-Kaye
Executive Director

PSK/dem

cc: The Honorable Elizabeth Randall, Commissioner
NJ Department of Banking and Insurance
Cynthia Codella, Deputy Commissioner for Insurance, DBI
Gail Simon, Chief of Division of Life and Health, DBI

Delaware Community Reinvestment Action Council, Inc.

601 N. Church Street, Wilmington, DE 19801
Telephone: 302- 654-5024 Fax: 302- 654-5046

Testimony by Rashmi Rangan, executive director,
Delaware Community Reinvestment Action Council, Inc.
Before the Federal Reserve System, New York
June 25, 1998

My name is Rashmi Rangan. I am the executive director of the Delaware Community Reinvestment Action Council, Inc. ("DCRAC")--an eleven year old non-profit citizens' advocacy organization whose mission is "to ensure equal access to credit and capital for the under served populations and communities throughout Delaware." I am also a Board member of the National Community Reinvestment Coalition and a member of Inner City Press/Community on the Move.

Without taking away the important role that groups who have and will testify in favor of this merger application play and the support they enjoy from the banking community, we are the "Community" Reinvestment experts. We assess a bank's performance as a whole, inclusive of its affiliates and subsidiaries and in every geography the bank is chartered to do business. We assess local, regional, and national impact of a bank merger on our community.

We are opposed to the merger of Travelers Group and Citicorp. I will speak on a number of adverse issues.

The announced merger is an illegal proposal under the federal Bank Holding Company Act ("BHC Act") and the intent thereof, and even under the Federal Reserve Board's ("FRB's") own prior precedents and regulations. The BHC Act prohibits a BHC from owning insurance underwriting or agency operations; the BHC Act was enacted precisely to prohibit combinations like Travelers - Citicorp. Even Travelers states that, under current law, it would have to divest its insurance underwriting operations. The ex-Chairman of the Federal Reserve Board ("FRB") Paul Volcker says, "I find it hard to believe the law permits the combination. Glass Steagall is still here." There are substantial arguments that Travelers should be required to divest insurance operations prior to any consummation of this proposal. Underwriting Life and Property & Casualty Insurance has been found by the Federal Reserve Board to NOT BE CLOSELY related to banking.

The announced merger is an unethical proposal. Back in 1956, when the BHCA was enacted, the two year waivers granted to the Bank Holding Companies ("BHC") caught off-guard, to come into compliance (with separating insurance and banking), made perfect sense. Forty two years later, to expect these two-year waivers (particularly in hopes that lobbying efforts would crumble these fire walls) is tantamount to extortion.

Of much concern to us is the fact that discussions between the applicants and the Federal Reserve System prior to the merger announcement make a mockery of today's and tomorrow's proceedings. The following are a few quotes, citation in the detailed testimony that has been submitted along with relevant exhibits, that give us grave concern.

Citicorp CEO Mr. Reed "[t]here were enough discussions [with Fed officials] for us to know that there wasn't a legal problem,' [T]here are all indications that [the merger] will be looked at favorably." "Top officials with the two companies said they discussed the deal before Monday's announcement with Fed Chairman Alan Greenspan... The executives characterized conversations with Greenspan... as supportive..." "Appearing at the same news conference, Citicorp head John Reed said executives from both firms had spent the last four weeks "making sure with the regulatory authorities that it was possible."

At a public hearing before the Delaware Department of Insurance, Mr. Matthew Lee of ICP, presented his arguments and cross-examined witnesses concerning

1. any assurances the Federal Reserve System (the "FRS") may have given Travelers that the FRS will allow the retention and integration of Travelers insurance underwriting operations, and cross-selling and data sharing with Citicorp's banking operations, and
2. whether Travelers has made any financial projections regarding its condition if it is required to divest its insurance underwriting activities, and/or is not allowed to cross-sell or share data with Citicorp's banking operations.

No legitimate assessment of the prospective financial condition of the Applicant is possible without exploring at least

1. the likelihood that the Applicant will be able to retain its insurance underwriting operations, and to integrate cross-market with Citicorp's banking operations, and
2. the implications, including financial implications, if the Applicant subsequently, as required by current law, divests its insurance underwriting operations.

Under oath, the Travelers witness claimed that Travelers has NOT made any such financial projection, and stated that he was aware of a telephone conversation between Travelers' counsel and the general counsel of the FRS between the March 30 and March 31 letters, and that it had been conveyed to him that all that the FRS' general counsel had said in this conversation was, "Thank you for the letter." Contradicting this testimony is an article in the American Banker, May 29, 1998, "[d]uring that call, Mr. Mattingly said he told the lawyers that cross-selling plans should not interfere with the divestiture requirement or give the company an unfair competitive advantage."

The fact that lobbying efforts will be stepped up to ensure that Glass Steagall Act is repealed brings to the forefront our concerns regarding the ethics of the management of the proposed Citigroup.

To write to Mr. Mattingly, of the Feds, stating that the clients (Travelers'), "are comfortable proceeding with the transaction provided you are not uncomfortable with the type of practices outlined above" and to add "ask that you advise us if you disagree with the approach and analysis we have outlined in this letter" is playing games with the community and calls into question the ethical standards of the management. Tellingly, it reflects on the Federal Reserve Board as well. It is rather apparent from the March 30/31 letters to the Feds, that a tacit approval to use a common brand name for all products, price breaks for packaged deals, share customer data base., and provide one statement, has been granted. Implied in the communication is the fact that unless these activities are permitted, the merger will not be announced.

Even if Travelers were allowed two years to divest, the Application is informationally incomplete in that it does not provide any projections or information regarding the prospective impact of such divestiture on the financial strength of the proposed Citigroup. The Application should be dismissed as informationally incomplete.

The proposed merger is an expensive "bet". We have been led to believe in the doctrine of "too big to fail"--look at Japan. Tax payers will be stuck with bailing out these giants, should they fail. The surviving banks will be stuck with hefty premiums. Does any one remember the S&L crisis? Most mega-bank mergers today tout the advantages of electronic banking and technology. Can you imagine, within this environment, the impact on safety and soundness, when with one stroke on the key board you can move your deposits. Particularly, when the entity which is a large insurer of properties in a geography struck by natural catastrophes happens to also be your bank! What about the implied subsidy--FDIC insurance.

This proposal raises concerns with Communities' convenience and needs. This merger cannot and will not be convenient for, nor is it needed by, our communities.

Travelers' current subsidiaries have a troubled record of consumer compliance, as evidenced by lack of compliance with the Home Mortgage Disclosure Act ("HMDA"), predatory and allegedly discriminatory practices, as stated by Ms. Mary Harris of Dover, Delaware.

Travelers Group symbolizes communities' anti-trust.
We do not trust Primerica Financial Service agents in our communities.
We do not trust Commercial Credit loan officers in our communities.
We do not trust Property Casualty Insurance insuring our communities.
We do not trust Travelers Group, in our communities.

Travelers Group has insurance underwriting policies that have a disparate and discriminatory impact on the minority community seeking insurance policies.
Travelers Group's Commercial Credit violates fair lending and consumer disclosure laws.
Travelers Group's Primerica targets minority and low-and moderate-incor [illegible] milies for ex[illegible]ensive, predatory, and self-serving lending, investing, and insurance sales.

Citicorp's subsidiaries have a disparate record of lending in Delaware. The Applicant's non-binding, non-specific lending pledge is more than half credit card lending (which other banks have not included in their pledges), and has no specific commitment to Delaware.

Citicorp and its banks, which are subject to the Community Reinvestment Act ("CRA") have in recent years abandoned low and moderate income ("LMI") neighborhoods, and communities of color. This is reflected by Citicorp's massive branch closings and downgrades, by Citicorp's automatic teller machines ("ATM"), electronic banking and fee policies, and by Citicorp's lending record, which disproportionately excludes and denies African Americans and Hispanics and applicants in LMI census tracts.

The proposed combined company would be worse than its constituent parts:

1. Citigroup would disproportionately exclude LMI neighborhoods and communities of color from Citicorp's normal interest rate, high technology products and services, while
2. Citigroup would target these communities with Primerica's and Commercial Credit's misleading, overpriced loans and insurance.

CRA Pledge
Given our experience with mega-pledges with no geographic specificity, we remain unimpressed.

This Application should be denied.

THE DELAWARE COMMUNITY REINVESTMENT ACTION COUNCIL, INC.

1. MISSION
2. PURPOSE
3. PROGRAMS
4. FACT SHEET
5. ORGANIZATIONAL STRUCTURE
6. CURRENT BOARD MEMBERS
7. EXECUTIVE DIRECTOR RESUME
8. HISTORY
9. PAST EXPERIENCE AND ACCOMPLISHMENTS
10. CURRENT ORGANIZATIONAL BUDGET

1. DCRAC MISSION

Our mission is "to ensure equal access to credit and capital for the under served populations and communities throughout Delaware through Education, Advocacy, and Legislation".

In order to accomplish our mission we shall::

- Ensure that all Delawareans are aware of their rights and responsibilities under the Community Reinvestment Act and other fair lending laws, and
- Ensure that Delaware lending institutions meet their communities' entire banking, credit, and capital needs.

The under served communities are:

- Low and moderate income,
- Minority, and
- Distressed neighborhoods

2. DCRAC PURPOSE

EDUCATION	ADVOCACY	LEGISLATION
Educating our constituency on the availability and desirability of community reinvestment, and community, economic, and housing development activity. Our constituency is made up of: • low and moderate income families and locations and minority community • lending community and other private sector • regulatory community and other public sector • non profit organizations	Advocating on behalf of the under served populations and communities throughout Delaware to the public and private sector communities.	Oversight of public policy and legislative changes which impact Delaware's under served populations and communities by monitoring impending legislation, analyzing impact, disseminating information and reacting.

3. DCRAC PROGRAMS

EDUCATION		ADVOCACY	
EDUCATION	**OUTREACH**	**BANK MONITORING**	**NEEDS ASSESSMENT**
Grass roots • Workshops • One-on-One Counseling	Grass roots • Marketing • Special events	Bank analysis • Public Perception • Public Files	Survey • Public • Non-profit
Larger Constituency • Conferences • Publications	Larger Constituency • Marketing • Special Events	Data analysis • Housing • Small Business	Task Force • Housing • Small Business

4. DCRAC FACT SHEET

NAME	Delaware Community Reinvestment Action Council, Inc.
ADDRESS	601 North Church Street, Wilmington, DE 19801
COMMUNICATION	TELEPHONE: (302) 654-5024 FACSIMILE: (302) 654-5046
EXECUTIVE DIRECTOR	Rashmi Rangan E-MAIL: rashmi@bellatlantic.net
# BOARD MEMBERS	Currently, Eleven
AVERAGE ATTENDANCE	60%
# REGULAR MEETINGS	Four
# EXECUTIVE COMMITTEE	Five
AVERAGE ATTENDANCE	75%
# REGULAR MEETINGS	Twelve
IRS DESIGNATION	501 (c) 3
FEDERAL I.D. #	51-0329119
INCORPORATION	Delaware, March 31, 1988
GEOGRAPHY SERVED	State of Delaware
TYPE OF SERVICE	Policy, research, advocacy, education.
TARGET POPULATION	Lower Income families, minority communities, and targeted census tracts, throughout the state of Delaware.

5. ORGANIZATIONAL STRUCTURE	
BOARD OF DIRECTORS	Sets Policy; Financial & Project oversight; Serves as Support Resource; Hires Executive Director .
EXECUTIVE COMMITTEE	Designated to act on behalf of the Board .
EXECUTIVE DIRECTOR	• Overall Internal and external organizational growth • Internal and External communication • Public Relations • Financial Management (financial analysis & grant and proposal writing; Fiscal management & accounting; employee benefits; IRS guidelines; etc.) • Program management (development, proposals, management, monitoring, implementation, evaluation, etc.) • Project management (design, development & implementation) • Research • Building partnerships and networks

6. CURRENT BOARD MEMBERS	
Sharon Caulk	Through PSA Credit Union provides an alternative to access to credit and capital.
Walter Clark	Provides understanding of legal ramifications of social injustice.
Barry Davis	Provides financial, board development, & crisis management skills.
B. Durosomo	Understands impacts of Public Policy, Leader in the Nigerian community.
Juana Fuentes	Can use the Human Relations Commission's authority to enforce the laws.
Waldron Giles	Well known and respected in the Small business community.
Vandell Hampton	Represents rural community's concerns.
Vanessa McCleary	Can rally the housing counselors to share predatory lending information with their clients.
Joe Myer	Leader in the non-profit community serving housing production and consumption.
Dolores Solberg	Represents the needs of Kent and New Castle County citizens.
Dorothy Taylor	Herself a victim of predatory lending, supports this campaign.
Robert Watson, Jr.	Well respected in the grass roots, Realtor, religious, and legislative community
Bruce Wright	DCRAC's outreach person in the lower income communities of Sussex County.

7. EXECUTIVE DIRECTOR RESUME

<u>DCRAC Related Experience</u>

Manage DCRAC programs, internal and external organizational growth, fiscal stability; develop relationships with the public sector, the private sector, the non-profit sector; Challenge, testify, take legal recourse in response to merger applications by banks; Prepare educational and informational materials; Provide technical and resource support to the Board of Directors and non-profit organizations; Manage media and community relations; Serve as a point of contact for all Community Reinvestment Act and Delaware banking related inquiries.

<u>Past Experience</u>

Housing Counselor, NCALL Research, Inc. (October 1993 to December 1994)
Research Associate, DCRAC (September 1990 to September 1992)

<u>Education</u>

M.A.	Urban Affairs and Public Policy, University of Delaware (1993)	Major: Energy and Urban Policy.
M.A.	University of Lucknow, India (1983)	Major: English Literature.
B.S.	University of Lucknow, India (1979)	Major: Chemistry, Zoology, and Botany.

<u>Volunteer Activity</u>

A seat on the Board of Directors of the National Community Reinvestment Coalition
A one year term as a Community Advisory Board member on The News Journal's Editorial Board
A seat on the Board of Directors of the Peoples Settlement Association Federal Credit Union
Active member on several housing issues and small business issues groups in Delaware

<u>Recognition/Awards</u>

Community Reinvestment Award of Excellence
presented by the National Community Reinvestment Coalition, 1998
Minority Small Business Advocate of the Year
Presented by the U.S. Small Business Administration, 1997

8. DCRAC HISTORY

ORGANIZATIONAL BEGINNINGS In 1987, then State Representative Jim Sills (now Mayor, Wilmington) also a professor at the College of Urban Affairs and Public Policy at the University of Delaware, enlisted two Ph. D. students to research "redlining" practices of Delaware's full-service banking institutions. These studies documented discriminatory lending and hiring practices and gave DCRAC the leverage to challenge reorganizational plans of several banks. As a result, Delaware Trust Company, Bank of Delaware, and Wilmington Savings Fund Society signed a five year contractual agreement with DCRAC.

PEOPLE INVOLVED Dr. James H. Sills, Jr. founded the organization in 1987. After Dr. Sills' historic election as the first African-American Mayor of the City of Wilmington, Mr. Keith Booker took over the reigns in 1992 and served four years as its chair. Mr. Jamal Mubdi-Bey served as Vice-Chair from 1988 through 1995. Various Board members from the community over the years actively participated in the organization. Students and Staff of the College of Urban Affairs and Public Policy, University of Delaware provided research and management support. Board member Dolores Solberg who took leave of absence to serve as acting Director.

CONTRIBUTION TO THE DELAWARE COMMUNITY Housing Counseling programs were introduced statewide. Secondary Mortgage Assistance programs were developed. Several smaller lending institutions agreed to voluntarily comply with CRA and to make deposit account investments in the Peoples Settlement Association Federal Credit Union.

PAST FUNDING provided by Allen Hilles Foundation; Speer Trust Commission; FCC National Bank; Gannet Foundation; Delaware Housing Coalition; Delaware State Housing Authority; Housing Capacity Building Program; City of Wilmington; Wilmington City Council; Wilmington Savings Fund Society; Grant-in-Aid; New Castle County Council; and Sponsors of "Celebrate CRA" event.

9. PAST EXPERIENCE AND ACCOMPLISHMENTS

EDUCATION	ADVOCACY	LEGISLATION
Quarterly newsletters (Ten thus far)	Bank analysis of over 20 local banks.	Constantly responding to new legislation introduced in the House and the Senate.
Workshops (over 40 attended by more than 150 families)	Data analysis of home lending since 1990.	Shared concerns with the larger community on Bank Modernization Act through newsletters and other media.
Conferences (panelist on over 10 local, regional and national conferences)	Challenged several CRA bank mergers and the policies of the Federal Reserve Board.	Actively involved in strategic planning conducted by Center for Community Change to respond to the bank modernization act.
CRA training (Community groups in Dayton- Ohio, NCRC, and NCALL Research staff)	Negotiated four CRA commitments	Addressed concerns with finger-printing requirement by banks to open accounts.
Built a strong network of professionals in the CRA, Housing, Small Business field locally, regionally, and nationally.	Established Housing Counseling profession.	Addressed concerns with predatory lending and "gag orders" in CRA challenges.
Director wrote columns in the News Journal.	Initiated the implementation of secondary mortgage assistance programs.	Addressed concerns with "credit scoring" and its repercussions on the community.

10. DCRAC BUDGET FISCAL YEAR 1998-99

Expense Category	**Education**	**Advocacy**	**Legislation (incidental)**	**TOTAL**
Wages & Benefits	24,485.00	24,485.00	0.00	48,970.00
Postage & Telephone	1,800.00	1,800.00	0.00	3,600.00
Supplies & Equipment	2,400.00	2,400.00	0.00	4,800.00
Membership & Subscription	875.00	875.00	0.00	1,750.00
Organizational[1]	1,920.00	1,920.00	0.00	3,840.00
Publication & printing	3,000.00	3,000.00	0.00	6,000.00
Rent	1,200.00	1,200.00	0.00	2,400.00
Travel & Training	900.00	900.00	0.00	1,800.00
Events	5,000.00	5,000.00	0.00	10,000.00
Miscellaneous	990.00	620.00	0.00	1,610.00
TOTAL	42,570.00	42,200.00	0.00	84,770.00
Revenue Category				
Grants	26,750.00	26,750.00	0.00	53,500.00
Contracts and fees	11,270.00	0.00	0.00	11,270.00
Fund raiser	4,550.00	15,450.00	0.00	20,000.00
Total	42,570.00	42,200.00	0.00	84,770.00

[1]Includes audit, fees, insurance, etc.

April 16, 1998
New York Times

ESSAY / By WILLIAM SAFIRE

Don't Bank On It

WASHINGTON -- "Mere size is no sin," William Howard Taft is supposed to have said, refuting the trustbusting philosophy of his predecessor, Theodore Roosevelt. (At the time of the apocryphal remark, Taft weighed 300 pounds.)

When a big bank on the West Coast decides to merge with a big East Coast bank, that doesn't bother me. All the stuff about synergies and cost-saving layoffs and global reach will be meaningless soon enough; future banking will be done on the Internet, every home a branch, and today's giants will be undercut by speedy cyberbankers unencumbered by overhead.

Far more troubling is the kind of marriage proposed by Citibank and the Travelers Group of insurance companies and stock brokerage. That would require changing the law that keeps banks -- where individual deposits are insured up to $100,000 by the Federal Government -- separate from other enterprises.

With remarkable chutzpah, these companies have embarked on a course that blithely assumes that change in law.

They think they can count on Republicans in Congress who say that the 1933 Glass-Steagall Act is a Depression-era relic. Fears that a market collapse could affect banks are old hat, these descendants of Dr. Pangloss insist. Break down the fire wall and let the Federal Reserve keep a benign eye on everything financial; we don't even have to fear fear itself.

Not so fast. Suppose the Big Quake afflicts California. Or maybe a Category 5 hurricane, which comes every decade or so, rips along the expensive expanses of a place like Long Island. That would put a lot of pressure on even the most reinsured insurance company.

If you heard such news, and you could switch your money out of the bank affiliated with that insurer with a keyboard stroke, wouldn't you be inclined to play it safe? And wouldn't that Internetted panic cause a run on the superbank?

That's being alarmist, of course. Such disasters are just as unlikely as a market crash (which we all assure each other can never happen again). But before the cash cow of Chase Manhattan starts making cow-eyes at the thundering herd of bulls of Merrill Lynch, Congress had better take a close look at the downside of upsizing across the old boundaries.

1. No private enterprise should be allowed to think of itself as "too big to fail." Federal deposit insurance, protecting a bank's depositors, should not become a subsidy protecting the risks taken by non-banking affiliates. If a huge "group" runs into trouble, it should take the bank down with it; no taxpayer bailouts should allow executives or stockholders to relax.

2. What about privacy? Our bank already knows the details of our buying habits. Won't the affiliated stockbroker and insurance salesman have access to the superbank's records? Do we want a bank that handles our credit cards to be calling us at dinner time as a financial-service telemarketer?

3. Let's not be in such a big rush to knock down barriers. The Government's biggest financial mistake of the past generation was to raise deposit insurance to $100,000 while allowing housing S.& L.'s to plunge into commercial lending. That all but removed the element of risk from foolish or corrupt loans and helped bring on the S.& L. debacle. Good fences make good banks.

4. Beware the slippery slope to crony capitalism. Paul Volcker, former Fed chairman, is less troubled than I am about an amalgam of financial services, provided the Fed is the supervisor. "But there is an Anglo-Saxon

tradition separating banking and commerce," he says. "I'd continue to draw the line between finance and business."

There's the rub. If commercial banks invade mutual funds, stock brokerage, investment banking, insurance sales and the like -- or get invaded by them -- that "finance" is likely to spill over into "commerce and industry." That's the seamlessly interconnected philosophy. And that's the path of Japanese keiretsu, the cozy network of insider financial dealings that crushes competition and breeds inefficiency.

"Mere size" can be a virtue when it reduces prices. But the fewer the competitors, the more collusive the pricing.

Our financial institutions can go global without going gaga.

I've never knocked greed, but this spread-eagled "universality" is getting out of hand. Let bankers be bankers.

Delaware Community Reinvestment Action Council, Inc.

601 N. Church Street, Wilmington, DE 19801
Telephone: 302- 654-5024 Fax: 302- 654-5046

Testimony by Rashmi Rangan, Executive Director, Delaware Community Reinvestment Action Council, Inc. (DCRAC)
Before the Delaware State Bank Commissioner at the Public Hearing
in the matter Travelers Group's Proposed Acquisition of Citibank Delaware and its Subsidiaries
June 23, 1998

Good morning. My name is Rashmi Rangan. Today, I speak on behalf of DCRAC (of which I am executive director), Inner City Press/Community on the Move ("ICP") of which I am a member, and on behalf of myself as a consumer of banking services and as a tax paying citizen.

We are here to strongly urge you to:
1. deny this application
2. ask you to request further information on this application
3. ask that you send a representative to the public meeting the FRB has scheduled, for June 25 and 26, 1998, in New York City, and
4. Ask that you defer ruling on this Application until the issues of the legality of the overall combination have been resolved.

I will speak on a number of adverse issues, which are hereby entered into the record before the Commissioner.

We are opposed to the merger of Travelers Group and Citicorp. Since we are opposed to the merger as a whole, it goes without saying that we are opposed to mergers of parts. This merger does not serve the convenience and needs of our communities. The legislative environment within which the merger is announced raise ethical concerns. Finally, we are concerned with the issues of financial safety and soundness of the proposed Citigroup and the impact of these concerns on the larger community.

The announced merger is an illegal proposal.
The ex-Chairman of the Federal Reserve Board ("FRB") Paul Volcker has publicly questioned whether Travelers can legally acquire Citicorp and its subsidiaries (including Citicorp Assurance Co.). "Vol[c]ker Rips Big Banking Merger, Questions legality of Citicorp deal", American City Business Journals, Inc., June 1, 1998, which reports: ' "I find it hard to believe the law permits the combination. Glass Steagall is still here." said Vol[c]ker, who led the country in its successful fight against runaway inflation during the 1980s...'

Most fundamentally, the larger proposed acquisition (of Citicorp, Inc., Citibank Delaware's parent, by the Travelers Group) of which this Application is a part would be an ILLEGAL combination, under the federal Bank Holding Company Act ("BHC Act") and the intent thereof, and even under the Federal Reserve Board's ("FRB's") own prior precedents and regulations. Even Travelers states that, under current law, it would have to divest its insurance underwriting operations. We are glad to note that Governor Meyer, in his testimony before House Banking Committee, agrees that these "activities would have to be divested under current law." There are substantial arguments that Travelers should be required to divest these operations prior to any consummation of this proposal.

The BHC Act prohibits a BHC from owning insurance underwriting or agency operations; the BHC Act was enacted precisely to prohibit combinations like Travelers - Citicorp. ICP's April 13, 1998 Protest (a copy of which the FRB should have forwarded to you) provided some of the relevant citations.

Underwriting Life and Property & Casualty Insurance has been found by the Federal Reserve Board to NOT BE CLOSELY related to banking. "The plain and unambiguous language of Section 4 of the Act...by its terms prohibits a bank holding company from acquiring or retaining control, directly or indirectly, or any company other than a bank unless that company's activities are authorized under one of the non-banking exceptions in the Act...Under the 1982 amendment to section 4(c)(8) of the Act, the Board no longer has the discretion to permit a bank holding company or any of its nonbank subsidiaries to underwrite or sell insurance beyond the seven situations set forth in the statute." (Concurring Statement of Governor Angell, in Citicorp/Family Guardian Life Insurance Co., 76 Fed. Res. Bull. 997 (1990)). The proposed Citigroup will be engaged in marketing a product it is not allowed to sell. The proposed Citigroup, rather than preparing to strip itself of non-permissible activities, will be preparing for merging the non-permissible activities within the charter.

The announced merger is an unethical proposal.
The Glass Steagall Act ("GSA") of 1933 separates securities and insurance, and the Bank Holding Company Act ("BHCA") of 1956 separates insurance and banking. Back in 1956, when the BHCA was enacted, the two year waivers granted to the Bank Holding Companies ("BHC") caught off-guard, to come into compliance (with separating insurance and banking), made perfect sense. Forty two years later, to expect these two-year waivers (particularly in hopes that lobbying efforts would crumble these fire walls) is tantamount to extortion. I quote from comments filed by Mr. Matthew Lee to the Federal Reserve Board ("FRB") that provide a clearer analogy of what this merger application means. "A city passes a local law requiring all apartment buildings to have fire escapes, but gives two years for owners of existing buildings to install such fire escapes. Forty two years later, a real estate developer announces it will construct a new building, without fire escapes, counting on a two year safe harbor during which time it will lobby City Council to repeal the fire escape law."

The proposed Citigroup has no intentions of divesting itself of Insurance activities (non-permissible and very profitable). Rather, it intends to invest these two years (and additional three year waivers that the Federal Reserve **may, again not an automatic extension,** grant) to lobby Congress to repeal the GSA which has withstood demolition attempts since 1979, and amend the BHCA so that the proposed CitiGroup can concentrate its economic resources ($7.5 billion income and $50 billion revenues) and financial services (insurance, consumer finances, brokerage & investment, banking). Citicorp employs full time in-house lawyers, outside legal and consulting firms, and has a multi-million dollar lobbying budget.

Citicorp CEO Reed's statement, quoted in the American Banker of April 7, that "[t]here were enough discussions [with Fed officials] for us to know that there wasn't a legal problem,' Mr. Reed said..."[T]here are all indications that [the merger] will be looked at favorably." B. Rehm, Megamerger Plan Hinges on Congress, American Banker, April 7, 1998, at 1. See also: "Top officials with the two companies said they discussed the deal before Monday's announcement with Fed Chairman Alan Greenspan... The executives characterized conversations with Greenspan... as supportive..." Reuters newswire, April 6, 1998, 19:24 EDT, Regulators Likely To Okay Citicorp/Travelers Deal. See also: "Appearing at the same news conference, Citicorp head John Reed said executives from both firms had spent the last four weeks "making sure with the regulatory authorities that it was possible." Agence France Presse, April 6, 1998, Travelers, Citicorp Chairmen Confident of Federal Merger Approval.

More recently, as concerns about these communications and their still partially withheld contents have grown, Citicorp (and the FRB) have in part reiterated, and in part changed, their positions. See, e.g., J. Morrison, Fed's Hand in Citicorp/Travelers Deal Questioned, Reuters newswire, May 27, 1998: The amount of private written correspondence and talks with Fed officials is unknown... A spokesman for Citicorp said the pre-application talks with Fed officials were appropriate. "We feel that all the notifications that we made to regulators and officials on a very confidential basis were totally appropriate in keeping with the usual communications between the regulators and those institutions that are regulated,' the Citicorp spokesman said. A Travelers spokeswoman could not be reached for comment... [A] spokesman for the Federal Reserve emphasized that while applicants like Citicorp and Travelers may hold private talks with staff, it is the board members at the Fed who rule on the request. "It's up to the board to make the decision, not the staff, and the board members do not meet on a specific application with anyone except the staff here," Fed spokesman Joe Coyne said. He added that it is unlikely staff members would help an applicant formulate its application. "The staff would never do anything like that," he said.
In terms of the proposed Citigroup's reliance on buying time within which to lobby Congress for change, I again cite from Mr. Lee's comments to the FRB. Section 4(a)(2) of the BHCA (12 USC 1843(a)(2)), in some circumstances gives a company up to two years from the date it became a BHC, to divest its non permissible activities. The FRB has conditioned approvals (United Kentucky/Louisville Trust Co.,) upon a commitment from the applicant that divesting of non-permissible activities will take place prior to consummation, (Marine Bancorp/Coast Mortgage, 58 Fed. Res. Bull. 505, 506 (1972)) directing termination of non-permissible activities "at the earliest practical time and to undertake no new projects in this line of activity.", and (Baltimore Bancorp/Charles street Savings and Loan Ass'n), while allowing two-year period, maintained that divestiture would ordinarily be required prior to consummation.

One theme of my counterpart, Mr. Matthew Lee's of ICP, arguments and cross-examinations at the Delaware Insurance Department's public hearing was the pre-merger announcement discussions between Travelers and the Federal Reserve Board. In that light, Mr. Lee cross-examined Travelers' general counsel concerning

1. any assurances the Federal Reserve System (the "FRS") may have given Travelers that the FRS will allow the retention and integration of Travelers insurance underwriting operations, and cross-selling and data sharing with Citicorp's banking operations (including in light of the letters from Travelers' and Citicorp's counsels to the general counsel of the FRS, discussed in the June 2 comment and discovery request), and
2. whether Travelers has made any financial projections regarding its condition if it is required to divest its insurance underwriting activities, and/or is not allowed to cross-sell or share data with Citicorp's banking operations.

Travelers' general counsel stated that he was aware of a telephone conversation between Travelers' counsel and the general counsel of the FRS between the March 30 and March 31 letters and that it had been conveyed to him that all that the FRS' general counsel had said in this conversation was "Thank you for the letter."

Inconsistent with this testimony is an article from the American Banker newspaper of May 29, 1998, in which long-time banking reporter Barbara A. Rehm reported that "[d]uring that call, Mr. Mattingly said he told the lawyers that cross-selling plans should not interfere with the divestiture requirement or give the company an unfair competitive advantage." B. Rehm, Citi Protester Critical of Fed Counsel's Role, American Banker, May 29, 1998, at 2.

Asked to explain the inconsistency between his testimony as to the substance of this call (i.e. that it consisted only of "Thank you for the letter") and what Mr. Mattingly told reporter Barbara Rehm was said, Travelers' general counsel stated that he stood by his testimony, and noted that all he had testified to was what he was TOLD had been said on the call.

There are serious questions of fact that should be resolved in this proceeding. This is relevant to the prospective financial condition of the proposed acquirer. If Travelers did receive assurance from the FRS' general counsel, it reflect positively on future financial strength -- but it would reflect adversely on the integrity factor. If Travelers did not receive any assurance, that is relevant to the future financial strength of Travelers -- and Travelers' purported failure to make any financial projection of the implication (1) having to divest insurance underwriting operations or (2) of being precluded from cross- marketing and sharing data would reflect adversely.

The proposed merger raises concerns on future financial strength of the acquirer.
Another theme of my counterpart, Mr. Matthew Lee's of ICP, arguments and cross-examinations at the Delaware Insurance Department's public hearing was (and will be) that no legitimate assessment of the prospective financial condition of the Applicant is possible without exploring at least

1. the likelihood that the Applicant will be able to retain its insurance underwriting operations, and to integrate cross-market with Citicorp's banking operations, and
2. the implications, including financial implications, if the Applicant subsequently, as required by current law, divests its insurance underwriting operations.

Under oath, Travelers general counsel claimed that Travelers has made no financial projections as to the impact divestiture would have on the financial strength of the Applicant. This is either not credible, or shows a lack of managerial resources at the Applicant.

Can you imagine going to bank to borrow money for your business without projecting your financial statements to reflect the impacts on your revenue and expenses of a very real eventuality and/or a very real possibility that the basis of your projections may change! To assume that cash receivables from divesting will keep a mammoth entity in business when the rationale for merger is the opportunity, "as Weill said Monday, with undisguised glee, "This should be fantastic for the expansion and sale of our insurance products." (Citicorp, Travelers in Behemoth Merger, Tribune, 4/7/98) is irrational. The proposed Citigroup's financial strength is merely an illusion. On these grounds alone, the merger must be denied.

We now know that prior to announcing the merger on April 6, 1998, there were meetings between the regulator and the regulated where certain assurances were sought before announcing the deal.

3. If Travelers did receive assurance from the FRS' general counsel, it reflects positively on future financial strength -- but it would reflect adversely on the integrity factor that must also be considered.
4. If Travelers did not receive any assurance, then the financial future of Travelers requires greater scrutiny. Particularly, in light of Travelers' purported failure to make any financial projections based on:
   (A) having to divest insurance underwriting operations, or
   (B) being precluded from cross-marketing and sharing data.

The Travelers witness claimed that Travelers has NOT made any such financial projection, and stated that he was aware of a telephone conversation between Travelers' counsel and the general counsel of the FRS between the March 30 and March 31 letters, and that it had been conveyed to him that all that the FRS' general counsel had said in this conversation was, "Thank you for the letter." Contradicting this testimony is an article in the American Banker, May 29, 1998, "[d]uring that call, Mr. Mattingly said he told the lawyers that cross-selling plans should not interfere with the divestiture requirement or give the company an unfair competitive advantage."

Even if Travelers were allowed two years to divest, the Application is informationally incomplete in that it does not provide any projections or information regarding the prospective impact of such divestiture on the financial strength of the Application, or of the proposed Citigroup. The Application should be dismissed as informationally incomplete.

The Commissioner should obtain, enter into the record, and consider the DEDI transcript and record. The transcript raises other adverse issues, including managerial issues, about the Applicant.

The proposed merger is an expensive "bet".

Since the announced merger plans of Travelers and Citicorp, newspaper headlines across the nation have highlighted the uncertainties. For example, The News Journal, 4/7/98, "Gigantic merger is risky", American Banker, 4/7/98, "Megamerger Plan Hinges On Congress", New York Times, 4/7/98, "Shaping a Colossus: The Law; A Challenge to the 1930's Division of Financial Power", New York Times, 4/8/98, "Shaping the Colossus: The Investors, The Citigroup Deal: A Day After, Cooler Heads Evaluate Merger", American Banker, 4/8/98, "Fed Seen Getting In a Bind Over Citi Divestiture", Washington Post, 4/9/98, "Citicorp-Travelers Deal to Test Old Regulatory View: Laws Ban Bank-Insurance Mixture", Reuters, 4/29/98, "Travelers must divest insurance--Meyer".

We have already addressed the illusionary future financial strength of the acquirer. We now raise some serious concerns about the impact of the merge on the larger community. We have been led to believe in the doctrine of "too big to fail". Contradicting this faith is Japan. It is important to point out that the largest financial institution in the world is Tokyo Mitsubishi--a Japanese bank.

Tax payers will be stuck with bailing out these failed giants. Does any one remember the S&L crisis? The surviving banks will be stuck with hefty premiums.

Ethical Concerns

The fact that lobbying efforts will be stepped up to ensure that Glass Steagall Act is repealed brings to the forefront our concerns regarding the ethics of the management of the proposed Citigroup.

To write to Mr. Mattingly, of the Feds, stating that the clients (Travelers'), "are comfortable proceeding with the transaction provided you are not uncomfortable with the type of practices outlined above" and to add "ask that you advise us if you disagree with the approach and analysis we have outlined in this letter" is playing games with the Federal Reserve Board and calls into question the ethical standards of the management. Tellingly, it reflects on the Federal Reserve Board as well. It is rather apparent from the March 30/31 letters to the Feds, that a tacit approval to use a common brand name for all products, price breaks for packaged deals, share customer data base., and provide one statement, has been granted. Implied in the communication is the fact that unless these activities are permitted, the merger will not be announced. How can these activities be permitted? I repeat an earlier quote,"The plain and unambiguous language of Section 4 of the Act...by its terms **prohibits a bank holding company from acquiring or retaining control, directly or indirectly, or any company other than a bank unless that company's activities are authorized under one of the non-banking exceptions in the Act...Under the 1982 amendment to section 4(c)(8) of the Act, the Board no longer has the discretion to permit a bank holding company or any of its nonbank subsidiaries to underwrite or sell insurance beyond the seven situations set forth in the statute.**" (Concurring Statement of Governor Angell, in Citicorp/Family

Guardian Life Insurance Co., 76 Fed. Res. Bull. 997 (1990)).

I understood the purpose of granting some transitional time was to permit the newly created Bank Holding Company to begin and execute a divestiture plan. It certainly does not sound like a divestiture plan to me.

The proposed merger faces severe opposition.
News media has highlighted the severe opposition to the merger from the Nader group, ICP, DCRAC, and other community activists across the nation. Congresswoman Maxine Waters has stated she will introduce legislation to block the review of merger applications of institutions accused or found guilty of money laundering charges (The Associated Press, 4/9/98, "Citicorp/Travelers Merger Hits Snags"). The article goes on to detail the pending investigations by the US Department of Justice, Swiss and Mexican Governments into allegations that Citibank laundered drug money for the jailed brother of the former Mexican President.

News media has also begun investigating campaign contributions to the Senate Banking Committee chair, Sen. D'Amato (The Associated Press, 6/2/98, reporting on a story by The New York Times), "D'Amato went to bat against depression-era regulations that hamper bank, insurance and securities business mergers after a meeting with Sanford I. Weill, chairman of Travelers Group, and other prominent Wall Street executives. Travelers and its subsidiaries have contributed more than $375,000 to D'Amato-controlled committees, including $190,000 to New York's republican State Committee."

Communities' convenience and needs
The proposed merger will have adverse impact on the **communities' convenience and needs**. Let us categorically state, that this merger cannot and will not be convenient for, nor is it needed by, our communities.

Travelers' current subsidiaries have a troubled record of consumer compliance, as evidenced by lack of compliance with the Home Mortgage Disclosure Act ("HMDA"), predatory and allegedly discriminatory practices, as stated by Ms. Mary Harris of Dover, Delaware. Citicorp's subsidiaries have a disparate record of lending in Delaware. The Applicant's non-binding, non-specific lending pledge is more than half credit card lending (which other banks have not included in their pledges), and has no specific commitment to Delaware.
Travelers Group symbolizes communities' anti-trust.
We do not trust Primerica Financial Service agents in our communities. They have been insinuating themselves into our homes and our bank accounts misrepresenting themselves as financial planners/advisors. Since when did we begin calling our sales people advisors?
We do not trust Commercial Credit loan officers in our communities. Since when did loan sharking become mainstream lending?
We do not trust Property Casualty Insurance insuring our communities. Since when did we legitimatize insurance redlining and insurance discrimination?
We do not trust Travelers Group, in our communities. We do not trust Travelers group--period.

We charge Travelers Group to have insurance underwriting policies that have a disparate and discriminatory impact on the minority community seeking insurance policies. The Fair Housing Council of Greater Washington filed complaints with the Department of Housing & Urban Development. The complaint includes structuring its rating territories so that minorities pay a higher price. Matched paired testing, conducted by the Fair Housing Council documented disparate treatment of minorities. I submit into evidence Rangan Exhibit C that summarizes their report.

We charge Travelers Group's Commercial Credit with violating fair lending and consumer disclosure laws. We have forwarded a complaint referred to HUD from an elderly black couple. To give you an insight on the Harris' case, they went to Commercial Credit for a $7,000 loan. They ended up borrowing $52,000 ($11,000 of which were closing costs) against their home on which they initially owed less than $13,000. They did not realize that they had paid five points and an $8,890 premium for credit life insurance!

We charge Travelers Group's Primerica with targeting minority and low-and moderate-income families for expensive, predatory, and self-serving lending, investing, and insurance sales. Primerica, targets community leaders to become Primerica's Financial Service Agents. Their designation of their sales personnel as "Financial Planners/Advisors" is a misnomer. They will now have a few more wares to peddle to the unsuspecting families who meet with the sales agent under the assumption that they will help them plan and invest their finances.

We remain concerned with the company's and the agents' compliance with fair lending and disclosure laws. Most of all, we are concerned with the financial rape of our lower income and minority communities. Issues of predatory lending--which violate all statutory laws--merit scrutiny. We remain gravely concerned over regulatory oversight of the various aspects of financial business conducted by the thousands of Primerica Financial Services agents.

Citicorp

In the Wilmington, DE MSA in 1996, Citibank Mortgage made 21 loans to whites, and none to African Americans. In the Wilmington, DE MSA in 1996, Citibank FSB made 18 loans to whites, and none to African Americans.

Citicorp and its banks, which are subject to the Community Reinvestment Act ("CRA") have in recent years abandoned low and moderate income ("LMI") neighborhoods, and communities of color. This is reflected by Citicorp's massive branch closings and downgrades, by Citicorp's automatic teller machines ("ATM"), electronic banking and fee policies, and by Citicorp's lending record, which disproportionately excludes and denies African Americans and Hispanics and applicants in LMI census tracts.

Travelers

The Travelers Group is a strange conglomeration of upscale businesses (for example, Solomon Smith Barney) on top of a profit engine of predatory businesses aimed at lower income, more predominantly minority consumers -- for example, Primerica Finance Services ("PFS"), and the nationwide subprime lenders Commercial Credit and Travelers FSB. As ICP and DCRAC demonstrated to the Office of Thrift Supervision ("OTS") in a six month proceeding in 1997, these last three businesses are all inter-connected: the PFS agents push high interest rate home equity loans to LMI, disproportionately minority consumers, loans "manufactured" by Commercial Credit, and now booked through Travelers FSB (to evade state laws). Even in that first proceeding in which ICP raised these issues, the OTS concurred with many of the concerns ICP raised, and imposed, based on Travelers' record, unprecedented consumer protection safeguards on its conditional approval of Travelers FSB. See, e.g., OTS Press Release and Order of November 24, 1997, especially Conditions 14-17 thereof. Condition 14(a) acknowledges that PFS (and now Travelers FSB, which is subject to CRA scrutiny) make the type of mortgages referred to in Section 103(aa) of the Truth in Lending Act; Condition 15 acknowledges that the new Travelers FSB pays broker fees of fully 3.4% of the loan amount.

While the unprecedented conditions the OTS applied to Travelers FSB and PFS by no means fully resolve these companies questionable practices, it appears that if this proposed merger were fully effectuated, the detailed conditions so recently imposed by the OTS would become void or moot, and/or would not necessarily be applied (as they should be) to Citicorp's operations, including but not limited to Citibank FSB. Of particular import is Condition 14(a), requiring that all PFS customers "are properly and completed apprised of the financing options reasonably available to them through the New FSB and the costs and risks associated with each option." Inter alia, this requires the type of "referral up" (i.e. ensuring that an "A" credit borrower is given an "a" priced loans, even if the borrower initially approaches, or is approached by, the conglomerate's "B&C" unit) that ICP has asked the FRB to require of diversified bank holding companies which own both "A" priced banks, and "B&C" lending subprime finance companies. Travelers, to which, based on adverse practices that ICP documented to the OTS, these consumer safeguards and training requirements were imposed by the OTS, is now applying to the FRB to become a bank holding company, and to acquire, inter alia, Citibank FSB, to which no such protections apply. The FRB must inquire into (including at the requested evidentiary hearing) and act on this issue, in this proceeding.

Travelers' Commercial Credit Loan, Inc. Targets Minorities for High Priced Loans

In the Charlotte, NC MSA in 1996, Commercial Credit Loan made 19 loans to African Americans, and 23 loans to whites. For comparison's sake (and the comparison is relevant and significant, in light of the proposed combination), Citibank Mortgage in the Charlotte MSA in 1996 made 10 loans to whites and only one loan to an African American; Citibank FSB in the Charlotte MSA in 1996 made 40 loans to whites and no loans to African Americans. Both Citibank Mortgage and Citibank FSB are normal interest rate lenders; they both disproportionately exclude minorities from their marketing and lending. Commercial Credit Loan, Inc., is a high interest rate lender -- it target and lends to minorities at a much higher rate than they are represented in the demographics of, or other leaders' data in, this MSA.

This exemplifies the discriminatory pricing / separate-and-unequal structure that the proposed Citigroup would have. This proposal should be denied.

Commercial Credit and PFS Violate HMDA; Travelers Has Admitted This But Has Only Committed to Address It In Two States, and Has Not Corrected Its HMDA Data

In 1997, ICP raised to the New York State Banking Department (the "NYSBD") the fact that Travelers' Commercial Credit's loans in New York were reported as virtually all "race not available," and argued that Commercial Credit was violating HMDA's requirement that lenders and their affiliates are required to request, record and report race and national origin information about applicants, so that the public and regulators can enforce the fair lending laws. Travelers repeated denied that it was violating HMDA. However, the NYSBD (and Connecticut Banking Department, to which ICP also raised this issue) both found that Travelers and Commercial Credit had been violating HMDA. This is evidenced inter alia by a letter from Commercial Credit to the NYSBD, dated July 30, 1997, stating that:

> The purpose of this letter is to confirm our conversation today. You have advised that it is the position of the [NYSBD] that Primerica Financial Services Home Mortgages, Inc. and its representatives (collectively, "PFSHMI") are deemed affiliates of Commercial Credit Plan Incorporated of Georgetown ("CCPIG"). Therefore, it is the Department's position that in taking mortgage loan applications, PFSHMI is acting on behalf of CCPIG and must comply with the requirements imposed upon lenders under [HMDA]... In accordance with our discussion, we will promptly clarify our policy to require PFSHMI to make a visual observation if the applicant does not voluntarily complete the HMDA questionnaire during a face-to-face interview. All information collected in this manner will be compiled for CCPIG's HMDA reporting purposes.

Clearly, Commercial Credit (and PFS) violated HMDA in 1996 and previous years. Commercial Credit's 1996 HMDA data has not, however, been corrected. ICP has requested from Travelers and Commercial Credit their 1997 Loan Application Register ("LAR"), to see if that data complies with HMDA; ICP will be submitting further comments after it receives and reviews this data. In 1996, for example, in two markets in which Citicorp is subject to CRA, Buffalo and Rochester, Commercial Credit Plan, Inc. reported the following data:

Buffalo-- three loans to whites, one loan to an African American, and fully 56 originations reported as "race not reported;" no denials at all reported.
Rochester-- two loans to whites, none to minorities, fully 40 originations reported as "race not reported; no denials at all reported.

Further note that the "commitment" to come into compliance with HMDA quoted above was only made to New York and Connecticut regulators; it was never made to the OTS, nor is it referenced in the OTS's November 24, 1997, conditional Order.

Travelers, Citicorp's proposed merger partner, does have subsidiaries (its finance company, Commercial Credit, the insured depository institution it uses, Delaware-based Traveler Bank & Trust, FSB, and its retail distribution affiliate, Primerica Financial Services ["PFS"]) which target LMI and minority communities -- but only with higher than normal interest rate loans and overpriced and less-than-fully-explained insurance products. Travelers has recently had to admit to systematic violations of the Home Mortgage Disclosure Act ("HMDA"), reflecting adversely on the managerial record of the proposed acquirer.

Travelers & Citicorp
The proposed combined company would be worse than its constituent parts:

1. Citigroup would disproportionately exclude LMI neighborhoods and communities of color from Citicorp's normal interest rate, high technology products and services, while
2. Citigroup would target these communities with Primerica's and Commercial Credit's misleading, overpriced loans and insurance.

As an example, consider the following:

Commercial Credit Loans, Inc. is one of Travelers' subprime (higher than normal interest rate) lending units. In the Greensboro, NC Metropolitan Statistical Area ("MSA") in 1996, Commercial Credit Loan, Inc. made 10 loans to African Americans and 25 loans to whites. For comparison's sake (and the comparison is relevant and significant, in light of the proposed combination), in this MSA in 1996, Citibank FSB made 13 loans to whites, and none to African Americans; Citibank Mortgage made seven loans to whites and none to African Americans. Both Citibank Mortgage and Citibank FSB are normal interest rate lenders; they both disproportionately exclude minorities from their marketing and lending. Commercial Credit Loan, Inc., is a high interest rate lender -- it targets and lends to minorities at a much higher rate than they are represented in the demographics of, or other leaders' data in, this and other MSAs. For further example, in the Charlotte, NC MSA in 1996, Commercial Credit Loan made 19 loans to African Americans, and 23 loans to whites. Citibank Mortgage in the Charlotte MSA in 1996 made 10 loans to whites and only one loan to an African American; Citibank FSB in the Charlotte MSA in 1996 made 40 loans to whites and no loans to African Americans.

Citicorp's disparate record raises a "red flag" (or presumption) that discrimination is occurring; this proposal should be denied on this ground alone.

CRA Pledge
On May 4, 1998, Citicorp and Travelers announced what they call a $115 billion, 10 year "commitment" --

ICP states for the record that this announcement does not address the adverse issues raised and documented in ICP'S April 13, 1998, Comment.

ICP has conducted the following analysis of the pledge"

The press release (that is all it is -- let the record reflect that the FRB refused to monitor or enforce Chemical Banking Corporation's and Chase Manhattan Corporation's press release "commitment" of late 1995) is sub- headlined, "Includes Insurance for the First Time" -- but there is very little detail on this, no dollar volume is assigned to insurance, it is essentially a continuation of Travelers' limited programs to date. In fact, Travelers owns Primerica Financial Services, which pitches term life insurance of questionable quality (and higher than normal interest rate home equity loans) to working class people. The point would be to clean up inequities in Travelers / PFS' existing insurance operations, which this announcement does not do.

At page 1-2, the only dollar break-out in the Announcement is set forth: $6 billion of the purported $115 billion will be "targeted" for the Center for Community Development Enterprise.

After issuing the Release, Citibank disclosed this break down for the remained of the $115 billion: $59 billion: credit cards and student loans. $20 billion: "affordable housing" $30 billion: small business.

ICP notes: other banks do not include credit card lending in their CRA commitments -- here, it is nearly half of Citibank's pledge. 18% interest rate credit cards, to college students and through "take one" hand outs by ATMs, are simply not CRA-relevant loans. See below.

On page two, Citibank claims to have improved its record in 1997 -- even if true, that would not resolve the adverse issues of record in this proceeding, given the stark racial disparities in Citibank's 1996 lending (see ICP'S 52-page April 13, 1998, comment).

Page 3 shows that the purported ""inclusion"" of insurance in the pledge is limited to property casualty insurance, and is little more than a continuation of Travelers existing programs. Travelers' "Urban Availability of Insurance" program is said to have been founded in 1994 -- but is only operational in four cities, none of them being New York (Citibank's and Travelers' headquarters, and where Citibank takes most of its deposits). Expanding this program to "as many as six new cities" over three years is not a meaningful benefits, and hardly constitutes "one plus one equaling three," as the Release quotes Mr. Weill as saying.

That Citicorp and Travelers purport to be "focus[ing] public attention on this critical need" exemplifies the arrogance and/or paternalism of these two companies. The first step for these companies would be to get their own house in order -- for Citibank to stop closing its few remaining branches in modest income neighborhoods, and to address the racial disparities in its mortgage lending, and for Travelers to commit to clean up its higher than normal interest rate and fee home equity lending, as only two examples. It appears to ICP that the Companies are trying to DIVERT public attention from these company-specific issues, by doing such things as paying for an annual test that will measure the financial skills of high school seniors (page 4, near bottom).

Even as to the one category that the Announcement breaks out -- the $6 billion targeted at the Center for Community Development Enterprise -- little detail is given, Low Income Housing Tax Credit are lumped in with "investments in housing securities" that could involve buying Fannie Mae securities that institutional investors not subject to the CRA already buy. Virtually all other banks break out tax credits for investments in loan funds, etc. -- this lack of specificity is telling.

The formal "pledge" set out on page six is intangible, to say the least:

1. The Companies "pledge" to be "transparent" (Pledge #1); (NOTE: the lack of specificity in this Release is not a good start to the pledged "transparency");
2. The Companies pledge to "modernize [their] products" -- which has been Citibank's justification for closing many of its branches in low income neighborhoods, claiming that more and more people access Citibank over the Internet;
3. The Companies pledge to "take an even more visible role as a financial sector leader" -- given the massive lobbying budgets of each company, not really the problem that needs to be addressed; etc..

As to Messrs. Reed and Weill's joint quote, it is unclear if they are committing that, for example, the Primerica door-to-door sales people would start offering Citibank's products -- or continue offering Travelers FSB's and Commercial Credit's high priced, relatively low quality (but more profitable) products. Significantly, the release ends with a listing of Travelers' operating companies, including Primerica Financial Services and Commercial Credit -- presumably part of the pledge, with their questionable and higher than normal priced (many credibly say "predatory") products.

This Application should be denied.

We again urge you to:

1. deny this application
2. ask you to request further information on this application
3. ask that you send a representative to the public meeting the FRB has scheduled, for June 25 and 26, 1998, in New York City, and
4. Ask that you defer ruling on this Application until the issues of the legality of the overall combination have been resolved.

Business

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New home sales in April break a record B8

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Finance mergers fought from a new angle

Complaints filed with insurance regulators in Del.

By JONATHAN D. EPSTEIN
Staff reporter

Taking a new tack in their ef-ts to block or delay major bank rgers, a community activist up in Wilmington and its New rk-based partner have filed tests with Delaware insurance ulators against two major fi-ncial services mergers.

The move by the Delaware Com-nity Reinvestment Action Coun-, together with Bronx-based er City Press/Community on the ve, marks a rare occasion when mmunity activists have been able to target a banking merger through insurance regulators.

The activists say the merger of Travelers Group and Citicorp, and the acquisition of Wilmington-based Beneficial Corp. by consumer finance rival Household International, would be "hazardous and prejudicial to the insurance-buying public" and would "harm Delaware residents and consumers," according to a letter from Inner City Press to the state Insurance Department.

Accusing the companies of insurance "redlining" and predatory lending, the groups are calling on bank and insurance regulators to reject both mergers.

Insurance redlining means the companies don't offer insurance in certain areas, often low-income or minority. Predatory lending involves targeting low-income and minority borrowers with significantly higher interest rates and fees, and promoting their own costlier products when customers could qualify for traditional bank loans or insurance with lower rates.

"I am elected by the people of Delaware. I will make my decision based on what is in the best interests of the people of Delaware."

Donna Lee Williams, insurance commissioner

In an unusual move, the activists even called on state Insurance Commissioner Donna Lee Williams to withdraw herself from decision making on the Household application because officials from both Household and Beneficial have contributed to her re-election campaign.

Citing a study by trade publication National Underwriter, the groups note that Williams received several hundred dollars from Household and about $3,000 from Beneficial in 1996 alone.

But Williams said Tuesday she does not plan to step aside, adding that the campaign contributions do not create a conflict of interest under Delaware law. She noted that she appoints an independent hearing officer to take testimony and make recommendations on mergers, and does not discuss cases with her staff or either of the companies.

"I will not recuse myself from making the final decision in this case. That is my responsibility," she said. "I am elected by the people of Delaware. I will make my decision based on what is in the best interests of the people of Delaware."

Delaware insurance regulators held a hearing into the Household-Beneficial deal last week and will consider the Citicorp-Travelers merger Thursday in Dover.

DCRAC executive director Rashmi Rangan plans to testify against the latter deal. A decision must be made within 30 days of a hearing.

See INSURANCE — B8

Insurance: Groups file challenges to mergers

FROM PAGE B5

"If you are in the subprime business, you're gouging a community. If you're gouging a community, you're violating all applicable consumer protection laws," Rangan said. "We don't want them to be able to peddle more wares to a larger customer base."

Travelers and Citicorp announced their $80 billion merger April 6. As part of the deal, Travelers, an insurer, is applying to acquire Delaware-based Citicorp Assurance Co., which insures only the risks of Citicorp or its affiliates.

Prospect Heights, Ill.-based Household agreed the next day to buy Beneficial for more than $8 billion, including subsidiaries Central National Life Insurance Co. and Wesco Insurance Co.

The insurance protests are an unusual step for the two community organizations, which have teamed up frequently in the past two years to protest major banking mergers using the 1977 federal Community Reinvestment Act. The law requires banking regulators to take into consideration the comments of communities and community activists about a bank's lending record in low-income or minority areas.

These two mergers also involve insurance subsidiaries, however, giving the groups a new venue for their protests — which also have been filed with the Federal Reserve Board and the federal Office of Thrift Supervision.

But insurance laws don't give community groups as much weight, forcing them to rely on more limited guidelines that merely require regulators to consider the concerns of the "insurance-buying public." And that's given Travelers and Citicorp a chance to fight back.

The companies argued that the activists don't have the right to challenge the merger at the state level because Citicorp Assurance Co. doesn't insure the general public.

Insurance regulators mostly sided with the companies, ruling that Rangan can participate but only as a consumer, not a representative of DCRAC, because she is not a Delaware attorney and the organization itself would not be affected by the merger.

On Household's side, the activists accuse the company of shedding its traditional commercial banking business two years ago because chief executive William F. Aldinger preferred to focus on the higher-rate and more profitable consumer finance business.

And they said the company's plans to shut down several Beneficial lending operations, merge or sell Beneficial's community bank and thrift subsidiaries, and close hundreds of consumer finance offices nationwide will only hurt consumers, especially in Delaware.

"It is impossible to see how this proposal ... offers any real benefits, particularly to low- and moderate-income consumers and people of color, in the state of Delaware," wrote Matthew Lee, executive director of Inner City Press.

However, Household officials counter that the activists are unfairly using government lending data for Household that fail to reflect the company's actual record, because most of its operations are not subject to government reporting.

Officials also defended the company's higher rates, saying that most of its customers don't have major banking relationships and are more likely to default than typical bank customers.

Finally, the operations slated for closure generally duplicate what Household already has or believes it can do more effectively, Household assistant general counsel Paul R. Shay wrote in a letter to Lee.

Travelers grilled on buyout plan

Activists ask about tacit Fed support

By JONATHAN D. EPSTEIN
Staff reporter

Community groups squared off with attorneys from Travelers Group Inc. at a Delaware Insurance Department hearing Thursday, as the activist groups from Delaware and New York tried to block Travelers' planned purchase of Citicorp and its Delaware insurance subsidiary.

Taking advantage of an opportunity to cross-examine company officials — not allowed in banking hearings on mergers — the activists peppered Travelers attorneys with questions about discussions the two companies had with senior Federal Reserve officials — including Chairman Alan Greenspan — prior to the merger announcement.

Through more than six hours of testimony and cross-examination, the activists tried to determine if Fed officials — whose approval is required for the merger to go through — gave the companies any kind of tacit advance support or advice for their merger plans.

In particular, Matthew Lee, executive director of New York-based Inner City Press/Community on the Move, wanted to know if the Fed had offered the company any guarantees that it would be able to get a two-year waiver allowing it to cross-sell banking and insurance products to a broader customer base despite federal laws barring banks from underwriting insurance.

Travelers' attorneys, for their part, acknowledged the discussions but denied that Fed officials had provided any assurances.

And they argued that such questions were irrelevant to the hearing, which dealt only with the acquisition of the Delaware insurance subsidiary. But Lee argued that his questions addressed the future financial strength of the company and the integrity of its officers, issues that the Insurance Department must consider.

Travelers and Citicorp announced their record-setting $70 billion merger April 6. As part of the acquisition, Travelers is acquiring Citicorp Assurance Co., a Delaware-based company that insures Citicorp and its banking and credit-card subsidiaries against potential loss from lending activities. As a result, the merger is subject to approval from state insurance regulators.

The merger is particularly controversial within the industry because it would unite the second-largest commercial bank and one of the nation's largest insurance companies. Decades-old federal banking laws bar banks from underwriting most forms of insur-

See TRAVLERS — back page

June 5, '98
The News
Journal
Wilmington
Delaware

Travelers: Activists question firm's future financial strength

FROM PAGE B7

ance and limits their securities activities. Citicorp's insurance underwriting is permitted because of its internal nature.

Travelers — which is technically acquiring Citicorp and becoming a bank holding company — is counting on a Fed waiver giving it two years to come into compliance with the law. The Fed is also authorized to grant up to three one-year extensions after the waiver expires.

In the meantime, Travelers and Citicorp are hoping that Congress, which has been trying to change the law for more than two decades, finally will approve legislation lifting barriers between the banking, insurance and securities industries.

Lee and Rashmi Rangan, executive director of the Wilmington-based Delaware Community Reinvestment Action Council, questioned the future financial strength of the combined company if banking regulators require it to sell its insurance underwriting business to comply with federal law.

Travelers and Citicorp, backed by more than a dozen attorneys from New York and Washington, fought back.

"This is not the Fed," said Edward P. Welch, a partner at Skadden Arps Slate Meagher & Flom in Wilmington, representing Travelers. "This is the Delaware Insurance Commission. What we're talking about is one tiny Delaware insurance company at the bottom of the chain. It only does a limited amount of business."

Business

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Activists renew crusade against merger

Groups want Fed to reject deal between Citicorp and Travelers

By JONATHAN D. EPSTEIN
Staff reporter

Still hoping against the odds to ·ck the pending merger of Citirp and Travelers Group, community activists in Delaware and New ·rk have asked the Federal Reserve to reject the deal and bar several officials — including Fed airman Alan Greenspan — ·m considering the application.

The Delaware Community Reinvestment Action Council and Bronx, N.Y.-based Inner City Press/Community on the Move, have accused officials of the two companies of improperly seeking and possibly obtaining assurances from Greenspan and other Fed officials that the merger would be approved.

The two groups have filed formal protests demanding that the Fed — which is considering whether to approve the merger — immediately dismiss the current application and require that it be resubmitted, with a clear statement from regulators that there is no guarantee of approval.

And they're demanding that several Fed officials, including Greenspan, excuse themselves from voting on the merger. "The process is significantly tainted," said Inner City Press director Matthew Lee, in a letter to Greenspan and the Fed board of governors.

Travelers officials, however, have repeatedly said they did nothing wrong, and did not receive any formal assurances from the Fed. They and banking industry attorneys said that alerting regulators to such a merger is not unheard of, and is even appropriate for such a complex and unusual deal.

Fed officials won't comment. A public meeting on the merger will be held Thursday at the Federal Reserve Bank of New York; Lee and DCRAC executive director Rashmi Rangan plan to testify.

The activists, who also accuse the two companies of having a poor record of serving low-income and minority communities, also plan to protest the merger at a New Jersey Insurance Department hearing in Trenton and a Delaware Banking Department hearing Tuesday in Wilmington.

The $80 billion merger of the nation's second-largest commercial bank and one of the largest insurers has generated an unusual level of controversy both because of its sheer size and because current federal law separates the banking, insurance and brokerage industries.

Officials of the two New York-based financial giants told reporters when they announced the merger April 6 that they already had told Greenspan and a senior Fed attorney of the deal.

Based on those discussions, the companies had said, they were confident that the deal would be approved and that they would be able to obtain the necessary gov-

See CITICORP — B12

Citicorp: Conflict claimed in merger with Travelers

FROM PAGE B9

ernment waivers to allow them to legally continue operating both the insurance underwriting and banking businesses, while cross-selling the products to each other's customers — a key part of the merger.

That set off a firestorm of criticism from observers, activists and even members of Congress. Both the Fed and the banks soon clarified publicly and in congressional hearings that no guarantees of regulatory approval were granted, while also noting that it is the entire Fed board of governors, not the staff attorneys or Greenspan alone, that must decide on a merger.

The deal, which would create the world's largest financial services company, relies heavily on the ability of the new company — to be called Citigroup — to increase revenue by selling Travelers insurance to Citicorp customers and the bank's products to Travelers customers.

But that's also where it runs squarely into conflict with the law.

Under 1933 and 1956 laws, banks are severely restricted in their brokerage activities and are barred from underwriting most forms of insurance. The law authorizes the Federal Reserve to automatically grant a two-year waiver to allow a company to come into compliance with the law if it was not already a bank holding company — like Travelers.

The Fed also has the option to grant up to three one-year extensions of the waiver.

In the meantime, the two companies are counting on rising pressure in Congress to change the law within the next five years. Lawmakers have tried unsuccessfully for about 20 years to break down the barriers between the banking, securities and insurance industries. Legislation passed the House in early May by a single vote, but the Senate isn't expected to take up the bill this year.

Rangan, Lee and other consumer and community activists said Citicorp and Travelers are violating current law to pressure Congress and regulators, and force through changes that could harm the public by creating a company that is too big and too dominant.

They said that relying on such a legal change could put the financial stability of the company at risk if it must sell its insurance operation.

However, Travelers officials said that rather than receive outright assurances from Fed General Counsel J. Virgil Mattingly Jr. or Greenspan, it was the lack of any outright disapproval of their plans by either Fed official that gave them confidence to proceed.

And they reiterated that they are prepared to sell off the insurance underwriting business if necessary to comply with federal law, but don't believe that would hurt the combined company since each separate unit remains profitable and Citigroup would still be able to sell insurance to customers.

OFFICE OF THRIFT SUPERVISION

APPROVAL OF APPLICATION FOR CONVERSION TO FEDERAL SAVINGS BANK CHARTER, HOLDING COMPANY ACQUISITION AND TRUST POWERS

ORDER NO.: 97-120

DATE: November 24, 1997

Travelers Group, Inc., CCC Holdings, Inc. and Commercial Credit Company (jointly, the "Holding Companies"), seek approval of the Office of Thrift Supervision (the "OTS") to convert The Travelers Bank, Newark, Delaware (the "Bank"), from a Delaware-chartered commercial bank to a Federal stock savings bank (the "New FSB") pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-6; to acquire the New FSB pursuant to 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3; and for the New FSB to engage in trust operations pursuant to 12 U.S.C. § 1464(n) and 12 C.F.R. §§ 545.96 and 550.2 (together, the "Applications"). The Bank has deposits insured by the Bank Insurance Fund ("BIF") and proposes to retain BIF deposit insurance after the conversion.

The OTS has considered the Applications, as supplemented by representations by the Holding Companies, the Bank and their attorneys, under the factors set forth in 12 U.S.C. §§ 1464(e), 1464(n) and 1467a(e) and 12 C.F.R. §§ 545.96, 550.2, 552.2-1, 552.2-6 and 574.3, and under the Community Reinvestment Act, 12 U.S.C. § 2901 *et seq.*, and the OTS regulations thereunder, 12 C.F.R. Part 563e. In addition, the OTS has considered a digest from the Northeast Regional Office, an analysis prepared by Corporate Activities, an analysis from Compliance Policy and a legal opinion from the Business Transactions Division. Furthermore, the OTS has considered comments on the Applications submitted by Inner City Press/Community on the Move, Bronx, New York, and Delaware Community Reinvestment Action Council, Inc., Wilmington, Delaware.

This approval order shall also serve as notice to the New FSB that the OTS reserves the authority to evaluate the appropriateness of marketing disclosures as they pertain to the differentiation between insured and uninsured products by having its examiners periodically, and without identification as OTS employees, solicit the New FSB, the S.M.A.R.T. offices or individual agents for information on nondeposit investment or insured products.

For the reasons set forth in the Northeast Regional Office digest, the analysis from Corporate Activities, an analysis from Compliance Policy and the Business Transactions Division legal opinion, the Director finds that the Applications satisfy the applicable approval standards, provided that the conditions set forth below are satisfied. Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The proposed transaction shall be consummated no later than 120 calendar days after the date of this approval order, unless an extension is granted for good cause by the Northeast Regional Director, or his designee ("Regional Director");

2. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Bank and the Holding Companies shall certify to the Regional Director, in writing, that no material adverse events or material adverse changes have occurred with respect to the financial condition or operations of the Bank and the Holding Companies since the date of the financial statements submitted with the Applications;

3. The Bank will obtain all required regulatory and shareholder approvals prior to consummation, will act to satisfy all requirements and conditions imposed by the OTS, and will comply with all applicable laws, rules and regulations;

4. No later than 5 calendar days from the date of consummation of the conversion, the New FSB shall file with the Regional Director, a certification by legal counsel stating the effective date of the conversion and that the conversion has been consummated in accordance with the provisions of all applicable laws and regulations, the Applications, this Order and the representations by the Holding Companies, the Bank and their attorneys;

5. The New FSB and the Holding Companies' subsidiary securities brokerage entities, or any of the Holding Companies' subsidiaries that engage in securities brokerage ("Broker Dealer") must be operated as separate legal entities so that: 1) their respective accounts and records are not intermingled, 2) each observes the procedural formalities of separate legal titles, 3) each is held out to the public as a separate enterprise, and 4) neither dominates the other to the extent that one is treated as a mere department of the other;

6. A majority of the New FSB's board of directors must not be comprised of individuals who are directors or employees of any securities affiliate;

7. The New FSB and the Broker Dealer are prohibited from sharing common officers unless prior written approval is obtained from the Regional Director, which shall be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties;

8. With respect to transactions between the New FSB and the Broker Dealer, the New FSB and the Broker Dealer must take measures necessary to ensure that their officers and directors adhere to the principles set forth in OTS regulations on conflicts of interest, 12 C.F.R. Section 563.200; corporate opportunity, 12 C.F.R. Section 563.201; self-dealing,

12 C.F.R. Section 550.10; and any other additional or successor statements of policy or regulations addressing these subjects. The officers and directors of the New FSB and the Broker Dealer are prohibited from using their influence to: a) take advantage of a business opportunity for the securities affiliate's benefit when the opportunity is of present or potential advantage to the New FSB; or b) place the securities affiliate in a position that leads to, or could create the appearance of a potential conflict of interest; *

cross marketing

9. The New FSB, its Holding Companies and the Broker Dealer are subject to the provisions of 12 C.F.R. Section 563.76, Offers and Sales of Securities at an Office of Savings Association, and related policy established in OTS Thrift Bulletins 23-2, InterAgency Statement on Retail Sales of Nondeposit Investment Products (the "InterAgency Statement"), and 23a, Limited Exceptions to Prohibitions on Sales of Savings Institution's Securities, and any additional or successor statements of policy or regulations addressing these subjects. The New FSB and the Holding Companies shall ensure compliance by the Broker Dealer with, at a minimum, the General Guidelines in Disclosures and Advertising set forth in the InterAgency Statement whenever the Broker Dealer or their representatives market, or offer for sale, deposit products of the New FSB;

10. The New FSB shall operate within the parameters of the submitted business plan. Any proposed major deviations or material changes from the submitted plan, and in particular those pertaining to the cross-marketing of deposit and non-deposit products, shall receive the prior written non-objection of the Regional Director. The request for change shall be submitted a minimum of 30 days before the proposed change is anticipated. In the event of a proposed contractual change involving service providers, a revised plan shall be submitted to the Regional Director a minimum of 15 days prior to entering into the contract;

11. Any contracts or agreements pertaining to transactions with affiliates not yet submitted to the OTS for review shall be provided to the Regional Director and shall receive his written non-objection prior to execution;

12. The New FSB's CRA plan shall be subject to any future changes in requirements contained in regulatory policies or regulations that the OTS, on its own, or acting in concert with other financial institution regulatory agencies, determines are appropriate for depository institutions;

13. Any changes that the New FSB initiates to its CRA plan within the three year period following approval of the Applications shall be subject to the prior written approval of the Regional Director;

14. Within 90 days of consummation, the New FSB's Compliance Officer shall develop a plan to:

(a) monitor the sales practices of Primerica Financial Services Home Mortgages, Inc. ("PFS") representatives to ensure that all customers, particularly those who have applied for high loan-to-value ratio loans and for mortgages referred to in Section 103(aa) of the Truth in Lending Act, are properly and completely apprised of the financing options reasonably available to them through the New FSB and the costs and risks associated with each option;

(b) provide compliance training to PFS agents, underwriters and other appropriate personnel in the loan approval process on regulatory matters and consumer protection issues associated with high loan-to-value ratio loans and for mortgages referred to in Section 103(aa) of the Truth in Lending Act;

(c) place controls and review procedures in the loan approval process to ensure that, on applications for high loan-to-value ratio loans and for mortgages referred to in Section 103(aa) of the Truth in Lending Act, due consideration is given to the customer's ability to repay; and

(d) ensure that senior management of the New FSB exercises appropriate caution in approving the terms for high loan-to-value ratio loans and for mortgages referred to in Section 103(aa) of the Truth in Lending Act and addresses its ability to maintain the confidence of customers and the public in its lending operations.

The plan shall include provisions for semiannual reporting to the Regional Director on the activities conducted under the plan and the results of the plan. Such reports shall commence six months after consummation and continue for three years after consummation;

15. All agreements, policies and standards or contemplated changes in such agreements, policies and standards that pertain to the New FSB's payment of broker fees (currently 3.4% of the loan amount) provided to agents for the marketing of the New FSB's home equity loans, are subject to the prior written non-objection of the Regional Director;

16. The New FSB will, on a semiannual basis, analyze and report to the Regional Director progress made on the fulfillment of the lending commitments to low- and moderate-income borrowers it has included in its business plan. Increases to those lending commitments will be expected as operations under the business plan proceed; and

17. The New FSB shall not make any lending decisions, in whole or in part, on any prohibited basis including the age or location of a dwelling.

Any time period specified herein may be extended by the Northeast Regional Director, or his designee, for good cause, for up to 120 calendar days.

Office of Thrift Supervision NEWS

1700 G Street, N.W., Washington, D.C. 20552 Telephone (202) 906-6677

FOR RELEASE at 4:30 p.m. EST
Monday, November 24, 1997
OTS 97-83

For further information
Contact: William Fulwider
202/906-6913

OTS APPROVES TRAVELERS GROUP

FOR FEDERAL THRIFT CHARTER

WASHINGTON, D.C., Nov. 24, 1997 – The Travelers Group, Inc. received approval from the Office of Thrift Supervision (OTS) today to convert its Delaware-chartered commercial bank to a federal thrift charter. The new institution, Travelers Bank & Trust, FSB, will operate out of Newark, Del.

OTS also granted the new thrift full trust powers which will be conducted through an agency office located in New York. Travelers Bank & Trust will be a subsidiary of Commercial Credit Company, which is a subsidiary of Travelers Group. OTS approved both as thrift holding companies, as well as another Travelers subsidiary, CCC Holdings, Inc. The conversion to a thrift will permit Travelers to consolidate its mortgage lending operations and trust activities in one institution, using the powers afforded by the federal thrift charter.

As part of its approval, OTS imposed a number of conditions that Travelers must fulfill regarding CRA and lending concerns noted by OTS, as well as by two groups that protested the application.

Travelers will have no deposit base outside Delaware, but will do most of its lending activities outside the state. OTS noted that Travelers has taken the view that its CRA obligation extends throughout all of the communities where it does business and has made an initial pledge to make at least $430 million in home equity loans to low- and moderate-income borrowers over the next three years. Moreover, OTS and Travelers expect that home equity lending will increase beyond this level as Travelers' business plan unfolds. The new thrift's CRA plan must comply with

-more-

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Any time period specified herein may be extended by the Northeast Regional Director, or his designee, for good cause, for up to 120 calendar days.

By Order of the Director of the Office of Thrift Supervision, or her designee, effective November 24, 1997.

John F. Downey
Executive Director, Supervision

Office of Thrift Supervision **NEWS**

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-more-any future changes in regulatory requirements, and changes to its plan within the next three years must have the written approval of OTS.

OTS said the former Travelers Bank, as a state-chartered entity, was examined by the Federal Deposit Insurance Corporation (FDIC) for CRA purposes and received a "satisfactory" rating on its last CRA examination.

Additionally, the thrift must develop a plan covering high loan-to-value ratio loans and high-cost mortgages to: a) monitor sales practices to ensure that all customers, particularly those applying for these loans, are apprised of available financing options; b) provide compliance training to agents, underwriters and other personnel; c) ensure that due consideration is given to the mortgage customer's ability to repay; and d) ensure that senior thrift management exercises appropriate caution in approving these loans and addresses the thrift's ability to maintain customer and public confidence in its lending operations.

Other conditions in the OTS approval order require that the new thrift clear with OTS all fee payment arrangements for agents marketing its home equity loans; that it not make any lending decisions on any prohibited basis, including the age or location of a dwelling; and that the new thrift follow regulations and guidance pertaining to the cross-marketing and sale of non-deposit products and any transactions with affiliate companies within the Travelers family.

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June 20, 1997

FROM:
Mr. James Harris
Mrs Mary Harris
6 Lingo Drive
Dover, Del 19901
302/697-3564 H
302/674-6274 W

IN MAY of "96 - We took out a Home Equity Loan with Commercial Credit (We received a flier in the Mail) Which included paying off all other debtors and Doing some Improvements in our home.

Really we went for a loan of $6,000.00, but we were co-hearsed into a "Consolidation Loan" ...

Where we were taken advantage of by,

A paying Large Points for taking out the loan...

B $8,000.00 + dollars for Life Insurance and it was not for the whole term of the loan as we found out later...

C. Years were added onto the loan that we didnt know about until recently. 20yr 25yr

D. We paid into Commercial Credit within that year "96 - "97 - Approx. $6,000.00 + dollars but only $1,000.00 + dollars were added to our account.

E. We were charged $1,800.00 for ...

Rest of balance from the Pay off figu

G We know some of the papers we Signed were without money figures on them until after we Signed.

H We trusted these people to do what was Right as with any Loan Business.

I We didnt Realize the over-charges until we went to pay them off. The balance was greater than what it should have been. (Very-un-fair).

We were Ripped off and the paper work will prove it.

Thx
The Harris's

June 23, 1997

Office of Thrift Supervision
Attn: Messrs. Corcoran and Sjogren
1700 G. Street, N.W.
Washington, DC 20552

RE: Additional Comments Protesting and Requesting Oral Argument on Traveller' Applications--expanded now to include Security Pacific Financial Services

Dear Messrs. Corcoran and Sjogren:

We again join with the Inner City Press/Community on the Move's protest now expanded to include Travellers' acquisition of Security Pacific Financial Services.

Additionally, today I met with an elderly African-American couple to assess the nature of their victimization by Commercial Credit. Attached is their signed and dated letter to me. Their problems are listed below.

April 1996: The Harris' went to Commercial Credit for a $7,000 loan. They were offered a consolidation loan package to pay off all other debts. They were paying approximately $800/month in all their debts and were reluctant to consolidate their auto (2 years left with approx. 300/month payment) loan and their Commercial credit loan (2 years left with approximately 150/month payment). Their Farmer's Home loan and the loan from a bank cost them another 350/month--both were for 10 years. The Harris' were given a good faith estimate for $20,001 on April 29.

May 1996: Settlement statement--The Harris' have signed a settlement statement which shows that they borrowed $52,022.64 from Commercial Credit. There is clearly a grave discrepancy here. Line 1600 shows 52,022.64 as the loan amount, yet the points are charged on the basis of a mortgage of $49,545.37. Additionally, the Disclosure Statement, Note and Security Agreement shows amount financed as 49,545.37 and principle as 52,022.64. The points (2477.27) that were tacked on to the loan do not reflect in the amount financed. How in the world was Commercial Credit going to collect on this.

Question, why is the principle different from amount financed?

Further, analysis gives us some clues on Commercial's tactics. The Harris' were paying 83.34/month for the first year for the points and would have paid 125.34/month thereafter for 19 years. The 5 points over the twenty years would have cost the Harris' $29,577.60. If Commercial were to claim that 83.34 in the first year and 125.34 thereafter additional mortgage payment was going toward insurance--might I add, that the Harris' did not realize that they borrowed 8828.91 to pay for a 10 year credit life insurance covering the principle

Nowhere in the paperwork have I seen the actual interest rate that the Harris' were paying. In the disclosure statement I do notice that the regular monthly loan payment without insurance is $384.36 (extrapolating it to the amount financed $49,545.37 for 20 years, I get a 7% interest rate--excellent deal if there were no catches). The APR is a whopping 10.80 percent. If this was a simple loan from a bank, the points would have been added to the total mortgage--which would then be $52,022.64 and at 7% for 20 years the Harris' would have paid $44,316.07 in finance charges versus $72,278.63 that they would have paid with Commercial. (Harris' are looking to refinance--they have an excellent credit and in no way can Commercial claim risk minimizing strategies that add on unnecessary financial burden).

Inadequate disclosure: When Harris' went to closing, they knew that they were paying off $33,038 and receiving $6,999.78. They did not see the numbers, subsequently reflected in the settlement sheet which include a closing cost of $11,984.18. Loan discount fees were 5% (assuming borrowing $49,545.37 this equals $2477.27 accurately reflected on line 802); a Credit Life Insurance premium of $8828.91 (In Mrs. Harris' words, "I am not stupid. If I knew I was paying $8828.91 for a ten year credit insurance premium, I would have said no.")--at 7% for 10 years this works out to a monthly payment of $96.73, more than enough to buy a $300,000 term life insurance.

Borrowers did not know that there were prepayment penalties and this note carried a demand feature. The Harris' firmly believe that when they signed the documents the form was relatively blank. They knew that their payments will be 467.70 per month for 20 years--and were quite comfortable with this payment. They did not know that they had to only pay 384.36/month for the mortgage. They pay their home owners and their taxes on their own. To date they know that they pay a little extra every month for insurance.

Why should they have paid an additional monthly insurance premium when they have already financed it at a usury cost of 96.73/month for a 52,000 ten year coverage!

Excessively high and duplicate charges: In the Settlement sheet, line 1103 is a title examination fee of $150; line 1108 is a title insurance fee of 75.00 (1109 and 1110 lenders and owners coverage is not applicable!).--title search fees in Dover, Delaware run around $75.00. Document preparation fees of $125 is an excess (most do not even charge any) Recording fees run at about $8/page and a total of $7 to record--did Commercial record 9 pages!.

Prepayment penalties: The Harris' did not know that paying off their mortgage early would cost them a hefty sum (5% of unpaid principle if paid off in the first year, 4% within two years, 3% within 3 years, 2% within 2 years and 1% within 5 years). They also did not know that cancelling insurance would cost them on the basis of "Rule of 78"--I myself do not know what this is.

Inaccurate application of payment toward principle: A payment history versus what should have been applied follows for a one year period--this is assuming the rate to be 7% amortized over twenty years on a 49,545.37 loan.

The absolutely haphazard and random manner, in which Commercial applied the payments of $467.70 (see the following table) each month toward principle against the $384.36 that should have been amortized following standard amortization schedules resulted in paying down the loan by only $871.25 versus $1177.57.

Random application of payment toward principle:

date	Principle should be	Interest should be	Principle applied	Interest/charges applied	Not applied
6/15/96	95.02	289.34	0	6.51	81.84
7/15/96	95.57	288.79	97.47	370.23	
8/15/96	96.13	288.23	52.76	414.94	
9/15/96	96.69	287.67	79.09	388.61	
10/15/96	97.26	287.1	53.82	413.88	
11/15/96	97.83	286.53	118.85	348.85	
12/15/96	98.40	285.96	106.76	360.94	
1/15/97	98.97	285.39	56.05	411.65	
2/15/97	99.55	284.81	69.35	398.35	
3/15/97	100.13	284.23	82.72	384.98	
4/15/97	100.72	283.64	70.52	397.18	
5/15/97	101.30	283.06	83.86	383.84	
Total	1177.57	3434.75	871.25	4279.96	81.84

Due to the prepayment clause--not adequately disclosed--attached to the insurance, when the Harris' wanted to have the premium applied to their principle, only $7,026.63 of the $8828.91 was applied. It cost the Harris' $1802.28 to insure for $52,00 for one year. The pay off balance on 06-09-97 was $46,541.95.

We urge you to investigate the Commercial Credit's lending policies and practices for fair lending violations. We also urge you to interview Ms. Harris and carefully review facts as I have stated herein. Upon OTS gaining the Harris' approval, I will gladly share documentation with you. Once again, we protest Travellers' reorganization plans, request a hearing on this matter, and request additional time to prepare our testimony. Thank you for your attention.

Sincerely,

Rashmi Rangan

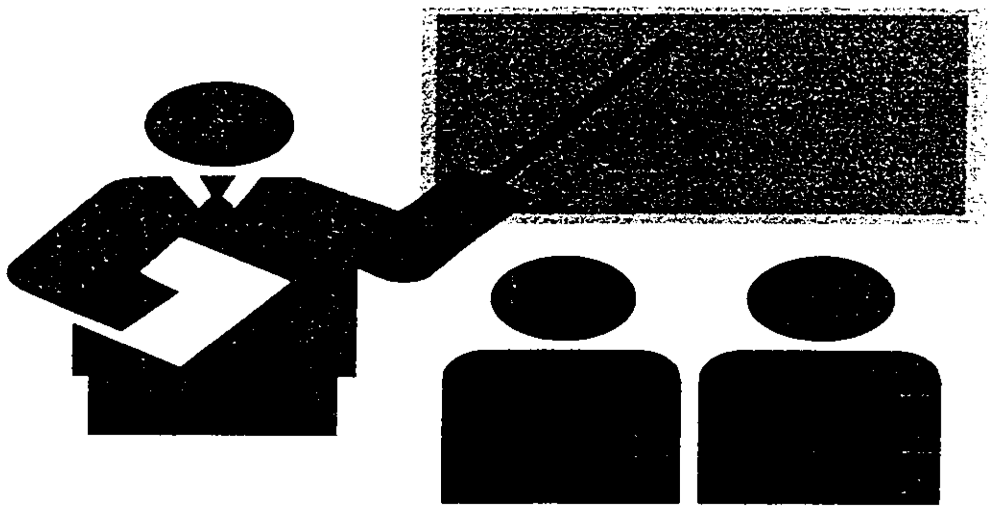
Rashmi Rangan

Lending Guide

Analysis of Home Mortgage Disclosure Act Data

1992-1995

Rochester, New York



Issued by:

GREATER ROCHESTER COMMUNITY REINVESTMENT COALITION (GRCRC)

P.O. Box 39541

Rochester, New York 14604

EXECUTIVE SUMMARY

This guide, issued by the Greater Rochester Community Reinvestment Coalition (GRCRC), contains analysis of lending patterns in Rochester. GRCRC was convened in 1993 to generate discussion about lending patterns in Rochester. The Coalition is releasing this guide to home mortgage lending to continue the ongoing discussion on this subject. The guide is based on an analysis of 1993, 1994 and 1995 HMDA data.[1] 1995, is the most current year for which data is available.

Some of the most significant findings of the guide are as follows:

- In 1992 the suburbs had a lending rate that was one hundred and fifty percent (150%) higher than the city lending rate. In 1995 that gap had narrowed so that the suburban lending rate was only thirty-five (35%) higher than the city's lending rate.
- In 1995 the disparity in the lending rate between white and minority moderate income had been eliminated.
- Denial rates for minority loan applicants continue to be two or three times the rate for white applicants.
- There has been no improvement in lending to rental units in the city since 1992.

While significant improvements have occurred in the last four years much work remains to be done. The Coalition believes that by continuing to work with area banks, the city, county and community we can continue to improve on the work that has been done. We can also address the problems of high minority denial rates and lack of rental lending with innovative solutions.

We would like to see members of this community use this guide to support the banks that are lending in the city, particularly in the low and moderate income and minority neighborhoods in the city. We would like to hear from individuals about their experiences with area banks in obtaining mortgage loans, small business loans and personal loans.

We challenge the banks who have not made any significant improvement in their lending performance since 1992 to do better. A number of banks are lending aggressively and prudently in the city's underserved neighborhoods. It can be done. If banks continue to underserve our low income communities we should ask ourselves whether we should continue to bank with them.

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[1] Some of the HMDA analysis was completed using HMDA Works, a software program developed by the Center for Community Change.

INTRODUCTION

In May of 1993 the Coalition issued a report about mortgage lending in Rochester. The report was based on an analysis of Home Mortgage Disclosure Act (HMDA) [2] data for 1992. The report found that lending in inner city neighborhoods was one quarter of lending in the Metropolitan Statistical Area (MSA)[3] and that moderate income minority census tracts had significantly lower rates of lending than moderate income white census tracts.

In April 1995 a report on the comparison of denial rates for home mortgage loans in the Rochester MSA between blacks, Hispanics and whites was released. That report found that black and Hispanic applicants had a denial rate that was two or three times as high as white applicants. This disparity existed across all income groups.

The Coalition is releasing this guide to home mortgage lending to continue the ongoing discussion on this subject. The guide is based on an analysis of 1992, 1993,1994 and 1995 HMDA data. It compares lending patterns between the city of Rochester and the MSA as well as in different census tracts in the city. It looks at denial rates amongst different racial groups in the MSA. It also compares the lending patterns of the nine largest area banks.

The Community Reinvestment Act is a Federal law that was originally passed in 1977. New regulations were issued in July 1995 and the law was considerably strengthened. The Act requires federally insured banks to serve the credit needs of the entire community, including the low and moderate income community. This includes having affordable mortgage products, small business loans and checking accounts that can be utilized by low and moderate income residents of the banks' service area.

Banks must also report by census tract where their home mortgage loans were made; the income, race and sex of the applicants; and the outcome of each application for a loan. This data can be analyzed to measure a bank's lending performance. Beginning in March 1997 banks over a certain size will also be required to report their small business loans.

For more information about the Coalition or the guide call Ruhi Maker at 716-454-4060 x737 or Sister Beth LaValle at 716-244-4817.

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[2] This report uses Home Mortgage Disclosure Act (HMDA) data which is a vailable for public review at the Office of Housing, City of Rochester which serves as a federal depository.

[3] The Metropolitan Statistical Area (MSA) includes the Monroe, Wayne, Ontario, Livingston, Orleans and Genesee counties.

COMPARISON OF THE CITY OF ROCHESTER TO MSA

LENDING IN THE CITY OF ROCHESTER HAS INCREASED

Home Mortgage lending in the city of Rochester has increased in the last four years and the lending gap between the city and the suburbs has narrowed. The Coalition's analysis of the 1992 HMDA data revealed a significant disparity between lending rates in the city and the surrounding suburbs. 1993, 1994 and 1995 saw a significant improvement in lending for owner-occupied mortgages in the city.

TOTAL HOME MORTGAGE LOANS IN THE CITY

1992 2,927

1993 5,974

1994 4,441

1995 3,739

In 1992 there were approximately 3,000 home mortgage loans made by all financial institutions in the city. That number increased dramatically in 1993 and 1994 during the refinance boom. Interest rates for home mortgage loans were lower than they had been in years and many home-owners refinanced their mortgages. In 1995 there were almost 3,800 loans in the city.

TOTAL FHA AND CONVENTIONAL LOANS IN CITY

YEAR	FHA	CONVENTIONAL	TOTAL
1992	338	579	917
1993	944	843	1787
1994	787	1,335	2122
1995	795	1,331	2126

Total FHA & Conventional Loans in the City

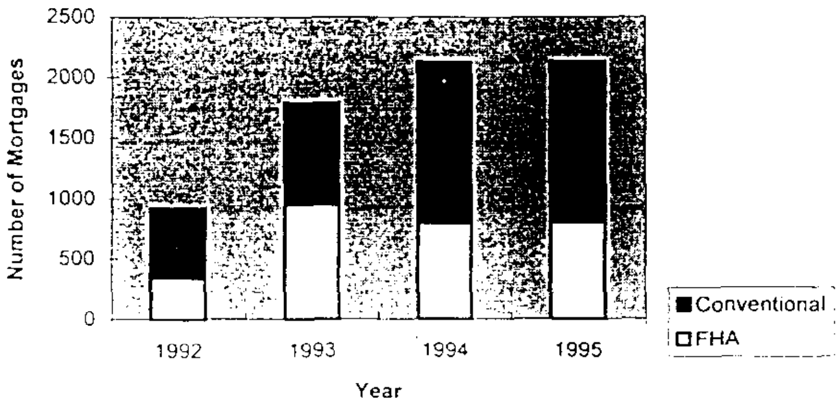

Chart A

A breakdown of the kinds of loans is more illuminating. Home mortgage loans include FHA, VA,[3] conventional home purchase, refinances and home improvement loans. If the increase in city lending was limited to refinances and home improvement loans it would merely be an indication of existing homeowners obtaining financing. However the number of FHA and conventional loans has doubled in the last three years. In 1992 there were only 917 conventional and FHA home purchase loans. In 1995 there were over 2,000 FHA and conventional loans.

PERCENTAGE OF LOANS IN THE CITY

1992	1993	1994	1995
11%	17.5%	20%	20%

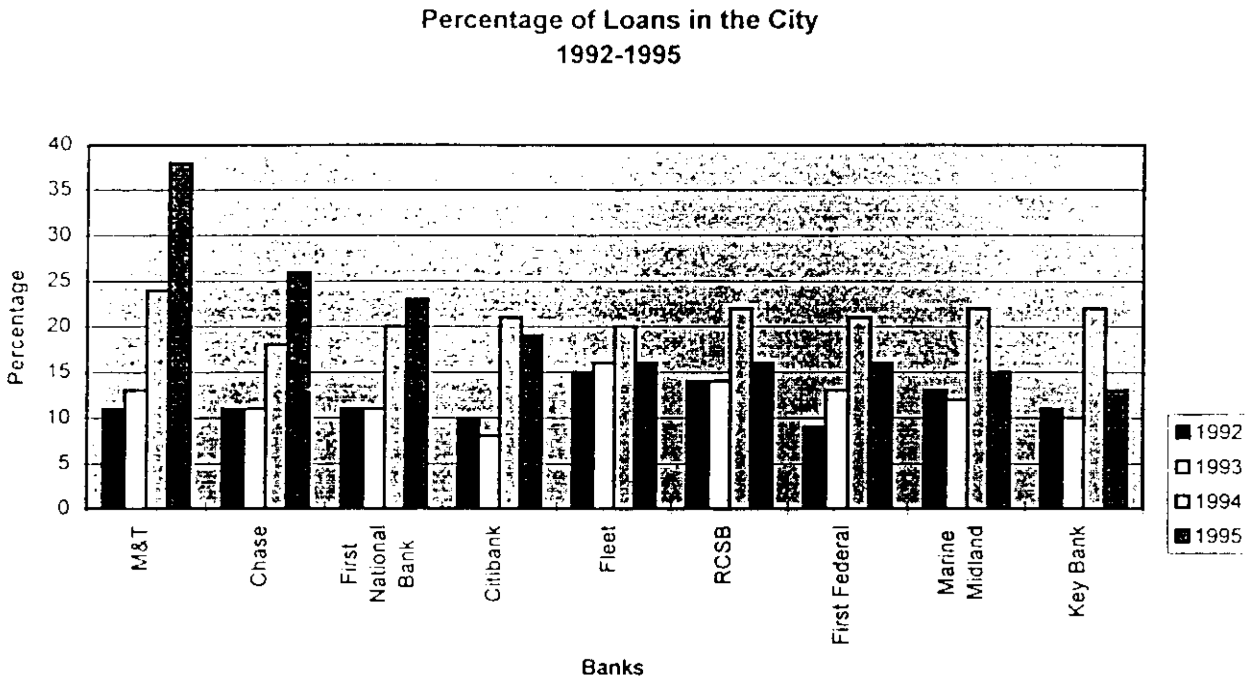

Chart B

A greater proportion of the total loans made in the MSA are now made in the city. In 1992 only 11% of the total loans made in the MSA were made in the city. In 1995 that percentage had increased to 20%. More loans were made in the city and fewer loans were made in the MSA as a whole.

---

[3] Federal (FHA) and Veterans Administration (VA) loans are insured by the Federal Government.

Another way to look at the lending data is to examine the number of loans made per 1000 housing units (HU)[5]. In 1993 the lending rate of all banks was 59/1000 HU in the city. It was 85/1000 HU in the MSA.

In 1994 the gap in the lending rate between the city and MSA narrowed. The city lending rate dropped to 44/1000 Housing units. The MSA lending rate was 55/1000 Housing units. In 1994 there were 12,000 fewer refinances in the MSA. Interest rates were higher and fewer people were refinancing their mortgages. This resulted in a lower lending rate in the MSA. The drop in the city lending rate was caused by the fact that there were 1,200 fewer refinances in the city.

By 1995 the city rate was 37/1000 HU and the MSA rate was 47/1000 HU.

Although the gap in the lending rate between the city and the MSA has narrowed and is a cause for celebration it still exists. The Coalition believes that there is still an unmet need for lending in the city and banks need to reach out to residents to meet that need. The city of Rochester has initiated a Homeownership program which includes help with closing costs, for Home Expo homes as well as rehabilitation of existing homes. Many of the area banks have introduced affordable mortgage products. Although housing prices in the city have been falling since 1994 and interest rates are higher, the number of first mortgages (FHA, VA and conventional) originated by the lending institutions has been maintained at the same level as 1993. The lower prices may have made home ownership an option for many moderate income residents who were previously renters.

Given the high cost of renting in the city and the suburbs, as well as the poor quality of some of the rental stock, it should be possible to market homeownership options to many moderate income city and suburban residents. It is the Coalition's belief that lending can be increased in the city.

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[5] This guide analyzes the rate of lending per housing unit. Some analysis are done based on the rate of owner-occupied housing units. we have deliberately chosen to include all housing units because of the high percentage of rental units in the city and the lack of lending to rental units. Excluding the rental units would have resulted in a higher rate per HU which would have inaccurately reflected the lending pattern in the city.

COMPARISION OF CENSUS TRACTS WITHIN THE CITY OF ROCHESTER

LENDING IN PREDOMINANTLY MINORITY CENSUS TRACTS HAS IMPROVED MEASURABLY

TOTAL LOANS IN MINORITY CENSUS TRACTS

1992	1993	1994	1995
534	1,013	1,086	997

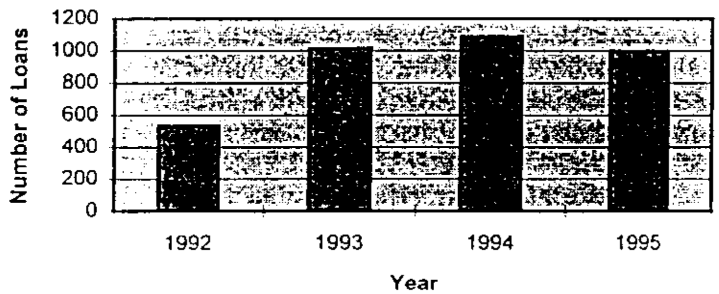

Chart C

CENSUS TRACTS WITH A MINORITY POPULATION GREATER THAN 80%

The Coalition's report analyzed 1992 HMDA data to see how lending in predominantly minority census tracts compared with lending patterns in predominantly white census tracts in the city. We determined that there was very little lending in census tracts which had a minority population of more than 80%. Lending has improved measurably in the last three years. In 1992 there were a total of 161 loans in 80%+ minority census tracts. In 1993 that figure had increased to 312 in 1994 to 403 loans and in 1995 to 417 loans.

Despite the improvement, predominantly white city census tracts still have twice as many total loans as predominantly black census tracts. In 1994 city census tracts with a minority population of under 10% had 950 loans; more than twice the number of loans in census tracts with a minority population of more than 80%. This is especially concerning as almost a 1000 more people were living in the 80% to 100% minority census tracts than in the census tracts with 10% or less minority population.

CENSUS TRACTS WITH A MINORITY POPULATION GREATER THAN 50%

Lending in census tracts with a minority population in excess of 50% also improved. In 1992 there were a mere 534 loans in such census tracts. There were approximately 1,000 loans in those census tracts in 1993, 1994 and 1995.

LOANS IN MODERATE INCOME CENSUS TRACTS

YEAR	1992	1993	1994	1995
MINORITY	120	470	366	330
RATE\1000 HH	15	58	42	39
WHITE	487	1255	981	815
RATE\HH 1000	22	58	45	38

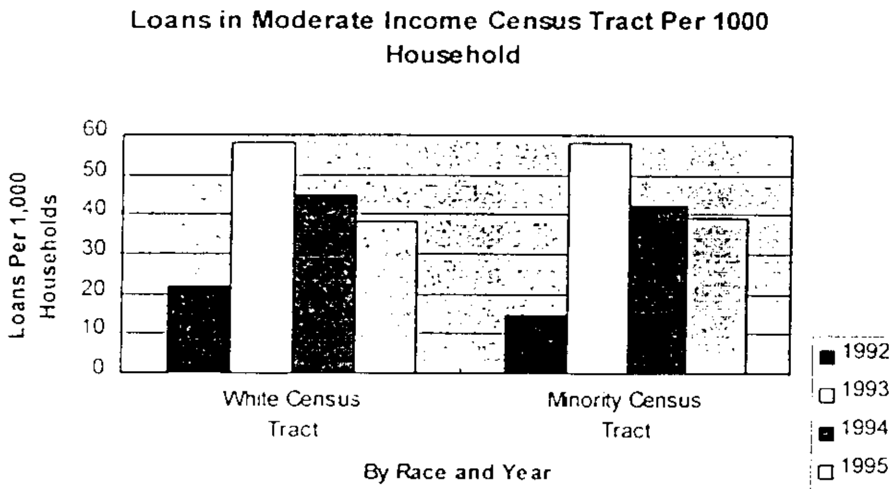

Chart D

There is no longer a disparity in the lending rates of white or minority moderate income census tracts. The coalition's previous report had pointed out the difference in the lending rate in minority moderate income (50% < 80% MFI)[6] census tracts versus white moderate income census tracts. Since income in white and minority moderate income census tracts is the same one possible cause for the disparity in lending rates was the race of the residents of the census tract.

In 1992 the lending rate (loans per 1000 housing units) in moderate income minority census tracts was lower than in white moderate income minority census tracts. The minority rate was 15/1000 HU. The rate in white census tracts was 21/1000 HU. Census tracts that had a minority population greater than 50% and a median income between 50% - 80% of the MSA median only had 120 loans in 1992.

However lending has increased in both white and minority moderate income census tracts. In 1995 the lending rates for white and minority moderate income census tracts were identical. The city's lending rate was 37 loans/1000 HU.

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[6] The area Median Family Income was $40,856 in 1992. Moderate income (50-80%)is $20,428 - 32,684.

The neighborhoods represented by these minority moderate income census tracts are the SWAN x PLEX areas to the east of Genesee St. and the 14621 neighborhood in the Northeast.[7] These neighborhoods have suffered from years of disinvestment. The increased lending is a modest beginning which needs to be built upon.

[7] The 19th ward is another minority neighborhood but is not included in this portion of the analysis as it is middle income(>80% of MFI). The loans generated by the construction of First Place are also not included in these numbers as census tract 55 is low income (<50% MFI)and minority.

DENIALS

AFRICAN AMERICAN AND HISPANIC APPLICANTS WERE DENIED MORTGAGE LOANS AT TWO TO THREE TIMES THE RATE AS WHITE APPLICANTS

In April 1995 the Coalition released a report on denial rates in mortgage lending in 1993. The report found that black and Hispanic loan applicants were two or three times more likely to be denied loans as white loan applicants. This disparity persisted across all income groups.

1995 DENIAL RATES ACROSS INCOME LINES

Income	White	Black	Hispanic	Asian
Less than 80% of median (low-mod)	26%	36%	22%	27%
80-99% of median	17%	31%	25%	21%
100-120% of median	14%	26%	17%	14%
More than 120% of median (upper)	10%	25%	11%	9%

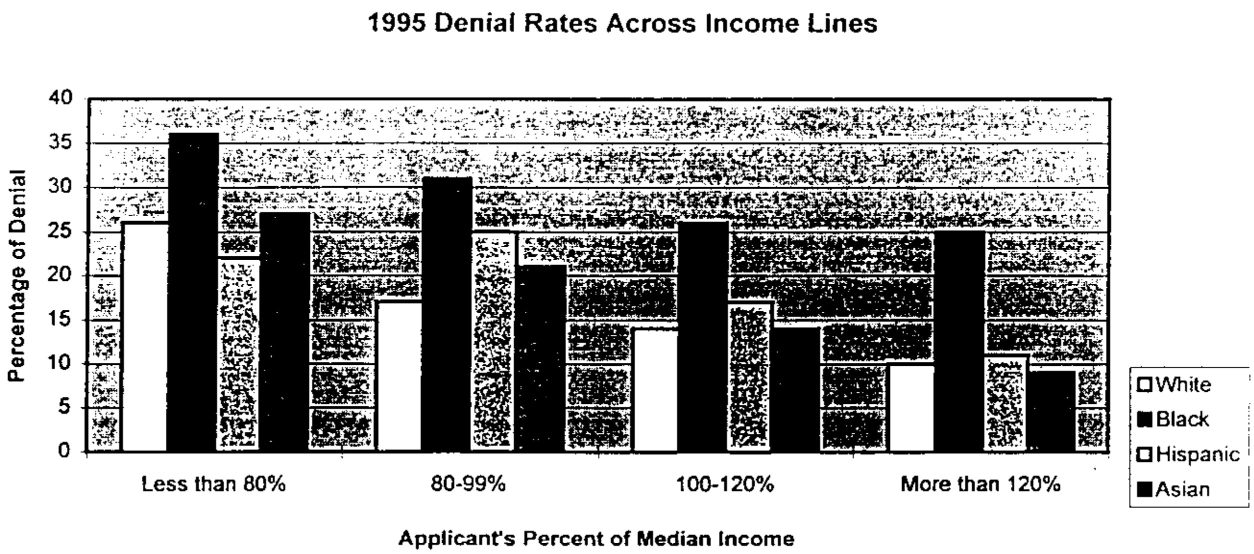

Chart E

The chart above analyzes denial rates across income and race lines. These rates are based on denials by all the financial institutions lending in the MSA. The denial rate for all ethnic groups decreases as income goes up. Low-mod income whites have a denial rate of 26%, whereas upper income whites have a denial rate of 10%. Similarly low-mod income blacks have a higher denial rate (36%) than upper income blacks (25%). However upper income blacks have more than twice the denial rate as upper income whites, Asians and Hispanics.

The following table contain the percentage of denials for the three groups referred to above as well as the black to white and Hispanic to white denial ratio for the nine banks.

BLACK DENIALS

As is apparent from the table in 1995 black applicants were twice or three times as likely to be denied loans as whites. The only bank which was the exception to this rule was M & T which had comparable denial rate for blacks and whites.

HISPANIC DENIAL

In 1995 Chase, Fleet, Key and M & T had lower denial rates for Hispanic applicants than for white applicants. However, Hispanics were denied at one and a half to two times the rate of white applicants by the remaining banks.

This disparity cannot be explained on the basis of income alone because, for most banks it persists for black and Hispanic applicants whose income is greater than 100% of median or $40,000 a year for a family of four. The disparity in the denial rates also persists for applicants whose income is in excess of 120% of median i.e. $48,000 a year.

Citibank has consistently had one of the highest denial rates for blacks in 1993 (71%), 1994(44%) and 1995 (55%).The high denial rate is accompanied by a lack of home mortgage loans to black applicants.

In 1994 M & T had the worst denial rate for black applicants, 43% of black applicants and 35% of Hispanic applicants were denied loans. In contrast 17% of white applicants were denied loans. However M & T made more loans to black applicants (126) than any other bank. It also had the most loans to each of the other minority groups and a total of 238 loans to all the minority groups. 14% of it's lending was to minority groups.

M & T's denial rate improved in 1995. Only 19% of black and 8% of Hispanic applicants were denied loans. Furthermore M & T continued to be a market leader in making loans to minorities

Marine has improved its black denial rate which was 55% in 1993 and 36% in 1995. Marine's Hispanic denial rate has remained largely unchanged. It was 34% in 1993 and 32% in 1995. Both rates were twice the white denial rate.. Furthermore in 1994 and 1995 Marine only made approximately 100 home mortgage loans to all minority applicants each year.

The disparity in denial rates is very disturbing, particularly since it persists for upper income blacks. It cannot be explained away on the basis of income, i.e. that blacks who are low-income would be more likely to have poor credit history's and therefore more likely to be denied loans.

RECOMMENDATION

In light of the data presented the Coalition strongly recommends that the city and county fund a testing program to ascertain the reason for the disparity in the denial rates for different racial groups.

The Coalition also recommends that banks with a disparity in their denial rates fund pre-purchase counseling programs like the ones offered by the Home Store to better screen applicants and channel them into credit counseling and Home Buyer clubs where appropriate.

Applicants who have been denied should similarly be referred to credit counseling. If appropriate, applicants should be advised about the steps they can take to improve their credit history and encouraged to reapply in the future.

Banks with a disparity in their denial rates should institute a process of blind second review for all minority applicants. They should also provide training on Fair Lending practices and all applicable laws to their staff.

TABLE 1

DENIALS % 1993 ROCHESTER MSA					
BANK	WHITE %	BY RATIO B - W	BLACK %	BY RATIO H - W	HISPANIC %
CHASE	11	2.1	23	2.0	22
CITI BANK	19	3.9	71	1.4	25
FIRST FEDERAL	6.[illegible]	4.5	27	1.7	10
FIRST NATIONAL	4	1.3	13	0	0
FLEET	10.6	2.4	25	1.2	11
KEY	[illegible]	[illegible].7	30	2.3	25
M & T	1[illegible]	1.6	29	1.1	20
MARINE	1[illegible]	3.7	55	2.3	34
RCSB	14	3.5	49	2.8	39

TABLE 2

DENIALS % 1994 ROCHESTER MSA					
BANK	WHITE %	BY RATIO B - W	BLACK %	BY RATIO H - W	HISPANIC %
CHASE	12	3.5	41	0.6	7
CITI BANK	18.5	2.3	44	1.7	32
FIRST FEDERAL	8	3.1	24	0.77	6
FIRST NATIONAL	15.5	2.1	33	1.3	20
FLEET	10	2.76	28.5	0.97	10
KEY	18	0.93	17	0.55	10
M & T	17	2.54	43	2.07	35
MARINE	14	2.88	41.5	2.36	34
RCSB	17	2.09	35.6	1.95	33

TABLE 3

DENIALS % 1995 ROCHESTER MSA					
BANK	WHITE %	BY RATIO B - W	BLACK %	BY RATIO H - W	HISPANIC %
CHASE	16	2.1	34	.75	12
CITI BANK	25	2.2	55	1.9	47
FIRST FEDERAL	8	3.2	26	2.2	18
FIRST NATIONAL	8	2.6	21	1.4	11
FLEET	20	2.1	43	.55	11
KEY	26	1.3	35	.34	9
M & T	15	1.2	19	0.5	8
MARINE	15	2.4	36	2	31.5
RCSB	18	2.5	46.7	2.3	41.6

RENTAL LOANS

LOANS TO RENTAL UNITS HAVE DECREASED SINCE 1993

1-4 family

Year	1995	1994	1993
City	274	365	454
MSA	719	822	1019
Top 9 Banks MSA	230	402	474
Other Financial Institutions	489	420	545

The city of Rochester has over 40,000 units of rental housing. More than 50% of the housing stock is rental. The lack of lending to non-occupant units was pointed out in the Coalition's 1994 report. Unfortunately the picture has not improved much in the last three years. In 1993 there were 454 rental loans in the city; there was only one mortgage loan for every 100 units of rental housing. This has a dramatic negative impact on the quality of life of tenants, as landlords are unable to buy or sell property, or borrow to make repairs.

Property values have fallen in the city in the last few years. Many owner occupant and non-owner-occupant properties are mortgaged for more than their market value. That makes it hard for landlords to obtain financing. Representatives of a number of area banks have represented to the Coalition that they view lending to landlords as high-risk. There seems to be a perception in the banking community that many landlords are simply in the business to maximize their profits at the expense of the tenants, the property and the bank. Therefore many banks require at least 30% equity in a non-occupant property before they will extend a mortgage.

Whereas that characterization may be true of some landlords it is unfair to landlords and to their tenants to have underwriting guidelines for all non-occupant properties based on a worst case scenario.

RECOMMENDATION

In the last few years many of the larger Banks have created affordable home mortgage programs for owner-occupants. The programs have had more flexible underwriting criteria and low down payments. In exchange applicants have had to participate in pre-purchase counseling.

The Coalition is recommending that the banks explore a pilot program for landlords with a proven track record. The pilot program should enable landlords to obtain Home Improvement loans, refinance their property or purchase a new unit. Criteria could include that the landlord has maintained the property free of code violations for a certain number of years, that the taxes are current, the program could require that the landlord live near the property. For first time landlords the bank could require that the landlord successfully complete the city funded training program offered by the Housing Council. The point of the criteria would be to identify landlords who will maintain the property and not merely treat it as a cash cow. In return the bank would only require a 10 -15% down payment instead of the 30% currently required.

ROCHESTER MSA 1993 RANKING OF BANKS	
BANK	**RANK**
FLEET	1
M & T BANK	2
KEY BANK	3
FIRST FEDERAL	4
MARINE	5
FIRST NATIONAL	5
ROCHESTER COMMUNITY SAVINGS BANK	7
CHASE	7
CITIBANK	9

ROCHESTER MSA
1994 RANKING OF BANKS

BANK	RANK
KEY BANK	1
FLEET	2
M & T BANK	2
FIRST FEDERAL	4
MARINE MIDLAND	5
ROCHESTER COMMUNITY SAVINGS BANK	5
FIRST NATIONAL BANK	7
CHASE	8
CITIBANK	9

ROCHESTER MSA
1995 RANKING OF BANKS

BANK	RANK
M& T BANK	1
FLEET	2
FIRST NATIONAL BANK	3
CHASE	3
KEY	5
MARINE	6
FIRST FEDERAL	7
ROCHESTER COMMUNITY SAVINGS BANK	8
CITIBANK	9

GRCRC 1996

COMPARISON OF NINE MAJOR BANKS

The guide contrasts the lending performance of the nine banks with the largest deposits that serve the Rochester MSA. These are Chase, Citibank, First Federal Savings and Loan of Rochester, Fleet, First National Bank, Key Bank, M & T Bank, Marine Midland and Rochester Community Savings Bank. Data reported by the banks mortgage subsidiaries (if any) was also included. Onbank a new comer to the Rochester market has not been included in the ranking.

The banks were given a rank based on thirteen factors:

1 & 2. The number of minority applications and loans in the MSA as a percentage of the total number of minority applications and loans.

3 & 4. The number of low-mod applications and loans in the MSA as a percentage of the total number of low-mod applications and loans.

5. The volume of non owner-occupant loans in the MSA.

6. The number of loans in minority and low-mod census tracts in the city.

7. The total number of loans in the city.

8 & 9. The percentage of black and Hispanic denials.

10 & 11. The black to white and Hispanic to white denial ratio.

12. The Bank's loan to deposit ratio (the dollar volume of home mortgage loans as a ratio of their deposits in the Rochester MSA).

The individual ranks were placed in four categories and each bank received a MSA rank, a city rank, a denial rank and a loan to deposit rank. These ranks were amalgamated into a composite rank. The best possible rank is 1 and the worst rank is 9.

Home Mortgage Loans in Rochester MSA/City

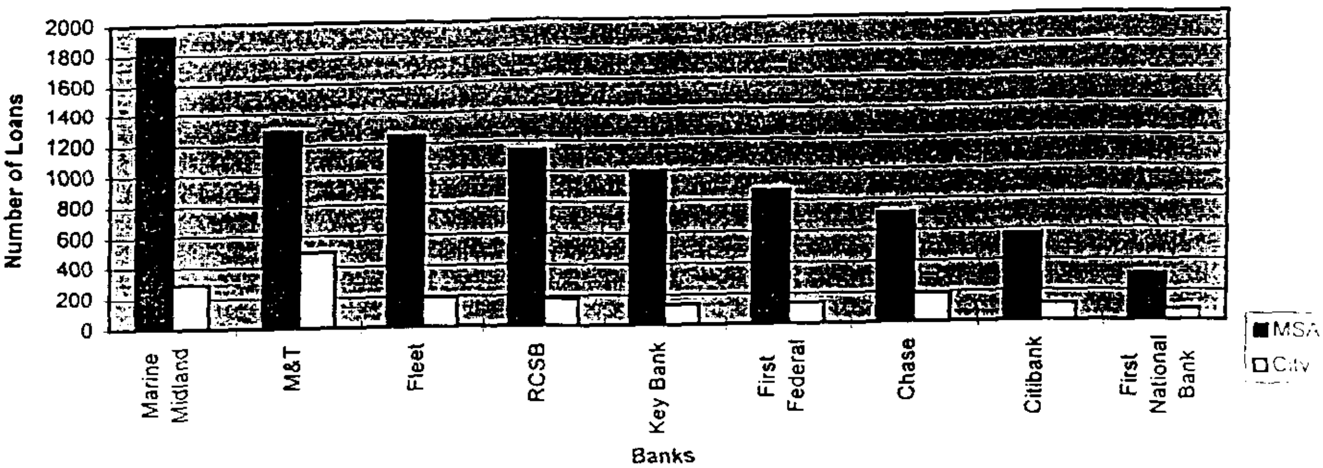

Chart F

Chart F demonstrates the proportion of lending by the nine area banks in the MSA and the city of Rochester.

Total Home Mortgage Loans Rochester MSA/Low-Mod Household 1995

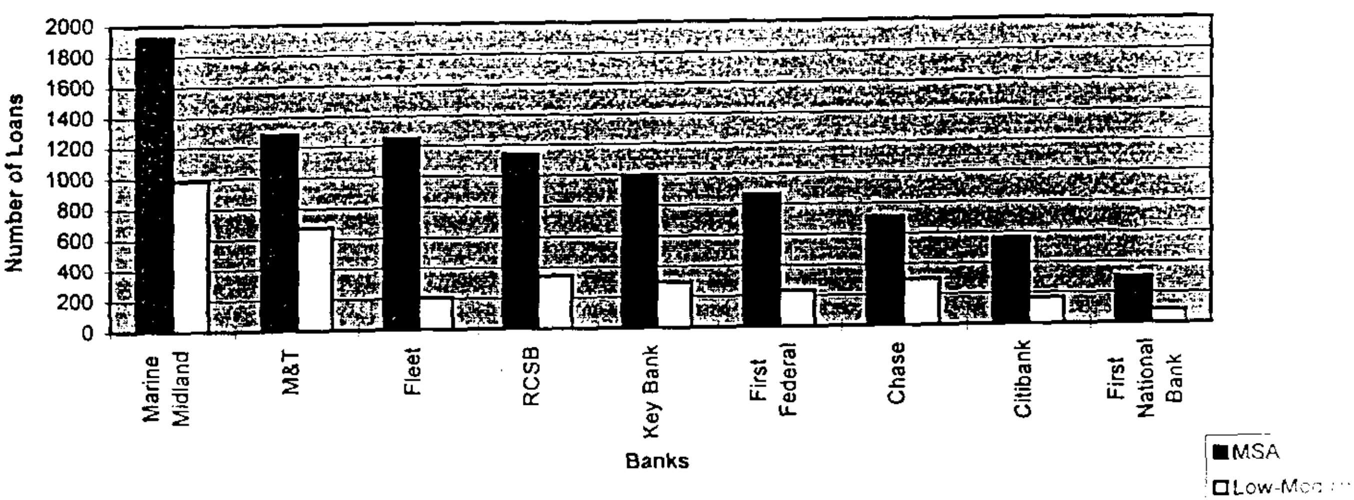

Chart G

Chart G demonstrates the proportion of lending by the nine area banks to all households in the MSA and to all low-mod households in the MSA, including low-mod households in the city of Rochester.

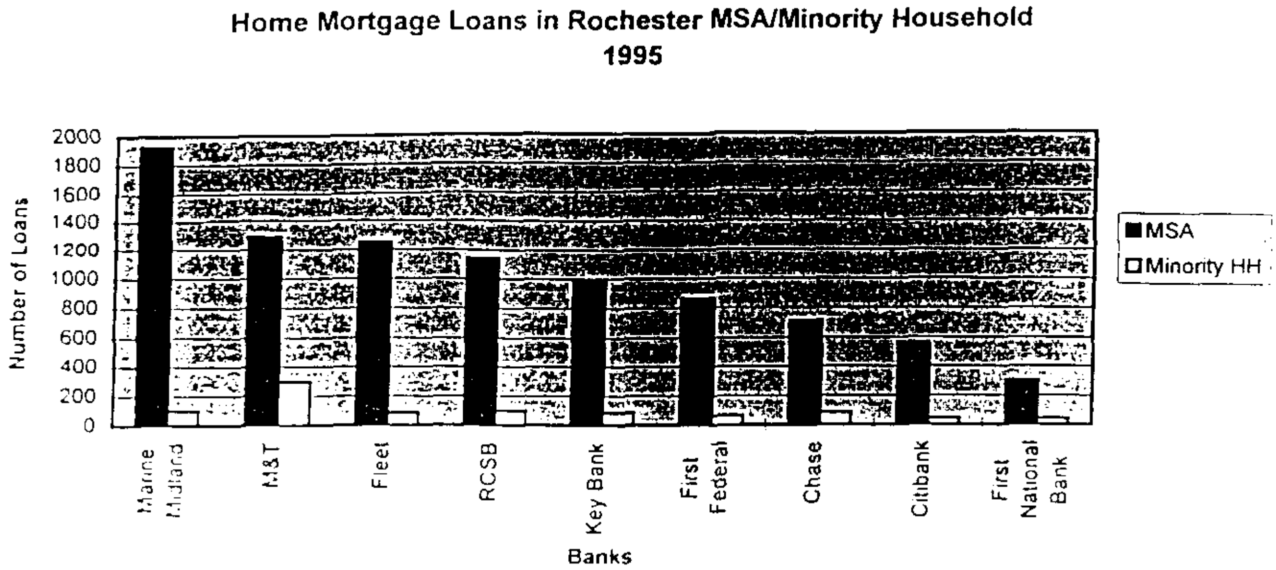

Chart H

Chart H demonstrates the proportion of lending by the nine area banks to all households in the MSA and to all minority households in the MSA, including minority households in the city of Rochester.

CHASE

1993 Rank: 7
1994 Rank: 8
1995 Rank: 3

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	710	902	1699	1850
City	189	159	194	212
Minority households	109	60	98	NA
low-mod households	191	188	403	NA
PERCENT OF LOANS IN THE CITY:				
	26	18	11	11
TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	59	38	40	38
low-mod	73	86	85	76

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	16	34	12
1994	12	41	7
1993	11	23	22

Chase has improved its overall ranking from 8 in 1993 to 3 in 1995. Chase has been making fewer home mortgage loans in the MSA and in the city since 1992. However a larger percentage of the MSA lending has occurred in the city. In 1995 and 1994 more than half the loans in the city were in low-mod census tracts. In 1995 a third of Chase's loans were in minority census tracts. Chase made 28 and 20 non-occupant loans in 1994 and 1995 respectively. In 1995 Chase increased its lending to minority borrowers in the Rochester MSA.

In 1995 and 1994 black applicants were denied at twice or three times the rate of white applicants. In 1995 34% of black applicants were denied loans by Chase. In contrast only 16% of white applicants were denied loans. In 1995 the disparity in the denial rate for blacks persisted at more than 100 % of median income. There was no disparity for blacks at incomes greater than 120% of median income.

Citibank
1993 Rank: 9
1994 Rank: 9
1995 Rank: 9

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	565	808	663	1068
City	107	171	56	107
Minority households	42	68	47	NA
low-mod households	165	174	106	NA
PERCENT OF LOANS IN THE CITY:				
	19	21	8	10
TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	22	23	4	13
low-mod	50	54	18	31

Citibank has persistently been ranked last three years in a row for its home mortgage lending record in Rochester. It is the largest bank in the MSA in terms of its local deposits. Despite that fact its volume of mortgage lending in the MSA and in the city has been on the decline since 1992. However a larger percentage of Citibank's lending occurred in the city in 1994 and 1995.

Although Citibank made very few loans in the city, in 1994 and 1995, almost half the loans in the city were in low-mod census tracts and a quarter were in minority census tracts. Citibank has made virtually no non-occupant loans in the last four years.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	25	55	47
1994	19	44	32
1993	19	71	25

Citibank has one of the worst denial rates for blacks and Hispanics amongst all nine banks. In 1995 55% of black applicants were denied loans. Black applicants were more than twice as likely to be denied loans as white applicants. This denial ratio remained the same for black applicants whose income exceeded 100% of area median which is $40,000 for a family of four.
Hispanic applicants also had a much higher denial rate than white applicants.

First National Bank

1993 Rank: 5
1994 Rank: 7
1995 Rank: 3

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	301	204	415	890
City	71	41	44	95
Minority households	42	20	25	
low-mod households	86	32	49	NA
PERCENT OF LOANS IN THE CITY:				
	23	20	11	11
TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	22	10	9	16
low-mod	48	20	11	37

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	8	21	11
1994	15	33	20
1993	9	13	0

FNB improved its rank and lending record in 1995. It increased lending to low-mod and minority households and census tracts. FNB is the smallest of the nine banks in terms of local deposits.

Black applicants were twice as likely to be denied home mortgage loans as white applicants in 1994 and 1995.

First Federal
1993 Rank: 4
1994 Rank: 4
1995 Rank: 7

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	863	1250	2264	1016
City	135	267	292	96
Minority households	65	119	120	NA
low-mod households	229	215	415	NA
PERCENT OF LOANS IN THE CITY:				
	16	21	13	9
TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	48	61	39	17
low-mod	65	143	108	36

First Federal lending peaked in 1993 but declined in 1994 and 1995. However a greater percentage of the lending occurred in the city. In 1994 and 1995 more than half the loans in the city were in low\mod census tracts. More than a quarter of the loans were in minority census tracts. First Federal made 49 non-occupant loans in the MSA in 1994. First Federal also initiated the construction of First Place, a sub-division within the city of Rochester which been a significant contribution in the revitalization of a low-income neighborhood of the city. Ground has also been broken on Edison Place. Funding is being sought for a third sub-division, Goodman Plaza. The Coalition applauds First Federal for its efforts in the city and urges other banks to emulate its example.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	8	26	18
1994	8	24	6
1993	6	27	10

Black applicants were three times more likely to be denied home mortgage loans than white applicants. Hispanic applicants had a lower denial rate than white applicants in 1994 but a higher one in 1995. Black applicants at 120%+ of median income had comparable denial rates to white applicants.

Fleet
1993 Rank: 1
1994 Rank: 2
1995 Rank: 2

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	1,247	1,747	3,423	1,979
City	195	349	555	297
Minority households	85	146	235	NA
low-mod household	204	302	845	NA
PERCENT OF LOANS IN THE CITY:				
	16	20	16	15
TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	38	85	100	57
low-mod	174	269	247	120

In the last four years Fleet has maintained 15-20% of it's lending in the city. In 1994 and 1995 approximately 80% of Fleets loans in the city were in low-mod census tracts. Almost 25% were in minority census tracts. Fleet made 80 non-occupant loans in the MSA in 1994, more than any of the nine banks included in this guide.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	20	43	11
1994	10	28	10
1993	11	25	11

Black applicants were three times more likely to be denied loans than white and Hispanic applicants. In 1995 43% of black applicants were denied loans, compared to 20% of white and 11% of Hispanic applicants. The difference in the denial rate persisted at 100% and 120% of MFI. However, at 120% of MFI the gap between the black and white rate was narrower. The denial rate for Hispanics above 80% of MFI was negligible.

Key Bank

1993 Rank: 3
1994 Rank: 1
1995 Rank: 5

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	996	1,999	2,361	1,803
City	127	448	246	204
Minority households	85	143	85	NA
low-mod households	294	502	574	NA
PERCENT OF LOANS IN THE CITY:				
	13	22	10	11
LOANS TO CITY CENSUS TRACTS THAT ARE:				
>50% minority	47	137	58	48
low-mod	85	405	103	101

In 1994 Key Bank's lending more than doubled in the city as a percentage of its MSA lending. In 1994 Key made the most number of loans to minority applicants in the MSA, it made the most number of loans in the city as well as in low\mod census tracts. 90% of Key bank's loans were in low\mod census tracts and more than a quarter were in minority census tracts.

Unfortunately this lending performance was not maintained in 1995. Not only did the absolute number of loans in the city and MSA drop dramatically, 75% of the loans were home improvement loans as opposed to home purchase loans. Most of low\mod loans were Home Improvement Loans.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	26	35	9
1994	18	17	10
1993	12	30	25

Key was the only bank among the nine surveyed that had comparable denial rates for black and white applicants in 1994. However its black denial rate was higher than the white rate in 1995. Hispanic applicants had lower denial rates than white applicants in 1994 and 1995.

M & T

1993 Rank: 2
1994 Rank: 2
1995 Rank: 1

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	1,285	1,718	2,470	1827
City	492	407	328	207
Minority households	296	238	223	
low-mod households	671	477	665	
PERCENT OF LOANS IN THE CITY:				
	38	24	13	11
TOTAL LOANS TO CITY CENSUS TRACTS WHICH ARE:				
>50% minority	111	101	82	35
low-mod	331	405	167	88

M & T has steadily improved its lending record in the city of Rochester over the last four years. In 1995 almost forty percent of its loan origination in the MSA were in the city. In 1994 and 1995 70 % of M & T 's loans in the city were in low\mod census tracts and 25% in minority census tracts.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	15	19	8
1994	17	43	35
1993	18	29	20

In 1994 M & T denial rates for black and Hispanic applicants were amongst the worst of all nine banks surveyed. 44% of black applicant and 35 % of Hispanic applicants were denied loans; only 17% of white applicants were denied loans. This disparity in the denial rate persisted for applicants at 100% > of median income. On the other hand, M & T originated 238 loans to minority applicants in 1994, more than any of the other area banks.
In 1995 the disparity in the black and white denial rate had narrowed. However, it persisted even for blacks at 120% of MFI. The denial rate for Hispanic applicants was lower than the white rate.

The Coalition applauds M & T for its record of lending in the city, and in low\mod and minority neighborhoods in the city. As is apparent from the guide M & T has one of the best records of lending to the city, the low and moderate and minority community in Rochester. The Coalition has had an ongoing relationship with M & T for over two years. We have had a number of meetings with them where our input was solicited and proffered. M & T has provided the Coalition with a letter of understanding which we will work on implementing.

Marine
1993 rank: 5
1994 Rank: 5
1996 Rank: 6

	1995	1994	1993	1992
TOTAL LOANS TO:				
MSA	1,925	1,706	1,874	1,992
City	289	380	224	211
Minority households	100	96	137	
low-mod households	980	492	628	
PERCENT OF LOANS IN THE CITY:				
	15	22	12	13
TOTAL LOANS IN CITY CENSUS TRACTS THAT ARE:				
>50% minority	98	112	60	60
low-mod	259	380	109	95

In 1994 Marine increased the number of loans it made in the city. However almost 60% of those loans were home improvement loans. Virtually all the loans were in low\mod census tracts and 25% were in minority census tracts.

Similarly in 1995 56% of the lending in the city were Home Improvement loans which averaged $10,000 a loan. This pattern has existed since 1992. At first glance Marine's lending record in the city, in minority and low\mod census tracts and to minority borrowers looks good. However a more detailed analysis reveals that most of such lending is limited to Home Improvement Loans as opposed to first mortgages (FHA\VA, conventional and refinances). In 1995 50% of Marine's lending in the MSA was comprised of Home Improvement loans. However 60 -80% of it's lending in minority census tracts, in low-mod census tracts and to minority borrowers was comprised of Home improvement loans.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	15	36	32
1994	14	42	34
1993	15	55	34

Black and Hispanic applicants have a denial rate that is two to three times the white denial rate in the last three years. Although, the black rate has improved from 55% in 1993 to 36 % in 1995 it is still twice the white denial rate. The Hispanic denial rate has remained at 34%.

The disparity in the denial rate persisted for higher income blacks.

The Coalition has had a series of meetings with Marine in the last two months, following Marine's announcement that they were proposing to acquire First Federal Saving's and Loan of Rochester. During the meetings the Coalition raised a number of concerns with Marine. In response to the issues raised by the Coalition Marine has committed to the following actions:

1. Becoming a member of the Federal Home Loan Bank.
2. Continuing the activities of First Federal's home building subsidiary, BHD.
3. Marketing their affordable mortgage product, Marine 97 to low-mod and minority individuals in Rochester.
4. Providing grants for pre and post purchase counseling.
5. Creating a Marine Citizen's Advisory Council which will include Coalition membership.

RCSB
1993 Rank: 7
1994 Rank: 5
1995 Rank: 8

	1995	1994	1993	1992

TOTAL LOANS TO:

MSA	1,139	1,557	2,808	2,457
City	179	344	378	342
Minority households	100	166	166	NA
low-mod households	341	359	728	NA

PERCENT OF LOANS IN THE CITY:

	16	22	14	14

TOTAL LOANS TO CITY CENSUS TRACTS THAT ARE:

>50%	63	85	102	76
low-mod	132	200	154	133

RCSB increased its percentage of lending peaked in city in 1994. However, most of the loans made in the city, in 1994 and 1995, were home improvement loans. Low\mod loans were HI. Approximately 25% of city loans were in minority census tracts and almost 60% were in low-mod census tracts.

DENIALS

RACE	WHITE	BLACK	HISPANIC
1995	18	47	42
1994	17	36	33
1993	14	49	39

Black and Hispanic applicants were denied loans at two or three times the rate of white applicants. In 1995 47% of black applicants, 42% of Hispanic applicants and 18% of white applicants were denied loans.

GREATER ROCHESTER
COMMUNITY REINVESTMENT COALITION
P.O. BOX 39541
ROCHESTER, NEW YORK 14604

June 23, 1998

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Ave., NW
Washington, DC 20551-0001

Re: Citicorp-Travelers Application

Dear Ms. Johnson,

I am writing to you on behalf of the GREATER ROCHESTER COMMUNITY REINVESTMENT COALITION (GRCRC). GRCRC is a coalition of thirty not-for profit organizations and individuals based in Rochester, New York. GRCRC was convened in 1993 to generate discussions about lending patterns in Rochester, New York.

GRCRC is opposed to the proposed merger of Citicorp and Travelers Group and is requesting that the Federal Reserve Board turn down the proposed Citicorp-Travelers merger application. It is GRCRC's position that the Citicorp -Traveler's Group should not be approved while Financial Modernization legislation is pending in Congress. GRCRC is not opposed to financial modernization. However modernization needs to occur through legislation and not by piecemeal approval of individuals mergers. Financial institutions, that are insured by taxpayer dollars have community reinvestment obligations to fulfil. Their safety and soundness are also issues of concern to all of us. There needs to a public dialogue accompanied by legislation, before financial institutions are permitted to engage in the business of banking ,insurance and securities on the scale envisioned by the merged institution. Legislation must ensure that the interest of consumers will be protected and that the Community Reinvestment Act will be extended to the entire financial institution, including the insurance and securities subsidiary.

I will not belabor the policy issues raised in the press and by other groups opposed to the merger. The point I want to make here is that GRCRC would oppose the merger irrespective of Citicorp's record of lending in Rochester, New York. Unfortunately, an analysis of their HMDA and small business lending data consistently finds them at the bottom of the large financial institutions in Rochester.

Citicorp's presence in Rochester, New York is through it's subsidiary, **Citibank NYS (Citibank)**. In 1996 Citibank was ranked second in terms of total dollar value of local deposits. Citibank had over $1.6 billion in deposits locally. However Citibank ranked last in terms of HMDA loans originated in Rochester.

1. **HMDA Analysis**

In 1996 GRCRC released a report on HMDA data for Rochester New York for the years **1993-1995.** The report ranked all major 9 banks, doing business in Monroe County, on their Home Mortgage Data Act (HMDA) record. **Citibank had the worst record of lending, in low and moderate income neighborhoods, of all 9 banks and ranked last, all three years in a row.** During that period Citibank also denied mortgage loans to Black applicants at 2 -3 times the rate it denied them to white applicants. A copy of the report is attached to these comments.

GRCRC has analyzed **1996** HMDA data which will be released later this summer. The HMDA numbers show that **Citibank had the fewest number of loans of all the largest 9 banks in** Rochester in each of the following categories:

- total number of loans in the MSA,
- total number of loans in the city,
- number of loans to Black/Hispanic households in the MSA,
- loans to low-mod income census tracts,
- loans to low-mod income households in the MSA.

1996 is the most current year for which HMDA data is publicly available.

In terms of marketshare, Citibank's HMDA market share was under 2% for the MSA and to low and moderate income households in the MSA; 1% for loans in the City of Rochester; under 1% for loans to Black/Hispanic households in the MSA and in low and moderate income census tracts. Citibank had 45 loans in the City of Rochester, compared to M&T Bank, which had 188. Citibank had 11 loans to Black and Hispanic households in the MSA, M&T had 98. M&T had local deposits of $1.02 billion. (A HMDA marketshare analysis for 1996 originations is attached to these comments.)

Furthermore, in 1996, only 4% of Citibank's total HMDA loans were in low-moderate income census tracts. The other large banks percentage of loans in low–mod income census tracts ranged from a high of 22% (Key) to 11% (First Federal, now merged with Marine Midland). Only 2% of Citibank's loans were to Black/Hispanic households.

Citibank has consistently had a high denial rate for Blacks and Hispanic applicants. In 1996, 54 % of Black and 31% of Hispanic applicants were denied home mortgage loans. The white denial rate was 19%. GRCRC has documented this disparity in denials for 1993-1995 as well. A map of the City of Rochester, which displays the census tracts in which Citibank did not make home mortgage loans, in 1996, is attached. Citibank did not make home mortgage loans in approximately half the census tracts in the City. Pie charts depicting racial composition are overlaid on the map. A review of the map shows that Citibank did not make mortgage loans in a significant proportion of minority census tracts.

1. Small Business Lending Analysis

GRCRC has also analyzed small business data for 1996. The seven largest banks originated 80% of the small business loans in terms of dollar volume. Citibank ranked four out of seven in terms of small business lending in Monroe County.

Citibank was not a market leader in small business lending. A market share analysis of 1996 small business loans in Monroe County is attached. Citibank originated $9 million in small business loans in low and moderate income census tracts in Monroe County. Marine Midland, the market leader in that category, made $50 million. Citibank made $1.6 million in loans to businesses with revenues under $1 million in low and moderate-income census tracts. M&T, the market leader in that category, made $ 7 million in small business loans.

A map showing the census tracts in the City of Rochester in which Citibank originated no small business loans is attached to these comments. Pie charts depicting racial composition are overlaid on the map. A review of the map shows that Citibank did not make small business loans in a significant proportion of minority census tracts. In light of this data, GRCRC requests that the Federal Reserve considers the Fair Lending implications of Citibank's lending practice.

2. Branches

Citibank has 13 branches in Monroe County. 11 branches are in suburban Monroe County and two are in the City. Of the City branches one is downtown and one is in the Northeast quadrant of the City. The lack of branch presence in the City may partially explain Citibank's lending record.

GRCRC is a coalition of thirty not-for-profit organizations. It was convened in 1993 to generate discussions about lending patterns in Rochester and to ensure that the credit needs of low-income and minority residents of our community are met. GRCRC seeks to support long-term solutions, which provide resources, knowledge and skills to build community and individual net wealth.

GRCRC has had ongoing discussions about the credit needs of the community with four area banks. It has been our experience that the three banks with regional or local decision making authority, Marine Midland, M&T and RCSB have been most responsive to meeting the needs of our community. Quite simply put, if a community is 1 % of the market share of a large mega bank, the needs of that community will not be of primary interest to the decision makers of the mega bank. However, when Rochester represents a significant proportion a banks market share the regional Presidents return our phone calls and make sure the deal gets done, even if someone has to work on it over the weekend. I can only speak to the experience of our Coalition members.

Finally, there has been a flurry of community development lending, by Citibank, to a number of members of the Coalition in the last two years. Needless to say, we welcome such activity. We hope that Citibank will improve on its community development lending record whatever the outcome of this application.

If you have any questions about these comments please feel free to contact me. I can be reached at 716-454-4060.

Yours truly,

Ruhi Maker Esq.

Top 7 Banks
1996 City of Rochester, Monroe County
Small Business Loans

	AFI	Chase	Citibank	First National	Fleet	Key	Marine	M&T	Top 7	OFI
Total No.	7282	92	421	242	602	182	2276	801	4616	2,666
Total Amt. (Millions)	710	1.7	40	29	107	32.5	220	147	577.2	132.8
LMCT No.	1425	21	91	43	164	64	338	207	928	497
LMCT Amt (Millions)	179	325,000	9	3.4	29	10.5	50	44	146	33
Businesses <1 Million No.	2825	28	206	109	280	90	586	293	1,592	1,233
Businesses <1 Million Amt. (Millions)	124	609,000	11.5	7.3	25	8	17	27	96	28
Businesses <1 Million LMCT No.	507	2	34	12	62	27	124	66	327	180
Businesses <1 Million LMCT Amt. (Millions)	25	13,000	1.6	446,000	5	3	4	7	21	4

MARKET SHARE

		Chase	Citibank	First National	Fleet	Key	Marine	M&T	Top 7	OFI
Total No.		1%	6%	3%	8%	2%	31%	11%	63%	37%
Total Amt. (Millions)		0%	6%	4%	15%	5%	31%	21%	81%	19%
LMCT No.		1%	6%	3%	12%	4%	24%	15%	65%	35%
LMCT Amt. (Millions)		0%	5%	2%	16%	6%	28%	25%	82%	18%
Businesses <1 Million No.		1%	7%	4%	10%	3%	21%	10%	56%	44%
Businesses <1 Million Amt. (Millions)		0%	9%	6%	20%	6%	14%	22%	78%	22%
Businesses <1 Million LMCT No.		0%	7%	2%	12%	5%	24%	13%	64%	36%
Businesses <1 Milliona LMCT Amt. (Millions)		0%	6%	2%	20%	12%	16%	28%	84%	16%

Rochester MSA HMDA 1996

	AFI	Chase	Citibank	FNB	FF	Fleet	Key	M&T	Marine	ON	RCSB	Top 10	OFI
MSA	25824	608	476	537	1430	1305	825	1262	1589	252	1022	9306	16518
City	4256	118	45	108	215	148	94	188	184	19	156	1275	2981
Black/Hispanic HH MSA	1185	57	11	57	97	56	48	98	66	4	82	576	609
Low-Mod HH MSA	5411	174	78	130	384	273	270	369	264	103	253	2298	3113
Low-Mod Income CT	3553	85	21	76	154	199	179	175	286	38	122	1335	2218
Non-Occupant	897	17	5	16	34	41	3	39	82	3	14	254	625

Market Share Rochester MSA-1996-HMDA

		Chase	Citibank	FNB	FF	Fleet	Key	M&T	Marine	ON	RCSB		OFI
MSA		2.4	1.8	2.1	5.5	5.1	3.2	4.9	6.2	1.0	4.0		64.0
City		2.8	1.1	2.5	5.1	3.5	2.2	4.4	4.3	0.4	3.7		70.0
Black/Hispanic HH MSA		4.8	0.9	4.8	8.2	4.7	4.1	8.3	5.6	0.3	6.9		51.4
Low-Mod HH MSA		3.2	1.4	2.4	7.1	5.0	5.0	6.8	4.9	1.9	4.7		57.5
Low-Mod Income CT		2.4	0.6	2.1	4.3	5.6	5.0	4.9	8.0	1.1	3.4		62.4
Non-Occupant		1.9	0.6	1.8	3.8	4.6	0.3	4.3	9.1	0.3	1.6		69.7

Loans as % of Total in:													
Low -Mod CT	14	14	4	14	11	15	22	14	18	15	12		13
Black/Hispanic HH	16	19	2	11	7	4	6	8	4	2	8		4
City	16	19	9	20	15	11	11	15	12	8	15		18

Testimony on behalf of the Greater Rochester Community Reinvestment Coalition, regarding the proposed merger between Citicorp and Travelers Group.

Public Hearing June 25th. 1998. New York, New York.

My name is Ruhi Maker. I am co-convenor of the Greater Rochester Community Reinvestment Coalition in Rochester New York. I work as a Senior Attorney at The Public Interest Law office of Rochester.

I am here today to speak against the proposed merger of Citicorp and Travelers Group. In the name of 'modernizing' the laws governing the financial institutions of this country, the CEOs of the largest of those institutions have been lobbying for a number of years to repeal the Glass-Stegall Act. Despite pouring millions of dollars of contributions into the campaigns of the members of the House and Senate Banking Committees, they have failed to achieve their goal, and there is still no consensus on what financial modernization should look like.

In the face of this failure, the CEOs of Citicorp and Travelers, two of the largest financial institutions in the country have now decided to simply forge ahead with a merger that takes advantage of a loophole in the existing law, trusting that their political and financial clout will ensure that there fait accompli is legalized retroactively.

This is not modernization, it is a reversion to the oligarchies of the past. As someone who grew up in Pakistan, I know what it is like to live in an oligarchy, where a handful of families controlled the economy and were free to act as if they were above the law. For the Federal Reserve to approve this merger under these conditions would send a clear signal to the elite's of this country that their privileged status carries no corresponding obligations to the community.

True financial modernization would require the systematic revision of the laws governing the financial industry. It cannot be done by granting piecemeal exceptions to existing regulations every time there is a new merger.

True financial modernization would require the systematic extension of existing community reinvestment obligations from the banking industry to the insurance and security industries, in line with their recently acquired right to provide services formerly restricted to banks.

True financial modernization would require an increase in the responsiveness of financial institutions to the needs of their host communities. Here I can speak from my own experience as a member of the GRCRC. We have had continuing discussions with four area banks about the credit needs of Rochester. The three banks with regional or local decision making authority have been far more responsive than has the mega-bank. When Rochester represents a significant proportion of a bank's market share, the regional president returns our phone calls and makes sure the deal gets done, even if someone has to work on it over the weekend. When Rochester represents only 1% of an essentially global bank's market, the needs of a local community are of very low priority.

As the trend toward globalization of the economy proceeds apace, we must ensure that the democratic accountability of those who control the commanding heights of the economy keeps pace. Otherwise false modernization is liable to land us back in the era of the robber barons.

NATIONAL
COMMUNITY CAPITAL
ASSOCIATION

Statement of

Mark Pinsky, Executive Director National Community Capital Association

Presented to the
Public Meeting

On Travelers Group, Inc.'s Proposed Acquisition of Citicorp

June 25, 1998

Federal Reserve Bank
Of New York

924 Cherry Street | 2nd Floor | Philadelphia, PA 19107-2411
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My name is Mark Pinsky and I am the Executive Director of the National Community Capital Association—a national membership organization representing more than 210 organizations and individuals engaged in community development finance, including 50 Member community development financial institutions (CDFIs).

National Community Capital believes that every financial institution that derives benefits at public expense should provide a commensurate public return. Through its performance and its practices, Citibank has proven to National Community Capital that it is committed to providing a public return more than commensurate with the benefits it receives at taxpayer expense.

Over the past six years Citibank has been a key player in building and expanding the CDFI industry in the U.S. In particular, Citibank has:

- Embraced community development finance as integral to its core business,
- Invested invaluable expertise as well as capital in its community development finance work,
- Treated CDFIs as customers rather than as applicants, and
- Supported the expanding CDFI industry without regard to geographic boundaries. Citibank has never required National Community Capital to limit the use of its equity, debt, or operating support to Citibank's service area. Citibank understands that building a strong CDFI industry requires National Community Capital to pursue market opportunities.

About National Community Capital

National Community Capital works to give people the resources and capacity they need to act in their own economic and social self-interest. Two core strategies drive this work:

1. First, we strive to build and support a national network of performance-driven, nonprofit community development financial institutions (CDFIs). To achieve this goal, National Community Capital provides financing, training, and technical assistance to its Member CDFIs.
2. Second, we leverage our performance as lenders and investors in many of the nation's most distressed communities to influence the behavior of mainstream institutions, including banks, other financial service companies, and government.

CDFIs work with one foot in the world of the poor and the other in the world of financial services. We are bridge institutions that link unconventional consumers to conventional financial products and services. For that reason, CDFIs must shape and respond to changes in the financial services world as well as those in the communities we serve.

Two key principles guide National Community Capital's community investment strategy. We believe that they should guide Citigroup's and every other community investment work, as well:

- Community investment must help poor people gain the capacity and resources to engage economically, socially, and politically so that they can and will act in their own self-interests, and
- It must do so in a way that ensures the sustainability of the institutions that seek to serve that market.

NATIONAL COMMUNITY CAPITAL'S PARTNERSHIP WITH CITIBANK

Citibank has worked closely with National Community Capital and many other CDFIs. It consistently has sought to help CDFIs develop the capacity and resources to carry out their work effectively.

Citibank's willingness to innovate, to pioneer, and to lead in community development finance has helped create a national distribution system for critically important community development capital. In its work with CDFIs, Citibank has exceeded every reasonable expectation.

The National Equity Grants Program

National Community Capital's relationship with Citibank began in 1992 when Citibank made a $1.1 million grant to launch our National Equity Grants Program. Citibank understood that CDFIs need high levels of equity to borrow debt that they, in turn, re-lend in distressed and disinvested communities. Through its National Equity Grants Program, National Community Capital makes net worth grants to CDFIs to help build their financial strength and ensure their long-term sustainability. By year-end 1998, National Community Capital will have awarded more than $3.3 million in equity grants to nonprofit CDFIs, including Citibank's catalytic contribution to this effort.

The success of this program influenced three other important initiatives. First, National Community Capital's experience providing equity grants helped shape the federal Community Development Financial Institutions Fund's (CDFI Fund) awards program. Through its first two award rounds, the CDFI Fund has committed more than $60 million in equity grants and investments. Second, National Community Capital's success paved the way for Citibank's $1.25 million grant to the National Federation of Community

Development Credit Unions for an Equity Grants program modeled on ours. Finally, in 1997 Citibank made equity grants directly to 17 CDFIs nationwide.

The Equity Equivalent Product

National Community Capital and Citibank partnered again in 1996 to develop an innovative financing product for nonprofit CDFIs—the Equity Equivalent, or EQ2. This revolutionary product is a long-term, deeply subordinated loan with characteristics that make it function like equity for a nonprofit CDFI. It is the nonprofit equivalent of convertible preferred stock with a coupon, enabling nonprofit CDFIs to raise more debt for re-lending.

The EQ2 is a win-win-win product.

- Banks win because they make high-risk equity investments in CDFIs that promise to return their principle and because they receive multiplied Community Reinvestment Act credit for making these investments. An EQ2-investing bank can receive lending test credit equal to the pro rata share of the CDFI's lending over the life of the EQ2 investment. The share is based on the bank's percentage of total equity in the CDFI. In the alternative, the bank can receive investment test credit.

- CDFIs win because the EQ2 leverages debt to fuel the CDFI's lending and investing activities; and

- Low-income and low-wealth communities benefit because more financing is available to them through CDFIs.

In late 1996, Citibank made a $2 million Equity Equivalent investment in National Community Capital to put this ambitious concept into practice. Since then, Citibank has provided technical assistance to numerous banks and CDFIs replicating the EQ2.

As important as its financial commitment is Citibank's commitment of expertise. In developing the EQ2, Citibank committed staff resources at the highest level of the corporation to help work out complex regulatory, accounting, and financial management issues. Like National Community Capital, Citibank was committed to producing a replicable product, rather than a one-time transaction. Citibank went several extra miles to make sure that the EQ2 is an investment product that will help disinvested communities again and again.

Citibank's Support for CDFI Human Capital

In addition to equity, the CDFI industry's greatest need is human capital. The industry has experienced consistently aggressive growth over the past six years, fueled by the federal CDFI Fund, the Community Reinvestment Act, bank support for CDFI expansion, and government's declining support for low-income and low-wealth communities in general. As CDFIs' capital under management has increased sharply, their staff capacity has barely kept pace.

Citibank has provided substantial financial support for National Community Capital's human capital-building efforts, including technical assistance programs, Targeted Training sessions, and our Annual Training Conference. In addition to funding, Citibank has provided top quality trainers.

Citibank has provided core support for National Community Capital's Annual Training Conference—the premier CDFI training event—in 1996, 1997, and this year. In two of those three years, the conference has been or will be outside of Citibank's market.

In 1996, Citibank provided the seed capital to National Community Capital to launch our Targeted Training series, which offers one-day and two-day courses on select topics in different locations across the nation. This year, National Community Capital is offering nine Targeted Trainings on seven topics in six locations.

CONCLUSION

The ultimate goal for CDFIs is to link economically poor people to the financial products and services they need to act in their own self-interest. To do this, CDFIs need to recognize change and respond with creative, innovative solutions. We will not succeed if we get caught up perpetuating CDFIs for their own sake, defending the Community Reinvestment Act without acknowledging the revolutionary changes in the financial services industry, or justifying the behavior of financial services companies without regard to their performance in serving low-income and low-wealth people and communities.

We need a community investment strategy that builds on the strengths of the financial services industry as it is, not as we want it to be. The industry is in the midst of a major and rapid transformation that is reshaping how poor people—like most people—use financial services. The proposed Citibank-Travelers merger is now the cutting edge of this transformation.

The merger we are talking about today is different than most other mergers, of course, because it involves a bank and a parallel banking institution. It and other acquisitions such as First Union's purchase of The Money Store fall outside the current regulatory environment. It is driven not by regulatory or legislative mandates but by the commercial imperatives of operating in a financial system that is increasingly cross-functional and global in nature. The Citibank-Travelers merger will not involve job cuts and branch closings like bank-bank mergers. It expands the range of products and services Citigroup can provide to customers.

The question before us today is whether the proposed Citigroup can lead the way on community development finance in the financial services marketplace of the future. Given Citibank's past performance and practice—particularly its vision in helping to develop the CDFI industry as a distribution system that bridges gaps between poor people and conventional capital and financial services—National Community Capital is confident that Citigroup will continue Citibank's leadership in community development finance.

Thank you for this opportunity to share my views. I would be pleased to answer any questions you might have.

The Parallel Banking System & Community Reinvestment

Mark A. Pinsky
Valerie L. Threlfall
November 1996

NATIONAL
COMMUNITY CAPITAL
ASSOCIATION

Note:
In November 1997, Members of the National Association of Community Development Loan Funds (NACDLF) voted to change the organization's name to National Community Capital Association. This paper, "The Parallel Banking System & Community Reinvestment," was written prior to the name change, and thus "NACDLF" is used throughout the document.

The Parallel Banking System & Community Reinvestment

by Mark A. Pinsky and Valerie L. Threlfall

On October 4, 1996, a federal agency intervened to arrest an impending solvency crisis at a small but significant financial institution holding almost $425 million of 77,000 Americans' retirement savings. With lingering memories of the savings and loans crisis of the 1980s, which left thousands of anxious Americans without access to their savings, the federal government decided to act before the crisis hit. The agency was not one of the four bank regulatory agencies but the Pension Benefit Guarantee Corporation (PBGC), and the financial institution was not a bank or a thrift but a pension fund serving the men's suit industry[1].

This federal intervention was just a hint of one of the most important twentieth-century shifts in the financial services industry, the shift of dominance from the banking industry to the parallel banking industry. Contrary to the common wisdom, the rise of the parallel banking industry would not have occurred without significant federal and state assistance, such as the "lender of last resort" protection the PBGC is now providing. This paper explores the structural shift in the banking industry, the role government has played in abetting this shift, and the implications the transition creates for low-income and a growing number of moderate-income communities around the country. It raises important questions about the public and civic responsibilities of a multi-trillion dollar industry that derives substantial, critical benefits from taxpayers yet operates without a commensurate obligation to return benefits back to the American people.

Introduction

The U.S. financial industry has changed in dramatic and significant ways over the past thirty years as nonbank financial intermediaries have taken over many of the functions depository institutions traditionally considered their province. Notably, more than two-thirds of Americans' long-term savings and investments now reside in non-bank intermediaries, compared to less than one-third in the mid-1970s. Moreover, these nonbank intermediaries, known as parallel banks, now serve as the primary source of credit for many American households and businesses.

The parallel banking industry consists primarily of mutual funds, pension funds, insurance companies, and corporate finance companies. Over the past three decades, the rapid growth in assets and influence of non-bank institutions has changed the role banks play in addressing the financial services needs of local individuals and institutions and altered the relationship between the financial services industry, broadly defined, and its users (investors, lenders, borrowers). On a macro level, the U.S. financial system is no longer characterized by locally based intermediary institutions but rather by sophisticated institutional savings arrangements, fee-generating bank activities, and global financial instruments. The resulting dislocation of capital and place—as local savings flow out of local communities into regional, national, and international markets—has effectively widened the credit and capital gaps that plague many communities struggling to gain or retain their social, economic, and political vitality. Moreover, the old system that linked wealth to place, that kept savings in communities, is now in danger of disappearing. Low-income residents in particular lack access to modern financial services as they do not have the capital and expertise necessary to take advantage of institutional savings arrangements and technology-driven banking. If the traditional system is allowed to erode any further, conventional credit access may become virtually obsolete for larger segments of the population.

Credit is key for the development of a healthy community for two primary reasons—it provides liquidity and it signals confidence in the future of that community. In *Money of the Mind*, a history of American credit since the Civil War, author James Grant describes credit as a "financial transaction with a moral lineage"[2]. Extending credit assumes repayment, and is a vote of confidence in a borrower's future. At the community level, the extension of credit and capital can have a profound, albeit intangible, positive effect on a community. In contrast, the absence of capital can be extremely corrosive.

This paper explains that the parallel banking system would not have emerged as it has and could not continue to function without the indirect and direct government (taxpayer) financial support and regulatory forbearance it receives. In light of this substantial subsidy, NACDLF contends that a reasonable and meaningful public policy would require the parallel banking industry to reinvest in its market service area in a manner comparable to that which conventional banks do under the Community Reinvestment Act. NACDLF has a strong interest in promoting reinvestment by nonbank institutions because its Members witness and experience the effects of community disinvestment on a daily basis.

The overwhelming shifts in the financial industry have caused long-standing structural changes in the financial services industry as well as demographic changes in many communities. Most important, from the perspective of community development finance, as the parallel banking industry has swelled with American savings and the conventional banking industry has lost market share, key federal financial regulatory agencies have relinquished much of their ability to ensure that taxpayer support for the financial services industry carries with it commensurate public responsibilities. For those communities where NACDLF's Member community development financial institutions (CDFIs) work, the truncated reach of the Community Reinvestment Act, in particular, is an ominous trend. More broadly, the decreased ability of the Federal Reserve to influence monetary or regulatory policy coupled with the de-insurance of much of America's savings, has promoted a precarious state of affairs in which financial safety has been sacrificed for growing market power.

The patchwork of United States bank and non-bank regulatory systems is inconsistent. Most conventional depository institutions benefit from a myriad of federally backed programs ranging from deposit insurance (a basic credit enhancement) to the Federal Reserve's safety net to end all safety nets—its "too big to fail" policy. The price banks pay for these essential taxpayer-funded supports is that they must give something back to the public at large in the form of an affirmative community reinvestment commitment, as codified in the Community Reinvestment Act.

In marked contrast, nonbank financial institutions have gained access to many of the same federal protections but operate with no comparable reinvestment responsibility. In particular, parallel banks have direct access to many federal guarantee programs and state guarantee associations as well as indirect access to back-up credit and liquidity provisions from the conventional bank system. Parallel banks also enjoy the competitive advantage of regulatory forbearance. While parallel banks must comply with some regulatory requirements and protections specific to their individual industries, their regulatory burden is significantly less than that carried by conventional banks. This is particularly troubling since the parallel banking system has paid little or no attention to local markets and community credit needs, especially in the distressed and disinvested communities in which CDFIs work. By permitting parallel banks to benefit from government supports in the current regulatory framework, the government and the public are fueling the expansion of a financial services system that profits from the taxpayer's dollar but avoids its corresponding civic responsibilities at the expense of the conventional banking industry and local communities.

Sustainable change in distressed local economies requires a meaningful financial commitment to community reinvestment by the full spectrum of financial institutions. Because NACDLF's Members see in the communities where they work the problems of disinvestment, NACDLF is prepared to take a leadership role in fostering a national discussion on the reinvestment responsibilities of the parallel banking system. This discussion should focus on the roles financial institutions and governments can and should play in fostering community economic revitalization and economic, social, and political justice, and should strive to produce comprehensive, concrete recommendations for extending community reinvestment responsibilities to all financial institutions that benefit from government support.

A. The Changing Financial Market

The growth of the parallel banking industry has permanently altered the financial landscape by fostering the development of new savings and lending vehicles that are inaccessible for many households and businesses. By specializing in many of the financial services that banks have historically provided, parallel banks have created substantial market niches for themselves and have in many ways supplanted the conventional banking industry. The rapid growth of pooled mutual and pension funds during the late 1960s and through the 1970s created alternative savings vehicles for individuals that generally produced higher yields than the returns typically guaranteed by conventional banks. As a result, people increasingly switched from savings accounts to investment vehicles to build their household savings, causing the percentage of U.S. financial sector assets held by mutual funds and pension funds to more than double from 20% to 42% between 1978 and 1994. In 1986, approximately 1,800 mutual funds controlled 716 billion dollars in investment income; by 1996, the number of active mutual funds operating in the United States has reached over 7,000 and the funds now control at least 3 trillion dollars in investment income[3].

Conventional financial institutions have also experienced declines in their market share of business and commercial lending as many medium and large businesses increasingly utilize nonbank institutions as intermediaries or sell commercial paper directly in the money market. As a result, banks' share of short-term business credit has decreased more than 21% over the past twenty five years such that banks now finance just over half of the nation's credit debt. Finance companies that grew as subsidiaries of large manufacturing firms in particular have grown to rival the conventional banks' lending position, increasing their market share of outstanding domestic credit debt from 26% to 37% between 1983 and 1993[4].

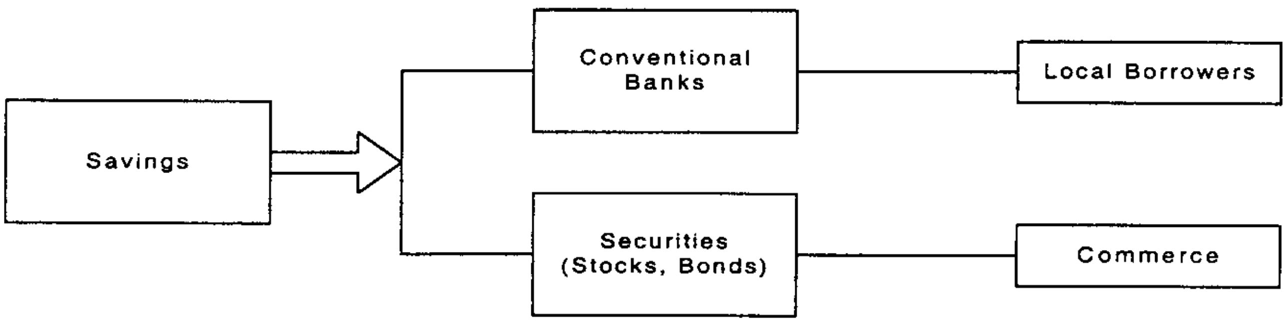
In addition, the banking industry has undergone numerous internal transformations as extensive deregulation has shifted the overall focus of the field away from local lending. In order to compete with growing nonbank competitors for limited market share in the global economy, conventional banks have increasingly lobbied for loosened regulatory constraints. The lifting of interstate branching restrictions in 1994 and ongoing efforts to dismantle longstanding prohibitory regulations that limit the securities activities banks are able to pursue (Glass-Steagall restrictions) are obvious examples of the banking industry's efforts to equalize the regulatory pressures facing diverse financial market players and to promote increased access to market opportunities. Earlier this year, the Federal Reserve gave the banking industry a major boost when it proposed regulations lifting limits on banks' nonbank activities.

The overwhelming number of mergers and consolidations within the banking system has only reinforced the industry's shift away from local finance needs as the number of U.S. banks with less than $100 million in assets has dropped by at least 5% every year since 1985[5]. Bank industry analysts further predict that more than half of the nation's bank branches will close or be consolidated over the next ten years[6]. The primary result of these changes is that the banking industry has not only lost its role as the primary source of savings and credit in the United States but has also fundamentally reoriented its focus away from place-based financing toward global activity.

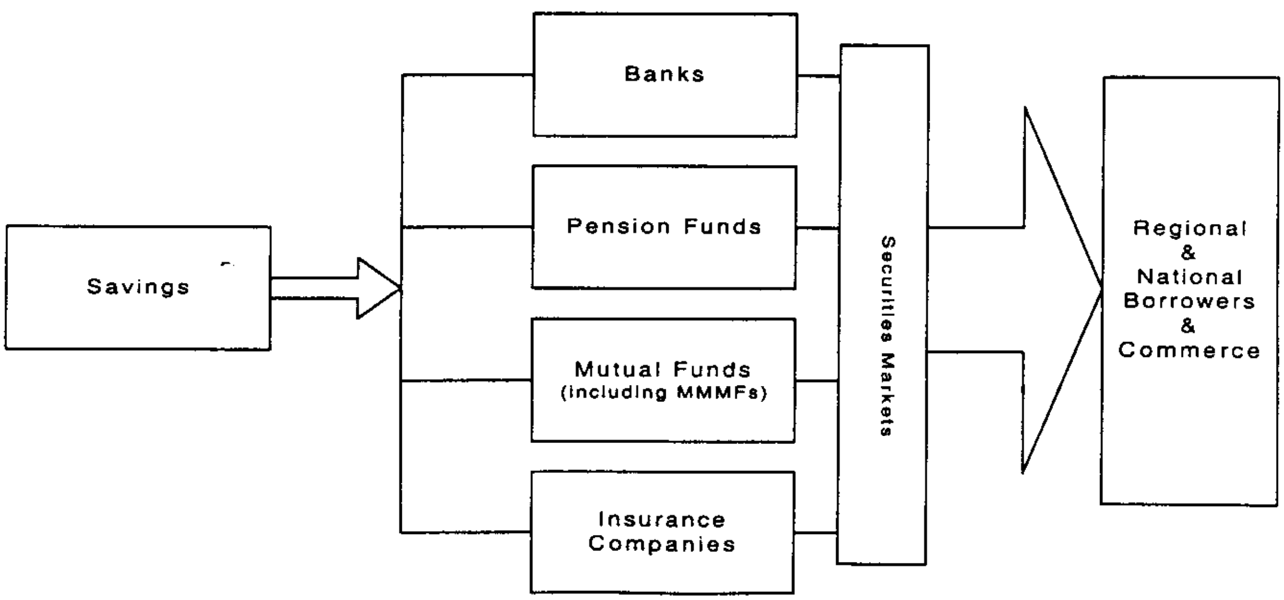
As recently as twenty-five years ago, most Americans walked or drove their savings to neighborhood banks or thrifts which, by regulation, put most of that money back into the local economy. Today, a growing number of Americans deposit their earnings in large super-regional banks or invest their money in money market mutual fund or pension fund companies outside their local communities that direct their funds throughout the world. (Chart A illustrates just one dimension of how traditional financial intermediation has changed over the past thirty years). As a result of cumulative institutional changes, capital no longer remains within local communities. Rather, it tends to flow away from the majority of American communities into larger wealth-based national and international financial markets.

Chart A

Bank-Centered Financial Intermediation



Modern-Day Financial Intermediation



The transition away from bank-centered financial intermediation has had major repercussions in both the financial industry as well as within society at large. First, the number of financial institutions that operate with comprehensive safety and soundness requirements has decreased—a move which has effectively de-insured a bulk of America's savings. While banks must comply with significant soundness requirements, nonbank institutions benefit from an extremely fragmented and weak regulatory system; as more Americans' savings flow into these structures, therefore, the overall safety of the global financial system has become more precarious. Second, the importance of the Community Reinvestment Act and other fair lending standards has declined as fewer and fewer institutions are covered by the regulations while the credit and investment needs of many local communities continue to be under-served. This has especially constrained low-income communities which are historically characterized by inadequate credit access.

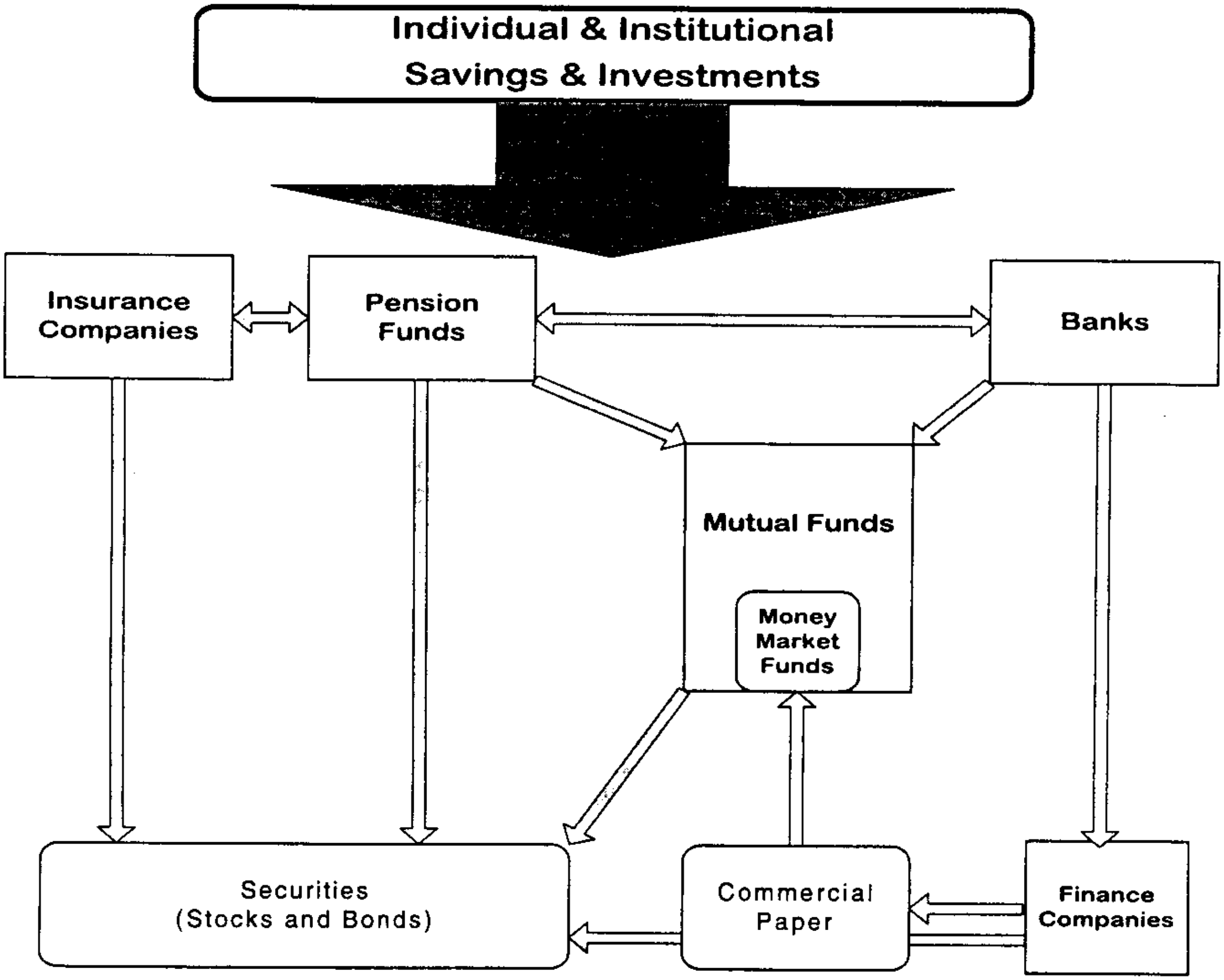
B. What are Parallel Banks?

The parallel banking system comprises four major types of non-bank institutions: mutual funds, pension funds, insurance firms, and finance companies. Mutual funds, pension funds, and insurance companies have all developed into important intermediaries for household and commercial businesses' investments and savings. Finance companies, on the other hand, rival the conventional banking system as a source of credit for larger businesses and local consumers. While all of the parallel banking institutions serve specific purposes (for example, pension funds are primarily used as vehicles for building retirement savings), they remain closely interrelated and dependent upon one another and conventional banks for their continued existence. (Chart B on page 6 highlights some of these interrelationships). For example, banks routinely invest significant portions of their portfolios in institutional mutual fund arrangements while they compete with these same mutual funds for customers. Similarly, pension funds are responsible for a growing share of mutual fund inflows. Thus, while the institutions that make up the parallel banking system may each have specific niches in the financial industry, the financial system as it exists today operates as a complex web of both rival and dependent institutions.

Mutual funds function as alternate savings and investment mechanisms for both households and large corporations. By pooling the funds of individual accounts into large-scale investments, mutual funds purchase large volumes of both short and long-term securities and distribute their earnings among fund shareholders. Most mutual funds tend to invest in long-term securities such as corporate stocks in the capital market. More specialized money market mutual funds (MMMFs) developed in the 1970s, however, as an avenue for middle-class savers who wanted to enter into the expanding securities market. MMMFs specifically invest in shorter-term securities such as government bonds and unsecured corporate commercial paper (short-term promissory notes). The advantages to targeting investments towards short-term instruments are numerous. Most important, money market instruments are very liquid—the average maturity on their investments is less than 70 days; this in turn means that the credit and interest rate risks borne by the investment remain quite low. In addition, MMMFs offer well-diversified and relatively safe portfolios, investing in a range of securities with short-term maturities.

While mutual funds developed initially as high-yield savings vehicles for wealth investors, they have increasingly come to resemble conventional bank accounts. For example, most mutual funds now offer limited payment services such as the ability to write checks against existing fund balances. This has propelled the funds into growing public favor for they offer both savings and payment services—just like a bank. As James Pierce describes in *The Future of Banking*, "money market funds offer accounts to the public that are technically shares in a mutual fund, but they look and work like a bank account ... both money market funds and

Chart B



banks offer accounts that are payable on demand, and they invest the funds deposited with them in assets that customers typically could not or would not acquire on their own. Money market funds are in essence banks that fell outside the legal definition"[7]. While the access mutual funds provide to savings is slightly more limited than that of banks, many people prefer mutual funds because they promise higher returns.

Mutual funds remain significantly different from banks, however, in terms of the regulations that govern their activities and the explicit consumer protections they are able to offer. Mutual funds (including money market mutual funds) are regulated by the Securities Exchange Commission (SEC), which mandates that all funds must meet strict diversification and disclosure requirements. For example, a money market fund may not have more than 5% of its portfolio held up in commercial paper that has less than the highest rating. In addition, funds must limit the amount of securities they hold from any issuer that has less than the highest credit rating to less than one million dollars or one percent of their total asset base whichever is smaller. While these diversification requirements do protect consumers to some extent, these safety regulations are far less stringent than the requirements under which banks operate.

Moreover, the contributions individuals make to their money market and mutual funds are inherently riskier than bank deposits because fund investments are not protected by federal deposit insurance. Until very recently, mutual funds have not incorporated self-insurance because the contagion effects of a mutual fund default are more limited than in the case of a bank default[8]. If a mutual fund approaches insolvency, the value of all investors' shares decreases simultaneously giving individuals little incentive to be the first to withdraw their savings. Moreover, in the event of an economic downturn, mutual funds will generally forgo some of their profits to ensure adequate investor returns. According to Pierce, "Banks' primary advantage over [money market mutual funds] is that money market funds do not enjoy federal insurance. But unlike banks, which back their liabilities with relatively illiquid and risky loans, money market funds are backed by highly liquid, low-risk market securities"[9]. The returns promised by mutual funds are also generally higher-yielding relative to deposit returns because the funds operate with low delivery and regulatory costs and pass some of these savings on to investors.

Pension funds are similar to mutual funds and often invest their pooled savings in mutual funds. For example, in 1994, pension funds held $248 billion dollars, or 11.5% of all mutual funds' assets. This is almost three times more than their share in 1984[10]. The primary difference between pension funds and other pooled savings arrangements, however, is that pension funds are specialized savings instruments targeted towards clients' retirement.

The major regulation governing pension plan activities is the Employee Retirement Income Security Act (ERISA) which was passed by Congress in 1974 and mandates, among other things, that all defined benefit plans (funds that have mixed benefit sources and promise a predetermined level of benefits upon retirement) must purchase federal Pension Benefit Guarantee Corporation (PBGC) coverage. PBGC insurance covers individual pension plan benefits up to an annual maximum in case one's pension plan is terminated. Plans may be terminated either by a single employer or by PBGC regulators if they seem to be approaching insolvency. The federal guarantee corporation, while created as a government agency, is funded by annual pension premiums that are levied upon participating plans and by any recovered assets that become available from terminated plans. In this way, the funding responsibility for PBGC is statutorily shared by both the government and the pension fund industry but generally devolves on participating plans in the form of higher premiums. In marked contrast, defined contribution plans such as the common 401(k) plan are not protected by PBGC insurance and have much less stringent diversification guidelines.

Insurance companies not only provide insurance but also serve as a vehicle for aggregating long-term savings. The role of insurance companies as savings vehicles became explicit with the creation of whole-life insurance, which packages standard-term life insurance into a redeemable savings plan that can be liquidated after a set length of time. These types of savings arrangements were particularly popular throughout the first half of this century and developed into a thriving industry of, in the words of financial writer Andrew Tobias, "invisible bankers" by the early 1950s. As other institutional savings arrangements also grew to offer competitive returns during this time, however, the role of insurance as savings vehicles inevitably diminished. While the use of life insurance companies as savings vehicles has thus been quite erratic and often controversial, many individuals still favor insurance-based savings arrangements because they offer large tax-deferred returns[11]. Insurance companies are also relatively safe investments because policy holders are protected against corporate defaults through the industry's reinsurance policies and through state insurance guarantee funds which operate in all 50 states. While these guarantee funds are formed as non-profit industry-governed organizations which recover funds in a post-assessment fashion from within the industry, the ultimate funding burden in many areas can be shifted onto taxpayers through institutional tax credits.

In contrast to the other parallel bank institutions, **finance companies** constitute the primary lending side of this unregulated intermediary market, emerging as a major source of consumer and business loans. Finance companies originally developed as captive subsidiaries of large manufacturing firms and focused on financing the sales of their parent company. For example, two of the largest finance companies today are General Motors Acceptance Corporation (GMAC) and Ford Motor Credit. These companies (like many others) have since expanded their lending and become independent lenders that provide financing for a full range of activities beyond the specialty of their parent company, including mortgage and home equity loans.

Finance companies first became attractive lending sources during the 1960s when banks' efforts to provide affordable loans were constricted by Regulation Q, a federal usury law that placed a limit on the amount of interest banks could pay on deposits. Regulation Q made it difficult for banks to borrow large sums of money and in turn inherently limited banks' ability to lend; this led many borrowers, who were beginning to become more credit-savvy, to patronize commercial paper and capital markets for their short-term borrowing needs as borrowing through finance companies became easier and less expensive than bank financing.

Finance companies borrow funds primarily by issuing commercial paper in the money market. Commercial paper comprises short-term securities or promissory notes that are typically issued in sums over $100,000 dollars and have an average maturity of less than 70 days. Finance companies' borrowing in the commercial paper market has grown dramatically over the past 20 years and has consistently accounted for more than 60% of the annual commercial paper issued since the early 1990s[12]. Most of this commercial paper is in turn purchased by institutional investors such as money market mutual funds. In fact, by 1991, commercial paper constituted an estimated 42% of money market mutual funds' total assets[13]. Nonbank companies typically choose to finance maturing commercial paper issues by rolling over outstanding commercial paper rather than paying out on the matured paper.

Bank lines of credit are central to this roll-over process. Finance companies specifically rely on bank lines of credit to cover liquidity problems they could incur when rolling over commercial paper. Back-up lines of credit in turn inevitably enhance the marketability of a commercial paper issue since the line of credit makes the security effectively risk free. A 1993 study by Jane D'Arista and Tom Schlesinger found that more than 90% of the outstanding commercial paper issued by the 15 largest finance companies in 1993 was backed by bank guarantees and lines of credit[14]. In addition, the rating of commercial paper depends on a finance company's perceived ability to cover and provide returns on its maturing paper. In this way, a finance company's commercial paper rating inevitably relies on liquidity from conventional financial institutions.

C. The Case for Extending Community Reinvestment Responsibilities to Parallel Banks

While the role of non-bank institutions strongly parallels that of conventional bank institutions, conventional banks have evolved under a very different and much more stringent regulatory environment. Conventional banks and thrifts are regulated by four federal agencies, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Federal Reserve System. This coverage is both a burden and a boon to regulated institutions—while compliance is expensive, the value gained from having deposit insurance and more importantly, the backing by the full faith and credit of the United States, has historically outweighed the regulatory costs. With the backing of the federal government, conventional banks gain substantially greater customer confidence. In exchange for these benefits, community reinvestment advocates have continually argued (with mixed success) that banks and other conventional financial institutions should give something back to the local communities which they serve.

The Community Reinvestment Act (CRA), the landmark legislation of community reinvestment efforts, is the primary mechanism used to ensure that banks recognize their social responsibilities. CRA was created in the late 1970s in response to widespread "redlining" by financial institutions. Redlining is an explicit practice on the part of banks in which they blatantly avoid lending in areas that are either low-income or have large minority populations. Even though institutional redlining is now illegal, CRA remains a primary tool to open doors and introduce credit and financial services to impoverished low-income neighborhoods. CRA has produced significant benefits and improved credit access for many American neighborhoods. More important, however, the legislation has required financial institutions to keep sight of their public obligations.

Community reinvestment policies such as CRA and fair lending laws have required banks to fulfill their role as social institutions and brought about significant improvements in the daily lives and opportunity structures available to millions of low-income individuals. In light of the Act's demonstrated success and the unabetting need for investment in low-income communities, current community reinvestment responsibilities need to be stronger and broader. To be truly effective, these obligations must be extended to all sectors of the financial system, including parallel banks.

The conventional banking system's market position has been compromised by growing competition from the parallel banking system. The interrelationships that make up the current financial landscape highlight that the parallel banking industry has grown at the expense of and largely because of the indirect support it has received from the conventional banking industry and taxpayer-backed guarantee programs. By providing expanded access to government and financial system protections, the conventional banking industry has in effect fueled its own competition and contributed to its own loss of market share. Extending community reinvestment responsibilities to these institutions would begin to equalize the benefits and costs borne by the dominant players in the financial industry and introduce a previously untapped source of capital to disadvantaged communities.

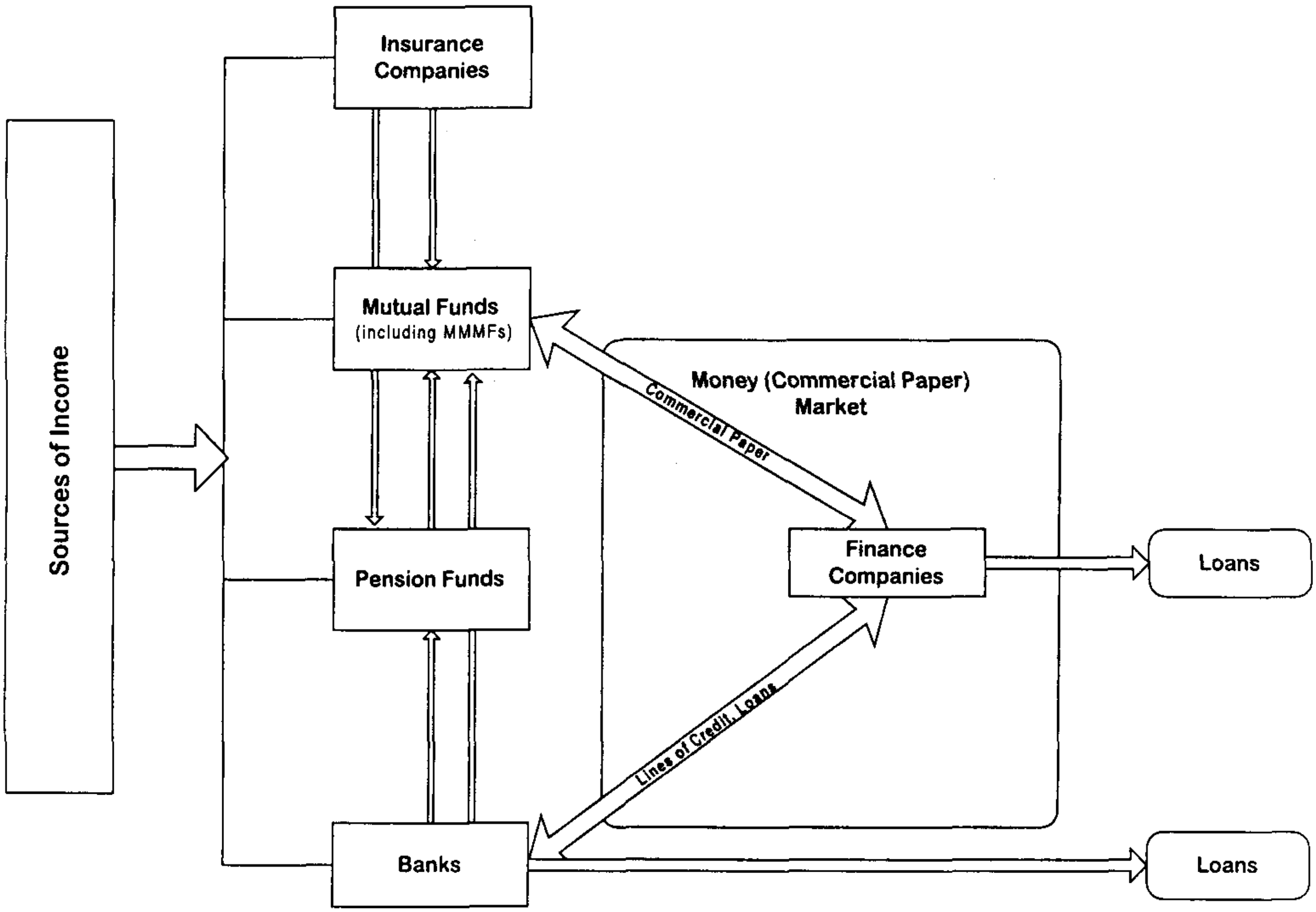
Parallel bank officials assert that they should not be subject to community reinvestment obligations because they are not structured like banks and do not receive the same benefits and protections as banks. Specifically, nonbanks cite the following as reasons for their exemption:

1) They can not buy federal deposit insurance for their liabilities,
2) They can not access Federal Reserve windows for funding,
3) They are not locally chartered institutions,
4) They are not depository institutions.

While technically accurate, these defenses are not grounded in a realistic assessment of the financial industry as it exists today. Non-bank institutions such as mutual funds, finance companies, insurance companies, and pension funds offer services to their customers that are virtually indistinguishable from those banks provide. A functional analysis of banks published in the *Harvard Business Review* characterizes banks by four core functions: as intermediaries, they pool resources, make payments, transfer resources across distances and time, and manage risk through diversification and insurance[15]. Extending these characteristics to nonbanks reveals that nonbanks perform almost all of the same functions. While parallel bank institutions may not take formal deposits as banks do, they are true financial intermediaries, using other people's money to carry out savings and payment services (See Chart C). To manage risks that may arise in lending, however, nonbank institutions generally socialize and spread risks or rely on third-party guarantees (such as bank lines of credit) rather than internalize risks[16]. In order to do this, parallel banks clearly rely on conventional banks and their government-funded safety-nets.

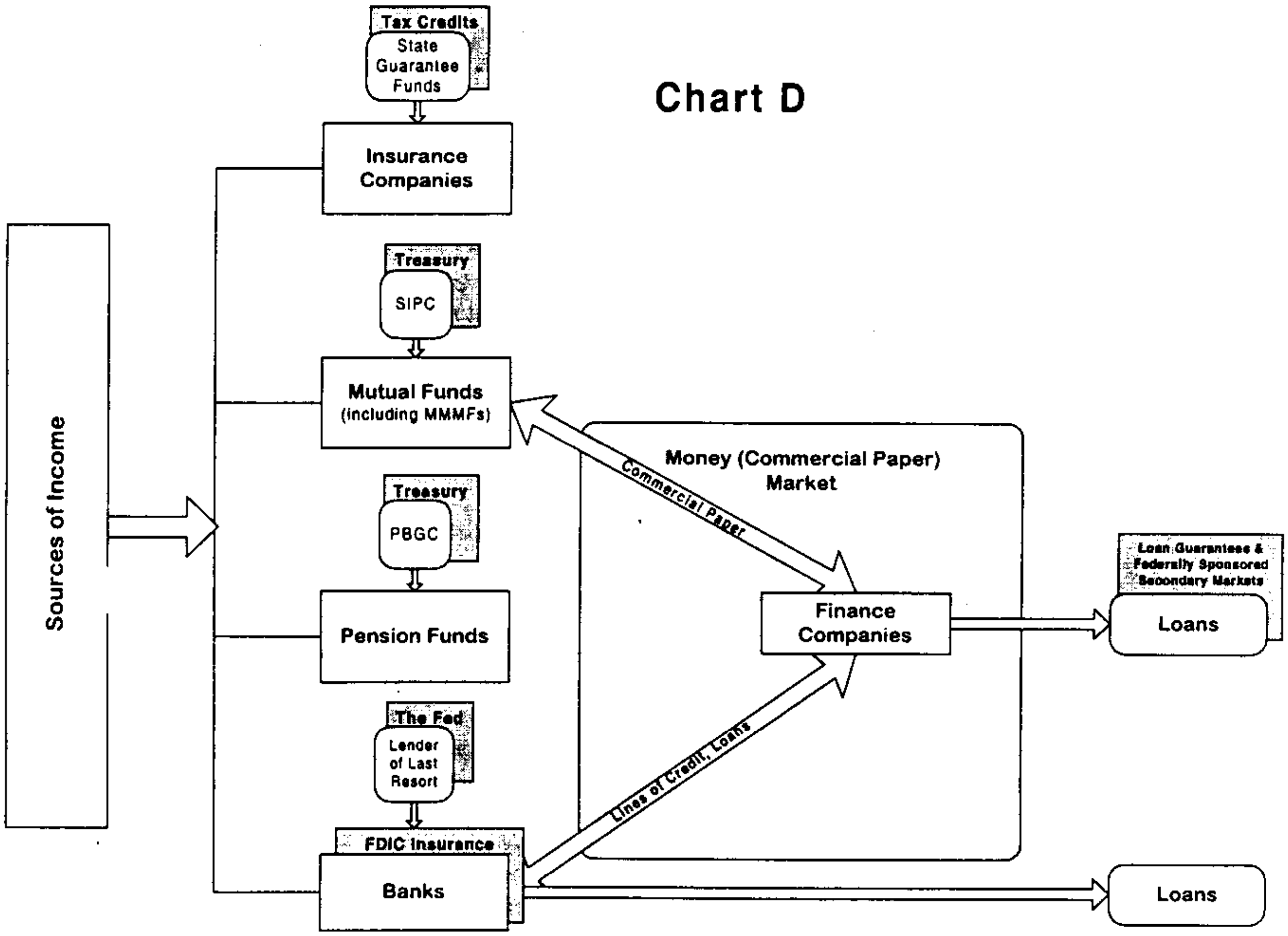
[Chart C on following page]

Chart C



Parallel banking institutions have gained access to numerous industry-driven (yet banking-dependent) insurance protections and federally guaranteed loan programs. While these industry insurance programs are generally financed by aggregated industry premiums, a majority of the programs can borrow from the U.S. Treasury for additional liquidity. In addition, finance companies and other issuers of commercial paper rely heavily on back-up lines of credit from conventional banks to cover periods of temporary illiquidity. Financial firms become especially dependent on conventional bank loans when their profitability wanes and their commercial paper is downgraded by raters and becomes difficult to sell in the money market. In this way, banks' support of parallel bank institutions seems to increase as the internal stability and competitiveness of financial firms decreases. (Chart D on page 11 illustrates how some of these federal protections extend both directly and indirectly to nonbank institutions).

By using federal guarantees and Treasury lines of credit as the ultimate safeguards against some nonbank insolvencies, the conventional system incurs substantial unanticipated risks that could overburden the safety-net system. Compounding these risks is the fact that financial protection can create a form of "moral hazard" on the part of beneficiaries. If beneficiaries are supported more by conventional banks as their own financial soundness decreases, their incentive to control losses and restore profitability will inevitably be weakened because they know that their losses will be covered by a third-party. In this way, financial risk becomes socialized and spread among many as the discipline in lending is removed. Supporting struggling institutions indirectly through bank guarantees and credit lines thus often exposes the banking system and its ultimate backers, taxpayers, to mounting levels of risk and significantly higher support costs over the long run.



The following sector-by-sector analysis of parallel bank dependence on government and/or government-aided financial supports explains that parallel banks could not operate without taxpayer assistance, thereby demonstrating the case for extending community reinvestment requirements to the parallel banking industry:

Mutual Funds

As private investment vehicles, mutual funds and other nonbank savings funds do not have access to FDIC insurance. Rather in economic downturns, individual investors must share market losses as the value of their investments simultaneously decreases to reflect changes in the market. Private protections do exist, however, to cover large institutional insolvencies. The Securities Investor Protection Corporation (SIPC), a non-profit guarantee association, was created in 1970 to insure the securities accounts of customers up to $500,000 if a securities broker or dealer fails and cannot meet outstanding obligations. While SIPC operates as a private-sector agency that is financed internally by member firms (all registered securities dealers must join), it has the ability to borrow up to $1 billion dollars from the U.S. Treasury during times of need. As some of the largest buyers of protected commercial paper, money market mutual funds also derive indirect benefits from the lines of credit that banks provide to issuers of commercial paper.

Pension funds

Pension funds benefit from similar government-sponsored safety net programs and tax advantages. As described earlier, all defined-benefit pension plans are required under ERISA to purchase federal Pension Benefit Guarantee Corporation (PBGC) insurance. Like SIPC, PBGC insurance is funded with industry premiums from pension fund sponsors as well as with recovered assets from terminated plans. In addition, the program operates with a $100 million dollar line of credit from the U.S. Treasury. Examination of PBGC's growth highlights that the pension fund safety net extends remarkably far and deep. As of December 1993, PBGC specifically protected the benefits of nearly 41 million Americans or about one-third of the United States labor force[17]. As the demands on the system continue to grow, PBGC's economic future remains relatively precarious. By 1993, PBGC had already accumulated a cumulative deficit of at least $2.6 billion[18]. Most of this deficit resulted from massive underfunding by pension program sponsors. Underfunding occurs when a company increases benefits but then makes risky investments or fails to take the necessary precautions to ensure that it will be able to cover outstanding liabilities when they arise. PBGC's deficit reduction efforts have been further thwarted by the fact that many sound pension plans have chosen to modify their benefit structure in order to move outside PBGC governance and effectively avoid subsidizing other plans' accumulated losses. The widespread prevalence of defined contribution plans such as 401(k)s is evidence of this fact.

Insurance companies

The supportive strings of the federally-backed safety net are even more apparent in the relationship between taxpayers and insurance companies. As described earlier, state insurance guarantee funds provide compensation to policyholders of insolvent insurance companies by gathering resources from within the insurance industry after a company fails. While these guarantee funds are generally governed and financed by industry representatives, the ultimate burden of funding the state guarantee pools is often reflected in forgone state tax revenues. In 41 states, insurance companies are permitted to offset their fund assessments (contributions) through amortized credits against their state premium taxes. While this arrangement does force companies to bear some up-front costs, the credits effectively reduce their net cost to zero over the long run. While facilitating household savings has been an important part of insurance company activities, many insurance companies also provide consumer loans such as student education loans to their policyholders. For example, in 1991, three insurance companies ranked among the top 100 originators of guaranteed student loans. As a result, these institutions benefited from the government insurance programs that protect these loans.

Finance companies

While many different types of institutions are becoming significant nonbank lenders, finance companies remain the primary private-sector non-bank lenders. Not surprisingly, they are also, therefore, some of the largest beneficiaries of federal loan guarantee programs. In 1993, finance companies reportedly originated more than 84% of all FHA and VA government-insured mortgage loans[19]. In addition, finance companies have become active in the student loan market and are some of the largest beneficiaries of the federal small business administration (SBA) loan guarantee program. Only 10 nonbank finance companies are allowed to participate in the SBA loan guarantee program for Small Business Lending Companies; in spite of this small pool, three finance companies ranked among the top five small business lenders in 1993. The fact that these loans have government guarantees boosts lenders' sales of these loans in the secondary market and generally expedites the lending process. Secondary market investors need not concern themselves with the collateral and repayment ability of original borrowers when they know they will be compensated regardless of the circumstances. Government guarantee programs thus ease the flow of funds and benefit all of the participants in a lending deal. Moreover, loan guarantees benefit any company that prefers to hold onto loans it has originated rather than sell them in the secondary market.

Finance companies have also benefited from the bank lines of credit that are now relatively standard in money market transactions. As some of the primary issuers of commercial paper, issuing more than 60% of all outstanding commercial paper in 1993, finance companies depend on bank lines of credit to sustain their money market activities. Virtually all commercial paper finance companies issue is backed to some degree by lines of credit since most institutional investors will not purchase the short-term notes without a formal liquidity guarantee. While banks receive a fee for performing these credit substitution activities, the fact that nonbank paper is backed by the credit of conventional banks makes commercial paper essentially interchangeable with bank loans and moreover, places banks in the position of supporting their competitors[20].

In a financial catastrophe, the parallel banking system may also have the ultimate protection of the Federal Reserve lender-of-last-resort provision. The lender-of-last-resort provision of the Federal Reserve System allows the Fed to save financial institutions from insolvency crises by issuing emergency, federally guaranteed loans to institutions that are facing short-term liquidity crises because of investor runs. This emergency liquidity provision is enacted only in the most drastic fiscal situations and is a contingent provision that exists to protect institutions from insolvency. A series of statutory and regulatory changes have recently expanded the scope of institutions that have access to the lender-of-last-resort, positioning the Federal Reserve as the ultimate protector of American financial market stability. For example, many analysts contend that government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac have retained their privileged status in the secondary mortgage market in part because investors believe that the government will not let the agencies fail. Fannie Mae has subsequently been able to generate more than $2.1 billion dollars in profit for its stockholders while paying nothing for the federal backing it receives[21].

In addition, when banks provide back-up lines of credit to issuers of commercial paper, the responsibility of covering impending illiquidity ultimately devolves to the Fed. In this way, many non-bank institutions continually receive indirect access to the Fed and the lender-of-last-resort provision. Conventional banks have had access to federal deposit insurance and emergency liquidity provisions since the early 1930s, but their access has been conditional upon their ability to remain within certain financial soundness guidelines. Access to the Fed's discount window is subsequently not a truly subsidized benefit because the protection is coupled with significant risk premiums. Federal protection for parallel banks, however, involves a substantial taxpayer subsidy because non-bank institutions are given federal protection without any of the same conditional provisions or soundness requirements. This suggests that nonbank institutions may take on significantly greater institutional risks yet benefit from having equal or near-equal access to federal protection and emergency loans. These inconsistencies highlight that by exempting non-banks from local reinvestment and soundness requirements, the government and the public are inadvertently supporting the development of a risky financial system that operates devoid of any regulation and social obligations.

D. Recommendation: A National Forum on the Community Reinvestment Responsibilities of Parallel Banks

NACDLF strongly supports the extension of community reinvestment requirements to the non-bank institutions that make up the parallel banking industry but recognizes that simply extending CRA in its current form would not work. While parallel banking reinvestment policies need to accommodate the institutional diversity that makes up the parallel banking industry, they must also be grounded in a clear substantive commitment to the needs of low-income communities. This can take either or both of the following approaches:

- Where appropriate, non-banks should be encouraged to develop viable vehicles for their own *direct involvement* in low-income communities. For example, direct investment by parallel banks could be promoted through income "distribution" requirements on nonbank investment and loan portfolios—e.g., finance companies might be required to target a percentage of their total lending at affordable rates to low-income households meeting certain income requirements. In turn, favorable ratings of finance companies' commercial paper issues could reflect a company's demonstrated ability to consistently target affordable loans to low-income populations[22]. This effort would be aided by industry-wide in-depth analyses of the distributional lending patterns and affordability of finance companies and other non-bank lenders' products.

  Savings instruments such as mutual funds and pension funds could similarly be tailored to meet the specialized savings and investment needs of low-income individuals. Individual development accounts (IDAs) are a possible model. These specialized savings accounts help low-income individuals accumulate wealth and direct savings towards high-yield public purpose investments such as education, business creation, and home ownership. The creation of similar "asset-building" mutual funds for low wage earners could help lower income households not only save for their future but also provide them with an entry point for participating in the parallel banking system. In addition, the development of more flexible "wealth" accounts which address low-income households' tendency to keep their savings in relatively illiquid assets would help individuals build viable bases for their future.

- In other cases, parallel banking institutions can participate in community reinvestment via *indirect partnerships* with CDFIs which specialize in financing revitalization efforts in low-income and other economically disadvantaged communities. By partnering with CDFIs, parallel bank institutions can substantially increase the leverage of their initial investment. Many CDFIs have already demonstrated significant creativity in collaborating with conventional financial institutions to distribute credit to unconventional markets. For example, some NACDLF Member CDFIs receive investments from, borrow debt from, co-invest with, and manage lending pools for conventional institutions. Several options for supporting even greater collaborations have been proposed:

  - The practices of some socially-responsible mutual funds which invest a percentage of their total mutual fund shareholder base as common stock in companies that operate with a demonstrated social awareness suggest one model. While investments in non-profits cannot be in the form of common stock, aggregated savings instruments such as pensions and mutual funds could make equity-like investments in non-profit CDFIs or true equity investments in for-profit CDFIs and earn consistent positive returns.

  - The Southern Finance Project has proposed creation of a National Reinvestment Fund, capitalized with levies on parallel banks, which would provide a capital base for CDFIs. The Fund would operate through the Federal Reserve System.

These approaches and proposals demand greater discussion, revision, and refinement. For that reason and to encourage greater attention to the community reinvestment effects of the structural shift in the financial services industry, NACDLF plans to convene a national forum in early 1997 that will seek a workable policy to extend community reinvestment obligations to the entire government-aided financial services industry. In addition to NACDLF and its Members, this forum will invite participation by community reinvestment advocates, conventional and parallel banking representatives and regulators, CDFI practitioners, academics, and others. In promoting a comprehensive discussion about the parallel banking system, NACDLF aims to raise local and national awareness about the subsidies that benefit nonbank institutions and develop an achievable agenda for bringing about greater social, political, and economic justice in America's low-income communities.

Finance companies—Nonbank corporate institutions that serve as important sources of credit for many households. Like a bank, finance companies offer a wide spectrum of loan types; however, finance companies do not accept deposits. Finance companies were originally started as captive subsidiaries of large manufacturing firms that financed customers' purchases of company durables. Since then, finance companies have dramatically expanded their market share and become some of the primary issuers of commercial paper and consumer durable loans. Examples of finance companies include The Money Store and Ford Motor Credit.

Glass-Steagall Act—A regulatory law passed in the early 1930s that established limitations on the securities activities conventional banks are allowed to pursue, restricting their focus to payment and intermediary services. Banks have continually pushed the boundaries of the Glass-Steagall Act as they are increasingly taking advantage of securitization trends overseas in the global financial market and becoming players in the global securities market.

Government-sponsored enterprises (GSEs)—Government chartered agencies such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) which were created to increase the volume of mortgage sold by facilitating the development of a secondary market. GSEs specifically participate in secondary markets by acting as the primary buyers of packaged conventional mortgages. Although created as government agencies, corporations like Fannie Mae have since become publicly traded stocks, providing benefits to a range of private investors.

Individual development accounts (IDAs)—Special savings accounts that are designed to promote savings by moderate income households. The assets in an IDA are sheltered from taxation (like conventional individual retirement accounts (IRAs)) and are not incorporated into the income calculations of public assistance agencies. Savings in IDAs can only be withdrawn for pre-specified investments such as education, homeownership, and business development. Many community development initiatives around the country are currently exploring the use of IDAs as asset development mechanisms.

Insurance companies—Companies that not only compensate individuals in the event of an accident or loss but also enter the financial market by serving as a vehicle for long-term savings. Using whole-life insurance as a means for savings was particularly commonplace before World War II. Whole-life insurance policies have fixed premiums that guarantee interest-earning benefits throughout the life of the insured; in this way, they combine long-term savings with regular term insurance. Since the rise of other high-yielding institutional savings arrangements in the 1950s and 1960s, insurance companies' roles as savings vehicles has declined. A primary benefit gained from using insurance companies as savings vehicles is that any income earned through the savings is tax-deferred; however, the returns available are somewhat limited because of regulations that govern insurance companies' investment choices.

Insurance guarantee funds—Funds established by the states and financed by insurance companies to pay outstanding claims of insolvent insurance companies. The funds cover individual policies up to an annual predetermined maximum. The size of a company's contribution to the state fund is proportional to the amount of activity a company does in that state.

Money Market Mutual Funds (MMMFs)—A specific type of mutual fund that invests in short-term securities such as commercial paper and other money market instruments. By the early 1990s, MMMFs had become some of the dominate buyers of commercial paper, holding over one-third of all outstanding paper. MMMFs have increasingly come to resemble conventional bank accounts because they allow one to redeem their investment shares by writing checks against one's money market account.

Mutual Funds—Long-term investment vehicles for households and businesses that are managed by investment companies and pool individuals' savings in share arrangements to pur-

Glossary of Key Terms

Commercial Paper Market (Money Market)—The financial market that concentrates in the buying, selling, and trading of short-term securities such as commercial paper. The appeal of money market instruments is that they are generally very safe and liquid because of their short maturity and the fact that they are almost always backed by bank lines of credit. Instruments traded in this market include negotiable certificates of deposit, Treasury bills, and commercial paper as well as inter-bank trades between Federal Reserve banks and conventional bank institutions. Commercial paper, an important part of this market, is short-term promissory notes issued by banks, corporations, and other borrowers and bought by those with surplus cash-flows. The average value of a commercial paper issue is about $120 million dollars. Finance companies are some of the largest direct and indirect issuers of commercial paper; their paper is then frequently purchased by money market mutual funds. Trading activity in the money market occurs either directly when finance companies independently place commercial paper into the market or indirectly through dealers.

Community Development Financial Institutions (CDFIs)—Community-based financial institutions that provide credit and related services to individuals and organizations who lack access to conventional financial institutions. CDFIs comprise community development banks, community development credit unions, community development loan funds, community development equity (or venture) funds, and microenterprise funds. The CDFI Coalition estimates that established CDFIs in the U.S. currently manage about $1.8 billion in capital and have loaned nearly $4 billion dollars in disadvantaged communities around the country.

Community Reinvestment Act (CRA)—Fair lending law passed in 1977 that requires banks to make an affirmative commitment to the credit needs of their local community, including the needs of low and moderate income residents. The CRA has been revised numerous times, most recently in 1995, culminating in much less stringent regulations. The CRA remains, however, the most encompassing and effective fair lending legislation passed this century.

Defined benefit pension plans—A type of pension plan which offers employees a pre-determined level of benefits when they retire. Benefit levels typically depend on the tenure of employment by the individual and his or her compensation in the final years of employment. Government and union-based plans historically tend to be defined benefit plans.

Defined contribution pension plans- Pension plans in which employers annually contribute a certain amount of money to be used towards the retirement savings of the plan participant. Employees also often make voluntary contributions or match the employers' share of their retirement savings under these plans. These plans have become increasingly popular because they are portable when people change jobs. Examples of defined contribution plans include 401(k) plans for for-profit corporations and 403(b)s for non-profits.

Employee Retirement Income Security Act (ERISA)—A regulatory pension law passed in 1974 that governs the activities of private defined benefit pension plans. Included in ERISA are plan diversification and disclosure guidelines as well as insurance regulations. Moreover, ERISA mandates that all defined benefit plans must purchase federal insurance from the Pension Benefit Guarantee Corporation.

FHA/VA mortgage loans—Mortgage loans that are targeted towards certain borrowers and are backed by government insurance either through the Federal Housing Administration (FHA) or the Veteran's Administration (VA). These mortgages are sold individually in the primary mortgage market but are then securitized and recirculated in the secondary mortgage market as mortgage-backed packaged investments. Because these mortgages are insured by the government, secondary market investors are eager to purchase FHA/VA backed investments for they carry extremely little repayment risk.

Notes

[1] Robert D. Hershey, Jr., "U.S. Discloses Pension Fund Rescue Plan," *New York Times*, 4 October 1996.

[2] James Grant, *Money of the Mind* (New York: The Noonday Press, 1992), 5.

[3] Edward Wyatt, "For Mutual Funds, New Political Muscle," *New York Times*, 8 September 1996, F1.

[4] In 1983, nonbank financial firms specifically held 26% of the outstanding domestic credit debt; by 1993, this share had risen to 37% while depository institutions' share (including foreign banking offices) had decreased 13% to 27%. The share of commercial paper contributed by all non-bank lenders has additionally increased fourteen percent to 62% of total outstanding commercial paper while banks' share has decreased to a low of 5% (Tom Schlesinger, "Reinvestment Reform in an Era of Financial Change," Southern Finance Project, 1995 Table 12).

[5] Ibid, Table 47.

[6] Saul Hansell, "Wave of Mergers Is Transforming American Banking," *New York Times*, 21 August 1995, A12.

[7] James L. Pierce, *The Future of Banking* (New Haven: Yale University Press, 1991), 67-70.

[8] *New York Times* reports from September 29, 1996 describe, however, that Fidelity, one of the largest mutual fund companies, is currently applying for SEC permission to develop a limited self-insurance mechanism which would insure $100 million of Fidelity's money market fund holdings. Other major mutual fund companies are exploring similar insurance schemes. While insurance seems to superficially benefit consumers, these self-insurance schemes may actually limit the liability that mutual fund companies ultimately face (*New York Times*, 29 September 1996, F6).

[9] James L. Pierce, *The Future of Banking* (New Haven: Yale University Press, 1991, 7.

[10] Tom Schlesinger and Regina Markey, "America's Restructured Financial System," Industrial Heartland Labor Investment Forum, June 14-15, 1996, Table 3.

[11] While pension funds also offer tax-deferred benefits, there is a limit to the amount of income that can be accumulated in a pension fund. Similar restrictions do not apply to insurance companies. In contrast, income raised through mutual fund investments generally is taxable, except for returns on municipal, state, and other tax-exempt bonds.

[12] Tom Schlesinger, "Reinvestment Reform in an Era of Financial Change," Southern Finance Project, 1995, Table 12.

[13] Meir Kohn, *Financial Institutions and Markets* (New York: McGraw-Hill, Inc., 1994), 329.

[14] Jane D'Arista and Tom Schlesinger, "The Parallel Banking System," Economic Policy Institute, 1993, 25.

[15] Dwight B. Crane and Zvi Bodie, "The Transformation of Banking: Form Follows Function," *Harvard Business Review*, March-April 1996, 110.

chase large volumes of both short and long-term securities. Most commonly, mutual funds invest in corporate stocks, bonds, options, and money market instruments. The distribution of investments is largely controlled by individual investors who may choose the level of risk they would like associated with their investment. For example, most mutual funds offer investments in either high-risk growth stocks for the more adventurous or low-risk short-term securities for more risk averse investors. Fidelity, Vanguard, and Merrill Lynch are three of the largest international mutual fund managers.

Pension Benefit Guarantee Corporation (PBGC)—An agency established by ERISA to insure and monitor defined benefit pension plans. If a plan seems to be in danger of insolvency, PBGC may terminate the plan but must compensate investors for lost benefits up to an annual maximum. The guarantee corporation is currently chaired by Department of Labor Secretary, Robert Reich.

Pension Funds—Long-term savings vehicles that provide retirement income to employees (and often, their spouses). Pension funds most commonly fall under two types, defined benefit and defined contribution plans and are frequently integrated with Social Security benefits.

Regulation Q—A federal usury law passed in the early 1930s that limited the amount of interest banks and other savings institutions could pay on time deposits. While this interest rate ceiling was phased out by 1986, its existence indirectly contributed to the dramatic growth of nonbank institutions in the financial system for the regulation gave nonbank institutions a clear competitive advantage in attracting funds.

Securities and Exchange Commission (SEC)—The primary regulatory body for capital and securities markets. The SEC was established as a federal agency in 1934 and is made up of five commissioners appointed by the President. The Commission governs all national securities exchanges and associations, sets diversification and disclosure guidelines for the industry, and generally works to protect investors in the capital market. In general, however, the regulation of securities markets is much less stringent than conventional bank regulation.

Securities Investor Protection Corporation (SIPC)—A guarantee fund that insures the accounts of securities firms' customers up to $500,000, providing $100,000 insurance on cash accounts. SIPC is financed internally by assessments on all registered securities dealers who are required to join SIPC. Many brokers also couple SIPC protection with additional private insurance coverage. SIPC has access to a $1 billion dollar line of credit from the U.S. Treasury.

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[16] James Grant introduces the idea of "socializing risk" in his book *Money of the Mind* to describe how more and more debt has become federally subsidized. With federal backing, lending costs are shifted as the public sector's credit effectively supplants that of the private sector (James Grant, *Money of the Mind*, New York: The Noonday Press, 1992, 5).

[17] Tom Schlesinger, "Reinvestment Reform in an Era of Financial Change," Southern Finance Project, 1995, 17.

[18] Ibid, Table 27.

[19] Ibid, 2.

[20] John H. Boyd and Mark Gertler, "Are Banks Dead? Or Are the Reports Greatly Exaggerated?" Federal Reserve Bank of Minneapolis, *Quarterly Review*, Summer 1994.

[21] Jackie Calmes, "Federal Mortgage Firm Is Facing New Assault to Privileged Status," *The Wall Street Journal*, 14 May 1996, A1.

[22] Finance companies are prevalent lenders in low-income neighborhoods but their loans are rarely affordable because of the extremely high interest rates they charge.

My name is Clara Miller and I am the President of the Nonprofit Facilities Fund. I also chair the board of the National Community Capital Association and am an Advisory Board Member of the U.S. Department of the Treasury's Community Development Financial Institutions Fund, which together give me a broad perspective on the CDFI industry.

The Nonprofit Facilities Fund is an experienced CDFI that operates nationally. NFF has $23 million in assets and five offices serving the San Francisco Bay Area, Massachusetts, Philadelphia, and Chicago, as well as New York. NFF supports its nonprofit clients' multi-faceted contributions to low- and moderate-income communities, advances community and economic development goals and works to fill the overall need for capitalization of organizations in this sector. It has financed approximately $90 million in projects with $25 million in loans, mostly in the New York area.

As most of us are aware, small- and medium-sized nonprofit organizations, especially those serving low- and moderate-income communities, have a difficult time accessing capital in general. They are frequently engaged in low- or no-margin businesses, thus lack retained earnings to fund their growth needs. They lack the ability to raise equity, since individual ownership is prohibited. NFF works in a variety of ways to improve their access to capital. One of its main strategies in doing so is to partner with banks—as direct lenders to nonprofits, as investors in NFF's loan program, and as partners in innovation, creating new products and services to address the needs of this market.

NFF has a long history of bank partnerships. Ten banks are direct investors in NFF's loan fund; some take part in other ways. With a few, we have relationships that include a complex mix: volunteer involvement, financial and business advice, product development, participation in deals and referrals—in addition to investment and grant support. Citibank has been such a partner, working with us to strengthen the nature and volume of financial and advisory services that we can provide to the nonprofit sector. As NFF has expanded nationally, our relationship with Citibank has expanded geographically as well.

Citibank has been a particularly valuable part of innovation in our sector because of the quality as well as the size of their investment. Citibank has made long-term commitments to us in the form of an innovative subordinated loan product (the equity equivalent investment, developed with National Community Capital); and Citibankers are working closely with us to develop a non-debt financial product. We have found that Citibank is willing to take the long view. It looks at the long-term growth needs of borrowers (including CDFIs such as NFF), is curious about and engaged in the community development market, and understands the broad needs of the market we together are trying to serve, including management development, non-debt financing and ongoing financial advice, as well as capital.

Based on our direct experience with Citibank over an 18 year period, I have no reason to believe that the proposed acquisition of Citicorp by Travelers Group, Inc. will impair Citibank's commitment to community investment.

YMCA of Greater New York
We build strong kids, strong families, strong communities.

333 Seventh Avenue • New York, NY 10001
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June 24, 1998

The Honorable Alan Greenspan
Chairman
Federal Reserve Board
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Mr. William J. McDonough
President
Mr. James K. Hodgetts
Senior Vice President
Federal Reserve Bank ofNew York
33 Liberty Street
New York, New York 10045-0001

re: **Citibank-Travelers Group proposed merger**

Dear Chairman Greenspan, Mr. McDonough and Mr. Hodgetts:

The YMCA of Greater New York, founded in 1852, is a community service organization which promotes positive values through programs that build spirit, mind and body, welcoming all people, with a focus on youth. We serve 144,000 New York City youth today and expect to serve 200,000 by the millenium. We believe that the combined Citicorp-Travelers corporation will continue its strong support of our commitment to youth.

We have had long and supportive relationships with Citibank and Travelers Group. Since 1988 alone, Citibank has made more than $200,000 in philanthropic contributions to our work, and Travelers (including Salomon Smith Barney) has also contributed $200,000. As a result, we have been able to extend our programs—in youth sports, character and leadership development, community service, literacy—to as many as thousands of New York City children who would otherwise have gone without them.

Citibank and Travelers were early underwriters of the YMCA's *Virtual Y* after-school program in partnership with the New York City Board of Education. As the sponsors of sites at P.S. 50 in the Bronx, P.S. 169 in Brooklyn, and P.S. 142 in Chinatown, they are providing a constructive, literacy-based experience for on hundred elementary schoolers three hours a day, five days a week. Today there is much talk about the need for positive alternatives for kids during the critically important after-school hours. Citibank and Travelers are helping the YMCA to answer that challenge in New York.

The YMCA has been grateful for the solid support it has received from Citibank, Travelers and Salomon Smith Barney. I have worked closely with Paul Ostergard (Citicorp Foundation), Chip Raymond (Travelers Foundation), and Jane Heffner (Salomon Smith Barney Foundation), and I can attest to their personal and professional commitment to community development in New York City.

We have high confidence that the combined Citicorp-Travelers organization will maintain its strong position as a community supporter in New York City.

Sincerely,

Paula L. Gavin

Paula L. Gavin
President

Our Mission
The YMCA of Greater New York is a community service organization which promotes positive values through programs that build spirit, mind and body, welcoming all people, with a focus on youth.

TESTIMONY OF
PETER J. ELKOWITZ, JR. EXECUTIVE VICE PRESIDENT, CFO
LONG ISLAND HOUSING PARTNERSHIP, INC.
BEFORE THE FEDERAL RESERVE BANK OF NEW YORK
REGARDING TRAVELERS GROUP INC. ACQUIRING CITICORP
JUNE 25 1998

Good afternoon. My name is Peter Elkowitz, I am the Executive Vice President and CFO of the Long Island Housing Partnership, Inc. and its affiliates. The Housing Partnership is a not-for-profit organization whose mission is to create housing opportunities to those who, through the unaided operation of the marketplace, would be unable to secure decent, safe and affordable homes. LIHP has been accomplishing its mission through the development and sale of homes to persons of very low-, low- and moderate incomes as well as through the provision of various supportive services such as mortgage and financial counseling, technical assistance, downpayment assistance, etc.

I would like to take this opportunity to thank the Federal Reserve Bank of New York for allowing me to speak at this hearing. On behalf of the Long Island Housing Partnership and its affiliates, I would like to express sincere support of the proposed acquisition of Citicorp by Travelers Group Inc. on the assistance that the Housing Partnership has received from Citibank/Citicorp Foundation.

LIHP and its various affiliated corporations have been extremely productive with various accomplishments relating to housing production, community development and supportive programs. Since its founding ten years ago, the Partnership has constructed and sold over 400 units of affordable housing and has counseled thousands of prospective home buyers. In addition, the Partnership administers municipal community development programs and downpayment assistance programs.

The Housing Partnership has many members from the business, labor, religious, education and financial sectors. Much of our support, including administrative grants; construction loans for our affordable housing programs; and mortgage loans for our purchasers, comes from member financial institutions. I am pleased to say that Citibank/Citicorp Foundation have been active members of the Long Island Housing Partnership and have provided financial support and expertise over past ten years.

In fact, Citicorp has been one of LIHP's most responsive partners, consistently demonstrating a commitment to affordable housing and community development. Over the years, this institution has provided the Housing Partnership with over $179,250 in contributions for various programs and operating expenses.

Citibank serves as an active member of the Long Island Housing Partnership Board of Directors and its Regional Lending Consortium, as well as the Mastic/Shirley, Long Beach, Membership, Minority Outreach, Babylon, Nominating and Foreclosure Task Force committees. Specifically, Citibank's representative on the Partnership Board, Michelle DiBenedetto, is chairperson of the Mastic/Shirley, Long Beach, Nominating and Membership Committees.

In addition, Citibank co-sponsored mortgage counseling seminars for very low-, low- and moderate-income Long Islanders. Citibank has provided mortgage loans to low- and moderate-income persons who purchased homes through LIHP. Citibank is also a member of the New York Mortgage Coalition, an effort by financial institutions and community organizations, including the Long Island Housing Partnership, who are committed to increasing home ownership opportunities for persons of low- and moderate- income by helping them qualify for mortgage loans. As part of the New York Mortgage Coalition, Citibank offer mortgage products that make it easier for lower income persons to qualify for loans.

Citicorp Foundation funds were given to LIHP for training to the not-for-profit mortgage counselors in Brooklyn, Queens and Long Island and to assist with the development of 78 low and moderate income rental and home ownership units in downtown Bay Shore. Specifically the funds were used to offset administrative costs associated with securing public funds and to hire a social worker to assist with the relocation of current residents.

Citibank is also an active participant in the Long Island Regional Lending Consortium, a group of lending institutions that pool their funds and share the risk so that socially and credit worthy affordable housing can be financed and constructed.

It should also be pointed out that Michelle DiBenedetto from Citibank was instrumental in the success of the Federal Reserve Long Island Home Purchase Process Initiative (LIPPHI). In addition, as a LIHP Board Member, Ms. DiBenedetto kept the Board Members informed of the progress made by the Initiative.

It is noteworthy that, in anticipation of the merger, the new Citigroup has indicated that it would continue to provide substantial administrative support and special project grant funds for affordable housing initiatives to low- and moderate- income homebuyers. In addition, the Housing Partnership has been assured that the new Citigroup will continue to provide both construction and mortgage loans for its various affordable housing development programs.

Over the next five years, the Housing Partnership will be embarking on many affordable housing projects the largest of which are redevelopment efforts in the Town of Islip and Riverhead that are projected to yield over 150 affordable housing units for families of low income. The Housing Partnership also plans to develop other housing units in Nassau and Suffolk Counties which will require both construction and end-loan financing. While it is difficult to estimate the value of end loans projected for our affordable home buyers over the next five years, it is expected that such value will exceed $10 million. Based on past experiences, the Housing Partnership is certain that the new Citigroup will be an active participant in the financing of its affordable housing and community development programs.

The Housing Partnership is grateful to Citibank for its support through various community development programs. Furthermore, it commends the new Citigroup for its foresight of the importance of such programs. Again, the Housing Partnership would like to express its support of the acquisition of Citicorp by Travelers Group Inc. Based upon our past interaction with Citicorp, it is our belief that Citicorp's demonstrated commitment to the development of affordable housing and community development in this region will continue. Thank you for the opportunity to speak before you today.

The Housing Partnership looks forward to working with CITIGROUP to fulfill its pledge of $115 Billion for affordable housing and community development.

Testimony offered by William C. Dorsey
At June 25, 1998 Public Meeting on Proposed Acquisition of Citicorp by Travelers Group Inc.

Good Afternoon Mr. President, Fellow Witnesses and Honored Guests.

My name is William Dorsey and I am the Executive Director of the Grow Bridgeport Fund. The Grow Bridgeport Fund is a capital access program designed to provide credit to small and medium sized businesses in the Greater Bridgeport region. GBF is a partnership made up of the City of Bridgeport, The State of Connecticut, Bridgeport Economic Development Corporation, Community Economic Development Fund, and three banks, including Citibank.

I came here today to talk about the crucial role that Citibank has played in the formation of the Grow Bridgeport Fund and how the bank's continued involvement is critical to the Fund's future development.

GBF grew out of the Bridgeport's Empowerment Zone application process, when the entire community recognized that a key impediment to the City's economic growth was that credit from traditional lenders was not available for small businesses. This sentiment was particularly acute in the wake of the New England banking crisis, which witnessed the demise of several local finan [illegible] nstitutions and the removal of credit decisions from local to regional banking centers. The community as a whole suffered from this lack of access to credit because it stymied Bridgeport's ability to expand its tax base and to create job opportunities for its low to moderate-income residents.

In early 1995, the City of Bridgeport sent out requests to 18 banks operating in Southwestern Connecticut, to participate in the Grow Bridgeport Fund. Citibank was one of only three banks that responded. From the earliest planning sessions, it has actively participated in the fund through its representative, Ellen Tower and its counsel Larry Brown. They have asked tough questions, but they were also willing to make the compromises necessary to make this unusual coalition of the private and public sectors work. Further, once our operating agreement was put into place in late 1997, Citibank was the first bank to provide an equity contribution in the amount of $250,000.

Since that time, the Grow Bridgeport Fund has gone on to make loan commitments totaling $612,000, with another $1.7MM in requests. Ellen Tower sits as a member of our Board of Managers and Michael LaBella serves on our Investment Committee, which reviews and approves all requests for credit. They continue to bring resources to the table, both human and financial, which contribute to the growth and stability of GBF. Citibank has made training available to develop and expand the capacity of our staff through classes taught by the National Development Council on the design and administration of revolving loan funds; it has helped to defray a portion of our marketing expenses; it has helped shape a risk rating system for our loan portfolio; and it has identified potential sources of capital, which will allow GBF to prudently expand its lending activities.

I think that Citibank's participation in the Grow Bridgeport Fund and other Bridgeport based organizations is all the more praiseworthy because there are no Citibank branches or loan offices in the city. What we are witnessing is not the implementation of some marketing strategy, but rather the type of corporate citizenship that has recognized the genuine needs of an underserved community and has taken concrete steps to meet those needs. Citibank's commitment to Bridgeport represents an act of leadership that is all to often absent in this era of consolidation within the financial services industry which has been marked by rampant disinvestment in smaller and less wealthy communities.

The collective expertise and wisdom of a Citibank is an invaluable resource and it is the most valuable asset to a fledgling organization such as the Grow Bridgeport Fund. As the financial services industry continues to contract, and creative alternative lenders continue to emerge to serve needs of those business borrowers at the lower end of the spectrum who don't met traditional credit criteria, energetic participation by traditional lenders is needed to support the efforts to manage and expand these portfolios. It is the transfer of the larger institution's expertise that is almost as critical as capital in making these alternative-lending institutions viable. Citibank's participation in the Grow Bridgeport Fund has been a model of how these knowledge transfers can take place and we hope that this example of responsible and enlightened corporate support will continue in the future.

Thank you for the opportunity to address you this afternoon. I would be pleased to answer any questions now or at a later date.

Good Afternoon Mr. President, Fellow Witnesses and Honored Guests.

My name is William Dorsey and I am the Executive Director of the Grow Bridgeport Fund. The Grow Bridgeport Fund is a capital access program designed to provide credit to small and medium sized businesses in the Greater Bridgeport region. GBF a partnership made up of the City of Bridgeport, The State of Connecticut, Bridgeport Economic Development Corporation, Community Economic Development Fund, and three banks, including Citibank.

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GBF grew out of the Bridgeport's Empowerment Zone application process, when the entire community recognized that a key impediment to the City's economic growth was that small businesses could not get credit from traditional lenders. This sentiment was particularly acute in the wake of the New England banking crisis, which witnessed the demise of several local financial institutions and the removal of credit decisions from local to regional banking centers. Further, this lack of access to credit stymied Bridgeport's ability to expand its tax base and to create job opportunities for its low to moderate-income residents.

Planning for the Grow Bridgeport Fund began in early 1995 and Citibank participated in these sessions from the outset. Through its representative, Ellen Tower and its counsel Larry Brown, Citibank helped to shape the mission and policies of our organization. They asked tough questions, but they were also willing to make the compromises necessary to make this unusual coalition of the private and public sectors work. Further, once our operating agreement was put into place in late 1997, Citibank was the first bank to provide an equity contribution in the amount of $250,000.

Since that time, the Grow Bridgeport Fund has gone on to make loan commitments totaling $612,000, with another $1.7MM in requests. Ellen Tower sits as a member of our Board of Managers and Michael LaBella serves on our Investment Committee, which reviews and approves all requests for credit. They continue to bring resources to the table, both human and financial, which contribute to the growth and stability of GBF. Citibank has made training available to develop and expand the capacity of our staff, it has helped to defray a portion of our marketing expenses, it has helped shape a risk rating system for our loan portfolio, and it has identified potential sources of capital, which will allow GBF to prudently expand its lending activities.

I think that Citibank's participation in the Grow Bridgeport Fund and other Bridgeport based organizations is more than noteworthy because there are no Citibank branches or loan offices in the city. What we are witnessing is not the implementation of some marketing strategy, but rather the type of corporate citizenship that has recognized the genuine existence of an underserved market and has taken concrete steps to serve those needs. Citibank's commitment to Bridgeport represents an act of leadership that is all to often absent in this era of consolidation within the financial services industry.

The collective expertise and wisdom of a Citibank is an invaluable resource and it is the most valuable asset to a fledgling organization such as the Grow Bridgeport Fund. As the financial services industry continues to contract, and creative alternative lenders continue to emerge to fill this vacuum at the lower end of the spectrum for business borrowers, energetic participation by traditional lenders is needed to support the efforts to manage and expand their portfolios. It is the transfer of the larger institution's expertise that is almost as critical as capital in making these alternative-lending institutions viable. Citibank's participation in the Grow Bridgeport Fund has model of how these knowledge transfers should take place.

NATIONAL
MULTIPLE SCLEROSIS
SOCIETY

Greater Connecticut Chapter

National Multiple Sclerosis Society
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TESTIMONY
AT FEDERAL RESERVE BOARD PUBLIC MEETING ON JUNE 25, 1998 REGARDING PROPOSED MERGER OF TRAVELERS GROUP INC. AND CITICORP

Lisa Gerrol, President
National Multiple Sclerosis Society, Greater Connecticut Chapter

As in most communities, the greater Hartford area has thousands and thousands of corporations and businesses. Among those numbers, one local corporation, The Travelers Group, has distinguished itself as the "Corporation of the Year" of The National Multiple Sclerosis Society, Greater Connecticut Chapter. I would like to take a few minutes to tell you why.

Multiple Sclerosis is chronic, often disabling disease of the central nervous system. Symptoms may be mild such as numbness in the limbs, or severe, leading to paralysis and blindness. Most people with MS are diagnosed between the ages of 20 and 40 but the unpredictable physical and emotional effects can be lifelong. The progress, severity and specific symptoms of MS in any one person cannot yet be predicted. The National Multiple Sclerosis Society provides local services to help end the devastating effects of MS and funds research to find the cause, new treatments, and a cure for Multiple Sclerosis.

Ten years ago a small group of volunteers from The Travelers began to help at MS Vacation Week, a recreational and educational program for people with MS, many who are severely disabled. People with MS enjoy an accessible environment where they are understood, accepted, and have the opportunity to experience activities they wouldn't otherwise be able to do. They can go swimming, fishing, boating, be entertained, and learn about coping strategies, treatments, and more. The program also benefits care-givers, who often are exhausted from the daily needs of caring for their disabled partner by giving them a much needed break.

Through the years, The Travelers has increased their funding of MS Vacation Week. The past three years they have been the major sponsor of the event, allowing us to significantly increase the number of people who attend and to improve the quality of the program. Although Vacation Week is held during the week, The Travelers allows their employees to take time off from work, with pay, to attend for the entire week (at the discretion of managers). A large percentage of program participants need assistance with activities of daily living and Traveler's employees are always there to help. Seeing the joy of people with MS who attend the program and the sincere concern and caring of our Travelers volunteers, has brought tears to my eyes more than once.

Another example of The Travelers commitment to giving back to our community can be seen by reviewing their participation in the National Multiple Sclerosis Society Walk. Eight years ago, a small group of committed Travelers employees began walking in the MS Walk and raising funds. That team has now grown to over 250 walkers participating in Connecticut, raising over $23,000. The Travelers, continuing their emphasis on helping our communities and encouraging employees to do so, allowed their Team Captain, Jean Cormier, to promote the MS Walk in Travelers offices throughout the country. Hundreds of Travelers employees now participate in MS Walk locations including Florida, California, New York and beyond.

Two years ago, The Travelers became the major sponsor of the Greater Connecticut Chapter MS Walk, our largest fundraising event, raising nearly $400,000. The Traveler's involvement with the Greater Connecticut MS Walk has been a major source of support to help raise millions of dollars to fund research and local programs. MS Society funded research has resulted in three treatment options that slow the progression of certain types of MS by one third. The Travelers has also been instrumental in helping provide programs that improve the lives of over 10,000 people in Connecticut. Programs include newly diagnosed workshops, support and counseling groups, treatment options programs, medical equipment loan program, professional education and dozens more.

The Travelers Group exemplifies how a corporation can significantly impact the welfare of our community and improve the lives of its residents. The merger between The Traveler's Group and Citicorp can only make them stronger and more able to help all of those we care so deeply about at organizations like the National Multiple Sclerosis Society.

COALITION FOR WELFARE TO WORK
C/O WELFARE TO WORK FOUNDATION
394 BEDFORD ROAD
PLEASANTVILLE, NY 10570

TEL: (914) 747-1344
FAX: (914) 747-3971

May 14, 1998

William Wiles
Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Ave., NW
Washington D.C. 20551

Dear Mr. Wiles,

I am writing in reference to Citibank, N.A. with respect to the sophisticated and extensive assistance they have provided to our group, the Coalition for Welfare to Work.

The Coalition is a group of volunteers helping individuals move from welfare to work. We provide interview-appropriate clothing, practice interviews, and mentoring to help people get and keep good jobs throughout Westchester County.

In every area Citibank has shared their workforce development skills as well as numerous volunteer hours. For example, Citibank did a clothing drive with large posters and racks in every Citibank in Westchester County. They have provided professional interview training to our volunteers. Citibank employees have volunteered to be mentors, and to do practice interviews themselves. They have also trained our clients in personal budgeting, and provided tours of their office facility.

But it doesn't stop there. Citibank has also placed our brochures in their branches to recruit new volunteers. They have referred us to other organizations in community development and to potential sources of funds. And they have given us friendly but good advice about building and managing our organization.

In all, the Citibank community development team, led by Peter Mosbacher, has been professional, focused, creative, and always helpful. We are proud of what the Coalition for Welfare to Work has accomplished, but we would not be where we are today without the many Citibankers who have gone the extra mile to help us.

Sincerely yours,

Ted Buerger
External Liaison

EXCERPTS FROM LETTERS TO CAREER CLOSET

"I'd like to thank you ... in assisting me from welfare to work. I feel very confident with my new clothes and ... it feels good to know that people like you exist."

R.W.

"It was a pleasure coming up to the Career Closet and nice to be treated like a human being. Also I really felt special while I was there."

D.M.

"Thanks so much for your time, patience... help and suggestions. There are wonderful and generous people in the world. You... are the best."

C.V.

"I appreciate the kindness which you have shown me with the gift of clothes. The chance to make something better of my life is such a blessing from God, and I intend to pass it along."

K.W.

SUPPORTING GROUPS

Groups which support the Coalition through donations and volunteers include:

- **Briarcliff Congregational Church**
- **Business and Professional Women (BPW)**
- **Congregation Sons of Israel**
- **First Congregational Church of Chappaqua**
- **Interfaith Council for Action**
- **The Junior League of Westchester-on-Hudson**
- **The Junior League of Pelham**
- **Jack and Jill**
- **New Beginnings**
- **Scarborough Presbyterian**
- **St. Mary's Episcopal Church**
- **St. Theresa's Church**
- **Star of Bethlehem Baptist Church**
- **Temple Israel of Northern Westchester.**

The Coalition is also grateful for the assistance of Westchester corporations, including:

- **Bayer Corporation**
- **Bell Atlantic**
- **Citibank**
- **Colin Services**
- **First Union**
- **MBIA**
- **Sprint**
- **and too many others to mention.**

Coalition Advisors

- Assemblywoman S. Galef
- J. DiGiovanni (BOCES)

Volunteering with

THE COALITION FOR WELFARE-TO-WORK

"Together, we can make a difference."

Coalition for Welfare-to-Work
394 Bedford Road, Pleasantville, NY 10510
(914) 747-3947 ***fax: 747-3971***

The Coalition for Welfare-to-Work

The Coalition for Welfare-to-Work was formed in February 1997 by a group of business, religious and volunteer organizations who wished to help individuals find their way from welfare to productive work.

Brought together by Assemblywoman Sandra Galef's office, the Coalition welcomes new groups and individual volunteers who wish to participate in any of its programs, or to develop their own.

CAREER CLOSET

The first project of the Coalition, *Career Closet*, provides clothing appropriate for interviews and for office work for public assistance recipients actively moving from welfare to work.

Clothing is provided by appointment only (Saturdays, from 9:30a.m. - 12:00 p.m.) to persons recommended by an approved training/counseling program. Volunteers provide transportation to and from train and bus stops and clothing consultations for clients. Volunteers are also available to conduct seminars on "Dressing for Success" at agency sites throughout Westchester.

PRACTICE INTERVIEWS

Volunteers are available to give presentations on interviewing at counseling/training centers, to conduct practice interviews, and to provide opportunities for practice interviews on site at business offices.

MENTORING

Volunteers from various backgrounds have offered to work with individuals who have secured a job. These volunteers serve as a sounding board and support system for those who are less familiar with the work environment. Initially, a weekly contact, this relationship fosters not only coping skills for the world of work, but also encouragement for a new employee to develop skills for career advancement beyond the entry level job.

OTHER SERVICES

The Coalition for Welfare-to-Work also links to professional service providers, including the Child Care Council, FIRST (affordable healthcare), RSVP/REP (practice interviewing and resume writing), Sprint (free answering service for those without phones), and 16 different training/placement programs across Westchester.

The Coalition is a member of the Westchester Coordinating Committee, which seeks to share knowledge, contacts and resources among regional welfare-to-work efforts. The Coordinating Committee also works with employers who are seeking entry-level workers. These employers may be more willing to consider welfare recipients as job applicants because of their "pre-qualifying" involvement with the Coalition.

No-fee Banking From Citibank, N.A.

CITIBANK

Citibank is working with the Coalition on training, job shadowing and general "workforce development." As one example, Citibank has agreed to provide free two hour "financial life skills" workshops after which our newly employed clients will receive one year of "no fee" basic banking services, including checking and ATM services.

The workshops address budgeting, using a checking account, saving, ATM usage, and managing credit.

Some Ways You Can Help

Career Closet

- ◊ Sort clothing on weekdays.
- ◊ Help clients on Saturday morning.

Practice Interviewing

- ◊ In your office, at lunchtime.
- ◊ At a training program.
- ◊ On a weekend.

Real Jobs

- ◊ Four month computer-related internships.
- ◊ Let us know of entry level full-time jobs.

Mentoring

- ◊ One week job shadowing.
- ◊ Mentor at WestH.E.L.P. (once a week phone contact).
- ◊ Co-mentor a job support group in your area of expertise.

Name

Street

City *Phone*

For more information , contact:

Leslie Allen, Executive Director (914) 941-5765
Ted Buerger, External Liaison (914) 747-3947

394 Bedford Road
Pleasantville, NY 10570 Fax (914) 747-3971

Testimony before the Federal Reserve Bank of New York

June 25, 1998 - Panel 10

My name is Edwin Torres and thank you very much for the opportunity to present Bill Aguado's views on the proposal by the Traveler's Group, Inc. to acquire CitiCorp. Bill Aguado is the Executive Director of The Bronx Council on the Arts.

CitiCorp has been a long time supporter of the Bronx Council on the Arts and in recent years has had a significant impact on the Bronx Council on the Arts' community development initiatives as well as its basic operations. Because of its relationship with CitiCorp, the Bronx Council on the arts has been able to expand its focus of the cultural development of the Bronx to include a new corporation, the BCA Development Corporation. CitiCorp, specifically their community development department, recognized the value of our eff and othe like-minded arts organizations to begin exploring the role that we as arts organizations can play in the revitalization of our innercity communities.

To that end CitiCorp designed and implemented a special initiative entitled, "Cultural Builds Community". The premise is a relatively simple one; that is, by creating partnerships between arts organizations and community development corporations a new and meaningful paradigm of service can be created. Culture Builds Community included a special training initiative for the proposed partnerships to enable them to effectively work together, to identity and overcome whatever management obstacles would emerge, and to assist the participants in program development.

BCA and another technical assistance provider, Brooklyn In Touch, were contracted to conduct this important training. The importance of this initiative cannot be stressed enough. It is the recognition that the arts can enhance community development efforts is what distinguishes CitiCorp from other financial institutions. Over 30 organizations were served by Culture Builds Community. The concept and the experience was such a positive one that BCA created its own version, entitled Community Cultural Partnerships. The concept has had a positive impact on our Bronx organizations, as well.

To be sure, the arts are more than performances and exhibitions. The arts reflect cultures, and are representative of an individual's value system. Within the context of a community the arts have the potential of bringing residents together in a pro-active fashion. The arts can and have effectively complemented the efforts of other traditional revitalization entities.

Given the economic impact the arts have on the economy of New York City - $9.3 billion - the art is an area with tremendous potential for job and business development in our undeserved communities. CitiCorp has indeed recognized that potential by being the first to support our new Development Corporation and one of its major initiatives, our Arthandlers Job Training Program.

Specifically, The Arthandlers Job Training component is a first of its kind program which is designed to prepare the unemployed for careers as Arthandlers. Arthandlers are individuals who work behind the scenes at museums, galleries, auction houses and corporate collections and help to maintain art collections, install exhibitions, frame artwork, pack and crate, and provide risk managment, to name a few tasks.

The salaries at the entry level can range from $10 to $30 per hour. Many with experience can have a very lucrative career and support their families. We are now completing the training and the trainees will be placed in internships during July. By the Fall we expect to place them in permanent positions. Also, many opportunities are now presenting themselves in the form of new services and for profit business opportunities which would employ additional personnel from our communities.

Lastly, CitiCorp has allowed us to sustain our efforts during our difficult cash flow times by extending to us an important credit line. Given the uncertainty of contracts for non-profits, you can imagine the value of the credit line. Moreover, there is a ripple effect one must consider; that is, the credit line allows as to sustain the integrity of our commitment while fulfilling our mandate of service during difficult times.

CitiCorp is owed a debt of gratitude for their "forward thinking" and we have been assured that their commitment to our communities will continue after the acquisition of CitiCorp by the Travelers Group.

a:test2.wp

Testimony of Cesiah Mullane, Reinvestment Committee of CypressHills and City Line
Federal Reserve Bank of New York
June 25, 1998

Good Afternoon, members of the Board of Governors of the Federal Reserve Bank of New York. My name is Cesiah Mullane and I am a member of the Reinvestment Committee of Cypress Hills and City Line.

I have lived in Cypress Hills since 1957 and have spent a large part of those 41 years contributing to my community in every way I can, working on issues such as education, affordable housing, the prosperity of our business community and quality of life issues, all of which impact the stability of my neighborhood. I volunteer at the Cypress Hills LDC, our local Twelve Towns YMCA and my church. I am involved with our very young New Visions School, our Child Care Corporation, and the Cypress Hills Community Coalition, which succeeded in securing a zoning amendment to protect our residential blocks. I advocated for a new intermediate school, I.S. 171, for twenty years - a new school is being built right now, P.S. 7, to relieve the decades-long overcrowding on the "Northside" of East New York's School District 19 (Community Board #5). And once a year, on our "We Love Cypress Hills" Day, we hold a parade and street festival to celebrate our wealth of cultural and ethnic diversity and our successes, big and small. I am passionate about my neighborhood - that is where I live. Improving it is my life-long work.

The Reinvestment Committee of Cypress Hills and City Line was organized in May, 1992 after the Cypress Hills Local Development Corporation and the City Line Coalition published a joint housing plan for our communities that showed a deplorable lack of lending by our banks. For the past seven years, we have collected and analyzed HMDA data for the seven local lending institutions in our area (the northeast corner of Brooklyn, the "Northside" of Community Board #5) and met with representatives of these banks, including Citibank, to share our analyses and work cooperatively to increase lending. Cypress Hills and City Line are sister communities; their housing stock, populations, and economic status are quite similar.

According to the 1990 Census, Cypress Hills(63%) and City Line (53%) are predomintly Hispanic communities. The residents of these two communities earn low to moderate incomes. In 1990, households in Cypress Hills and City Line earned median incomes of $23,138 and $25,318 respectively compared to $29,832 for New York City as a whole. Hence, Cypress Hills and City Line households have incomes that are 78% and 85% of the City's median.

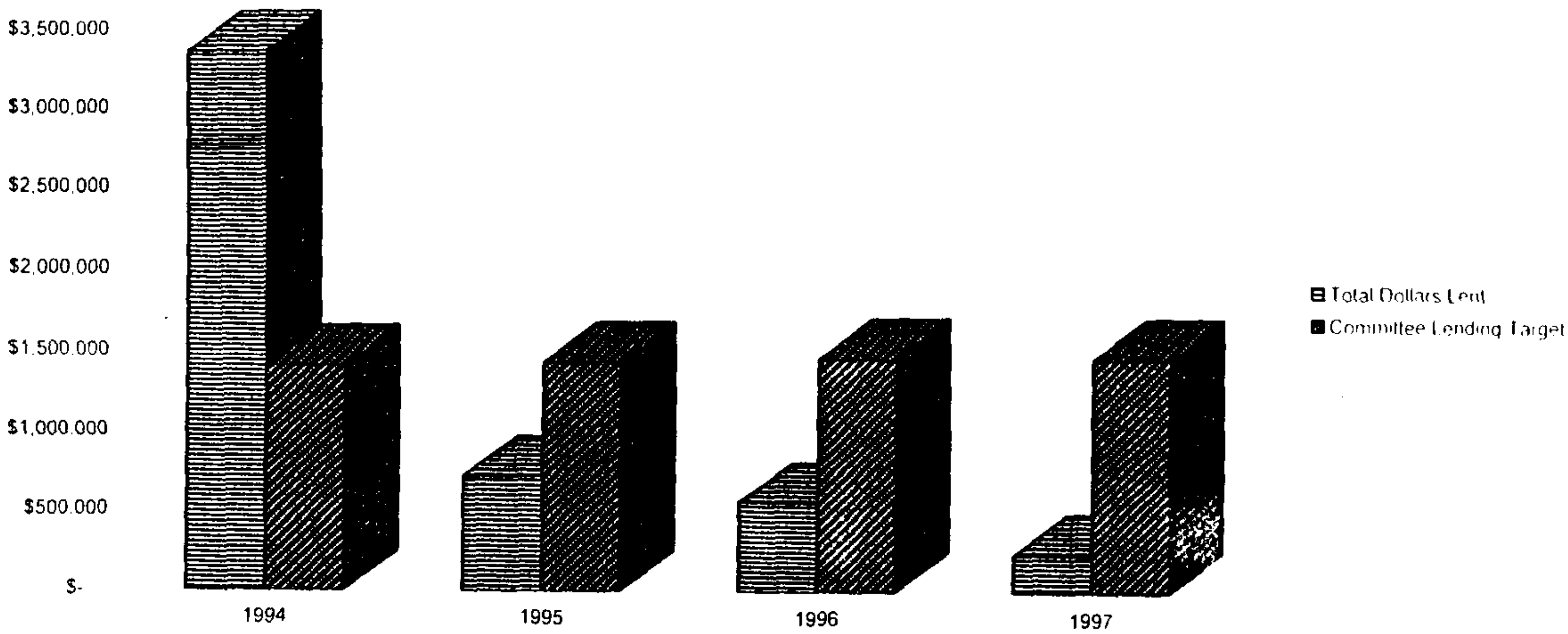
The Reinvestment Committee's membership consists of resident activists of Cypress Hills and City Line and staff and board members of the Cypress Hills LDC. For the past seven years we have analyzed HMDA data for our census tracts, brought together the seven local lending institutions that serve Cypress Hills and City Line to discuss their performance and ways they should increase lending, and worked cooperatively with our banks to meet the credit needs of area residents and businesses. We have convened five community forums on bank lending activity in their communities where Home Mortgage Disclosure Act (HMDA) data was reviewed and the Committee's concerns were discussed. Our concerns included a lack of affordable mortgage products offered by the local banks, a *laissez-faire* attitude towards marketing and outreach, and a lack of educational/homebuyer counseling services to support first time homebuyers. We requested that the smaller banks reinvest 1% of their deposits and that larger multinational lending institutions (e.g. Chemical - pre 1997, Chase, and Citibank) reinvest 5% of the local deposit base in mortgage, refinancing and home improvement loans. We also demanded expanded homeownership counseling services, marketing of and participation in affordable housing programs, increased outreach in our area of support of the Cypress Hills Local Development Corporation's mortgage foreclosure prevention efforts. The Reinvestment Committee has slowly turned around the redlining of our communities which took place in the 1980s. Our efforts have resulted in an increased lending, the start-up of a First Time Home Buyer Club with EAB, lending commitments totaling $1.9 million from M & T Bank and Dime which have been fulfilled, financing of a housing rehab project, and an expansion of first time home buyer education seminars in Cypress Hills and City Line.

A troubling sign for Cypress Hills and City Line is the lack of investment by local lending institutions in home mortgages and home improvement loans. Since 1995, Citibank's lending activity has fallen far short of the **5%** reinvestment goal set up by the Committee. Citibank originated only 7 loans in 1995 for a total of $717,000 - down from 31 loans in 1994 equaling $3.4 million. In 1996, Citibank approved **no** home purchase loans in our 22 census tracts and had a **72% denial** rate for home improvement and refinancing applications submitted! 1997 saw the least yet, 8 loans for a total of $235,000 (.81% of local deposit base). I believe these numbers speak for themselves!

To put these figures in context, and in relation to the goals set out by the Reinvestment Committee, I would like to mention the deposits this branch of Citibank has. The City Line branch has seen growth in its deposit base over these same years: in 1994 just over $28 million in deposits were held; 1995 saw an increase to $28,665,000; and 1996 (the latest year for this statistical information) saw another increase to $29,129,000. A branch with increasing deposits and dramatically decreasing lending - Citibank is taking the money of my neighbors and using it to make other communities strong.

Citibank's lending record is dismal, although they have "pledged" to work on this through their lending commitment - by their own admission this translates into an 8-10% increase in lending for the New York City area. In my community, this is less than one home mortgage loan! Thank you.

Citibank Home Lending Activity in Cypress Hills and CityLine



Year	Total Number of Loans	Total Dollars Lent	Local Deposit Base (branch located at 1200 Liberty Ave.)	Lending as a % of Local Deposit Base	Committee Lending Target
1994	31	$ 3,362,000	$ 28,188,000	11.90%	$1,409,400
1995	7	$ 717,000	$ 28,655,000	2.50%	$1,432,750
1996	5	$ 557,000	$ 29,129,000	1.90%	$1,456,450
1997	8	$ 235,000	?		$1,456,450

Good afternoon staff and members of the Board of Governors of the Federal Reserve Bank of New York. My name is Michelle Neugebauer and I am the executive director of the Cypress Hills Local Development Corporation. The LDC was founded in May 1983 to revitalize the Cypress Hills community in northeast Brooklyn. Cypress Hills is a low and moderate income, predominately Latino, small homes neighborhood that is often referred to as the "Northside" of East New York. My organization is governed and staffed by people who live in the community and are dedicated to its health and stability. The LDC runs twenty programs focused on housing preservation, economic development and youth services - - the three greatest needs of our community. We have developed over 125 units of affordable housing in our area with $11.6 million in public and private financing, renovated 129 store fronts on our commercial strip, secured over $1 million in home improvement loans for Cypress Hills' homeowners, started a New Visions public elementary school and launched a child care initiative which has already created sixty jobs and provides care for 245 children in Cypress Hills and East New York.

Seven years ago, we joined with a neighboring community organization in East New York, The City Line Coalition, to form the Reinvestment Committee of Cypress Hills and City Line. My colleague and friend Cesiah Mullane has just finished describing the purpose and activities of this committee. In addition to the concerns illustrated by Cesi's remark's I would like to share a synopsis of the LDC's relationship with Citibank.

Citibank has actively participated in The Reinvestment Committee and the work of Cypress Hills LDC by sending representatives to our annual Banking Forums, trying to find solutions to a rising mortgage foreclosure problem in Cypress Hills, giving financial support to establish the Cypress Hills - CityLine Mortgage Foreclosure Action Program, and training staff in mortgage underwriting and financial packaging of economic development projects. Cypress Hills LDC has collaborated very closely with Citibank over the last two years through their "Partners in Progress" program. Citibank has provided us with technical assistance and a $50,000 grant that will be used as equity in constructing a mini-mall on our commercial strip. The mini-mall will bring desperately needed goods and service to a desolate section of our shopping strip and create forty permanent jobs in Cypress Hills. We believe the community relations and community development staff of Citibank have genuinely listened to our concerns and the needs of our neighborhood and that the "Partners in Progress" program is a model to be replicated and built upon for this dialogue and the support required to make complex community development projects a reality.

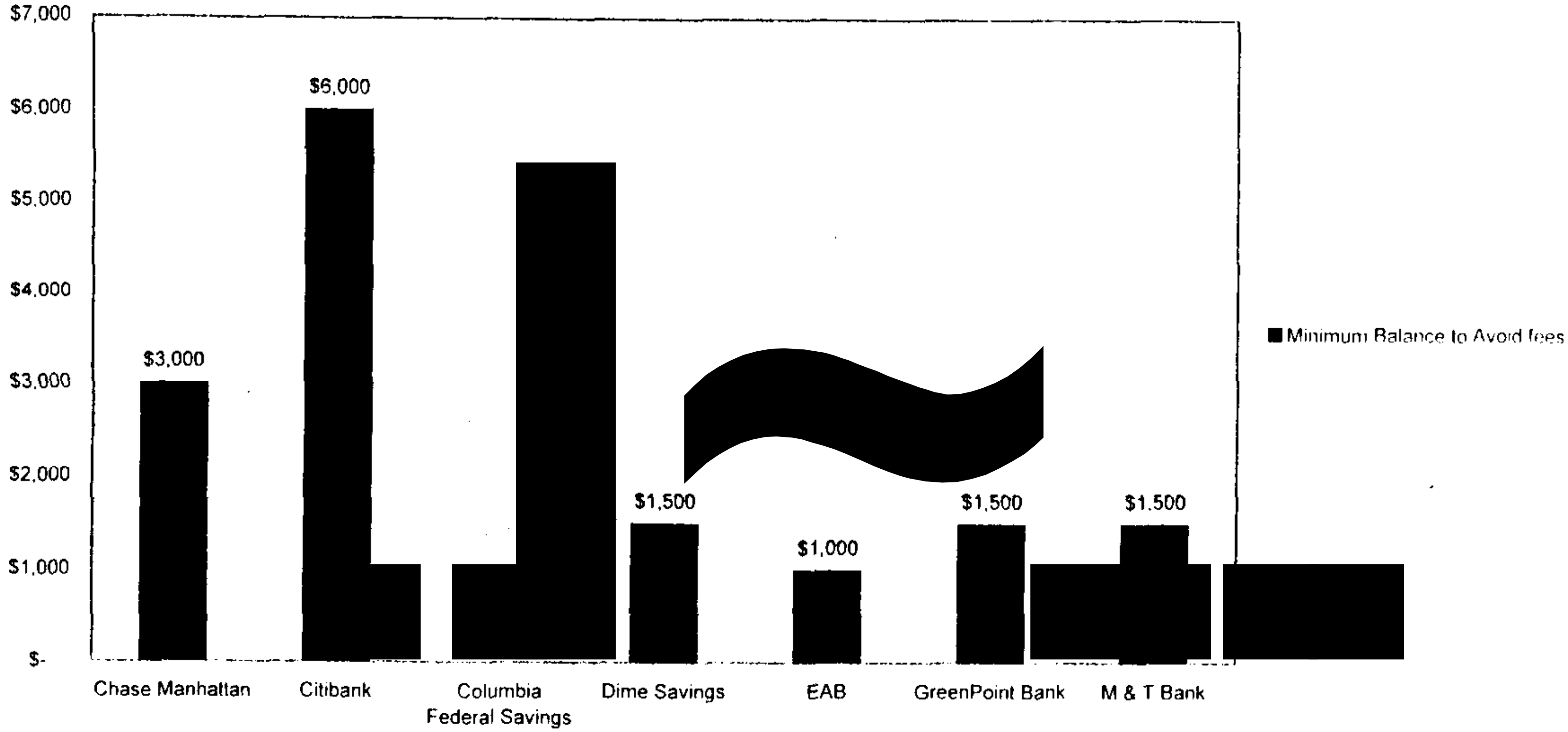
We just wish that this concern could be translated into a change in lending performance, practices and policies by Citibank in our neighborhood and a specific commitment to meeting lending targets in our area. We want Citibank to maintain their full service branch in CityLine. This branch provides banking services to Liberty Avenue, an active commercial strip serving all of East New York, and the over 48,000 residents of Cypress Hills and CityLine. Our communities have large immigrant and elderly populations and we earn low and moderate incomes. We do not readily have access to technology nor are we comfortable with it to do our banking. As one of our residents said recently: "People in our neighborhood work so hard for their money, they want to actually touch it. They want to talk to a human being when they go to the bank. They want personal attention." In 1995 Citibank automated a branch close to our area in Starrett City and the change was fought unsuccessfully by our Community Board. In anticipation of Citibank possibly automating the CityLine branch we collected over 300 signatures on a petition to the CEO of Citibank demanding the branch remain a full service one. We are happy to report that Citibank respected the wishes of our community and we hope that they will continue to keep our branch open and staffed with people!

The Reinvestment Committee believes that Citibank needs to better serve Cypress Hills and CityLine by lowering their fees. Citibank has the highest minimum balance of any of the banks with branches in and close to Cypress Hills. The minimum balance required to avoid monthly fees is twice as high as any other bank - with a requirement of $6,000. Cypress Hills and CityLine are low to moderate income communities with 1990 median household incomes of $23,138 and $25,318 respectively that can ill afford these high fees and minimum balances.

To assist homeowners who are experiencing difficulty making their monthly mortgage payment, Citibank offers a local "On the Ground" team in New York City. Each borough has one Citicorp employee who staffs this team. The "On the Ground" team is supposed to work with the foreclosure and loss mitigation department of Citicorp - which is centrally located in St. Louis, Missouri. The Cypress Hills and CityLine experiences with this service to homeowners has been somewhat limited, yet frustrating. The St. Louis Office is rigid and has full authority to authorize or reject workout agreements, modifications, and refinancing applications. The "On the Ground" team adds one more step in the process of resolving possible mortgage foreclosures. The Cypress Hills Local Development Corporation which provides staff support to the Reinvestment Committee of Cypress Hills and CityLine offers a mortgage foreclosure prevention program. Anecdotal information from this program shows that it took over 5 months to evaluate an application for refinancing only to eventually reject it. The The "On the Ground" team needs to have the authority to negotiate new terms with borrowers and refinancing so that homeowners can receive a quicker, more flexible and sensitive response as opposed to approvals having to go through Citibank's St. Louis division. Thank you for your attention to our concerns.

As of May 1, 1998	Regular Checking		Interest Checking		
Bank	Min to Avoid Fees	Monthly Fees	Min to Avoid Fees	Monthly Fees	Rate
Chase Manhattan	$3,000	$9.50	$3,000	$12.00	0.90
Citibank	**$6,000**	**$12.00**	**$6,000**	**$12.00**	**1.00**
Columbia Savings	$0.00	$0.00	$500	$3.00	1.23
Dime Savings	$1.500	$8.00	$2,500	$10.00	1.00
EAB	$1.000	$12.00	$2,500	$14.00	1.00
GreenPoint Bank	$1.500	$9.00	$2.000	$10.00	1.25
M & T Bank	$1.500	$8.00	$3.000	$11.00	1.25

Minimum Balance Requirements of Banks in/near Cypress Hills and CityLine



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Bank	Minimum Balance to Avoid fees		Monthly Fees	
Chase Manhattan	$	000	$	9.50
Citibank	$	6,000	$	12.00
Columbia Federal Savings	$	0	$	-
Dime Savings	$	1,500	$	8.00
EAB	$	1,000	$	12.00
GreenPoint Bank	$	1,500	$	9.00
M & T Bank	$	1,500	$	8.00

Testimony of Jennifer Lee, Reinvestment Committee of Cypress Hills and CityLine
Federal Reserve Bank of New York
June 25, 1998

Good Afternoon staff and members of the Board of Governors of the Federal Reserve Bank of New York. My name is Jennifer Lee. I work for the Cypress Hills Local Development Corporation, in my role there I work with the Reinvestment Committee of Cypress Hills and CityLine. I have worked with this committee for over three years. The Reinvestment Committee has joined with other individuals and groups throughout the city to form the Citibank Travelers Watch.

The Cypress Hills Local Development Corporation and the CityLine Coalition joined forces in 1992 to form The Reinvestment Committee of Cypress Hills and CityLine to promote reinvestment in the East New York, Brooklyn communities of Cypress Hills and CityLine. For the past seven years we have collected and analyzed HMDA data for the seven local lending institutions in our area and met with representatives of these banks, including Citibank, to share our analyses and work cooperatively to increase lending.

I would like to take this opportunity to reiterate many of the concerns my esteemed colleagues Cesiah Mullane and Michelle Neugebauer have covered as well as bring some additional concerns.

My professional training is in social work administration, I am not a lawyer. However, from the understanding I have of the Glass-Steagall and Bank Holding Company Acts I do not understand how this application is legal. Glass-Steagall forbids a Federal Reserve member bank from affiliating with another company that deals in securities. Travelers deals heavily in securities - through Salomon Smith Barney and has announced plans to expand this activity by purchasing overseas investment companies. The Bank Holding Company Act explicitly forbids a bank holding company - which is what Travelers is applying to become - of dealing in insurance activities. Travelers is an insurance company primarily. If the law allows for two years to divest of these activities, where is the divestiture plan? They seem to be in expansion rather than contraction mode. If there is no plan, I cannot understand how they plan to divest of such a large amount of their business activities in such a short period of time. It seems they are "banking" on the law changing within the next two years. I call on you as regulators to uphold the existing laws you are given jurisdiction over!

In the event that my understanding of the law is flawed and you find this new entity legal, I request that you consider the impact this may have. I speak about Cypress Hills and CityLine where I have worked for the past four years. Between 1995 and 1997 Citibank only originated 20 loans in Cypress Hills and CityLine for a total of $1,509,000. This is less than one third the amount lent in 1994. In 1996 NO home purchase loans were approved for the 22 census tracts of Cypress Hills and CityLine and 72% of applicants for home improvement and refinancing loans were rejected! The Reinvestment Committee of Cypress Hills and CityLine have asked for the last several years that all major commercial banks in our communities reinvest 55 of their local deposits in affordable housing credit products. For Citibank this is equivalent to 5% of approximately $30 million annually. Citibank has fallen short of this goal in every year since 1995!

Remarkably, the beginning of the decline in lending corresponds with Citibank's rash of downgrading to ATM centers and branch closings. Given Citibank's penchant for closing branches and converting full service branches to technology centers, the Reinvestment Committee of Cypress Hills and CityLine is wary of Citibank's assurances of maintaining services that will adequately meet the credit needs of the communities. Many seniors, new immigrants, and merchants use the branch located in CityLine. These consumers are not familiar with nor are they comfortable using technology with no human contact. Neighborhoods are unique and have different credit needs which cannot be addressed by a machine or by someone in another state half way across the country. As Michelle stated, full service banking in desperately needed in low income communities such as ours.

Citibank has the highest minimum balance of any of the banks with branches in and close to Cypress Hills. The minimum balance to avoid paying a monthly fee is twice as high as any other bank - with a requirement of $6,000. Cypress Hills and CityLine are low to moderate income communities with 1990 median household incomes of $23,138 and $25,318 respectively.

To assist homeowners who are experiencing difficulty making their monthly mortgage payment, Citibank offers a local "On the Ground" team in New York City. Each borough has one Citicorp employee who staffs this team. If Citibank is committed to increase its lending then it has to strengthen its own infrastructure in preserving the integrity of its lending by creatively working with homeowners who are facing financial crisis. The local "On the Ground" team must have authority to do this work.

Thank you for listening to my concerns.

Year	Total Number of Loans	Total Dollars Lent	Local Deposit Base (branch located at 1200 Liberty Avenue)	Lending as a Percentage of Local Deposit Base
1991	43	4,909,000		
1992	25	3,049,000		
1993	14	1,345,000	29,311,000	4.5%
1994	31	3,362,000	28,188,000	11.9%
1995	7	717,000	28,655,000	2.5%
1996	5 (only home improvement loans)	557,000	29,129,000	1.9%
1997	8	235,000	29,129,000 (est.)	0.81%

As of May 1, 1998	Regular Checking		Interest Checking		
Bank	Min to Avoid Fees	Monthly Fees	Min to Avoid Fees	Monthly Fees	Rate
Chase Manhattan	$3,000	$9.50	$3,000	$12.00	0.90
Citibank	**$6,000**	**$12.00**	**$6,000**	**$12.00**	**1.00**
Columbia Savings	$0.00	$0.00	$500	$3.00	1.23
Dime Savings	$1,500	$8.00	$2,500	$10.00	1.00
EAB	$1,000	$12.00	$2,500	$14.00	1.00
GreenPoint Bank	$1,500	$9.00	$2,000	$10.00	1.25
M & T Bank	$1,500	$8.00	$3,000	$11.00	1.25

Ladies and Gentlemen:

Thank you for the opportunity to speak to you regarding the acquisition of Citibank. My name is Patricia O'Neill Galin and I am the Executive Director of These Our Treasures, Inc. in the Bronx. We are a not-for-profit agency serving youngsters and families for the past twenty five years. Twenty five years ago there were many more banks to choose from regarding loans, credit lines, etc. but **Citibank** was the only banking institution who considered loans and a credit line for this Bronx organization. Citibank continues twenty five years later to be a major influence in the Bronx Community and more particularly has helped These Our Treasures, Inc. with our vision and mission to provide services to young disabled children and their families. As we have grown since

1973 with children and families and a budget of $288,000 to a budget of over 3 million dollars, Citibank has influenced our growth and has truly been a friend to TOTS.

Testimony From: These Our Treasures, Inc.
2778 Bruckner Blvd.
Bronx, New York 10465

Date: June 25, 1998

Testimony before Federal Reserve Board

Raymond C. Bowen

President
LaGuardia Community College/CUNY

June 25, 1998

Good afternoon members of the Federal Reserve Board, ladies and gentlemen. My name is Raymond C. Bowen, president of LaGuardia Community College of the City University of New York. I am here today to speak on behalf of LaGuardia and its long-standing relationship with Citibank.

LaGuardia Community College, the youngest institution in the City University, enrolls about 33,000 students; 11,000 in degree programs and 22,000 in non-credit programs. Our student body is comprised of individuals who are 37 percent Hispanic, 20 percent ~~Black,~~ A, A 15 percent White, 13 percent Asian, 2 percent Native American and 4 percent other; making us one of the most diverse higher educational institutions in America. Also noteworthy, is the fact that 66 percent of our students are women. About 75 percent of our new students reported family incomes under $20,000. Most are on their own and need to work in order to support themselves. Many of our students work while they are enrolled at LaGuardia: 46 percent part-time and 54 percent full-time.

We have the fifth largest foreign student enrollment of any community college in the country. Our students are drawn from over 135 countries and speak 85 languages other than English. For several consecutive years, LaGuardia Community College has ranked among the top community colleges in the country in graduating minority students. In 1997, LaGuardia ranked fifth among the nation's two-year institutions in awarding degrees to minorities. Priority initiatives for the college include cultural pluralism, economic development and international education. LaGuardia has also been recognized by the U.S. Department of Education as a model community college, both nationally and internationally.

As a collaborative partnership between the College and the New York City Board of Education, LaGuardia hosts three model high schools on its campus: the Middle College High School creates unique educational opportunities for students who are at risk of dropping out, the International High School serves recent immigrants from numerous countries by offering a comprehensive secondary curriculum while developing students' oral and written English language competence, and the Robert F. Wagner Institute for Arts and Technology, a New Visions school that takes the standard core curriculum and melds art and technology into every phase.

From its inception, LaGuardia Community College has been a cooperative education institution based on the premise that learning should take place in a variety of settings, both inside and outside the classroom. The Cooperative (Co-op) Program is designed to help students determine their individual goals, explore various career options, apply classroom learning to real work situations, and strengthen interpersonal and technical skills. LaGuardia Community College has the largest cooperative education program of all two-year colleges.

This collaboration will have a dynamic impact on the lives of the students and families that LaGuardia serves, and we look forward to many more new and positive ventures. Needless to say that we at the College are extremely excited to learn that Citicorp and Travelers Group have made a ten-year commitment of $115 billion to lending and investing in low and moderate income communities and small businesses.

In addition to providing special pricing to low and moderate income customers interested in commercial and homeowner insurance coverage, I was particularly interested in the financial and technological literacy program proposed in this merger. As an urban educator, I also agree along with both Citicorp and Travelers Group, that consumers need financial and technical skills, as well as access to superior products and services, if they are to achieve financial well being. The opportunity for educators to join an advisory panel on financial literacy who will assist the bank in understanding the problems of this diverse population, and to ultimately develop effective solutions to meet their needs is critical and warranted.

Citibank is no stranger to LaGuardia Community College. Whether supporting programs for our older adults on wellness and consumer education, or providing funding for our College for Children program, over the years, Citibank grants have helped all segments of our population. In our high schools, Citibank has been a responsive partner in addressing the need for SAT test preparation, in preparing our students to enter the world of finance, and in understanding the responsibilities associated with savings, credit and money management. Citibank has provided our students with hands on exposure to financial curricula that the College was unable to offer.

They have also supported many cultural events through our "Academic Excellence Program." Citibank has also been very involved in our "Talent Search Program" which is a comprehensive support services program designed to facilitate access to postsecondary institutions for low-income and first generation college students from Western Queens.

I am proud to say that during this academic year, nineteen LaGuardia students have been hired as interns at various Citibank locations, including Court Square, Wall Street and Citicorp Center and five LaGuardia graduates have accepted permanent employment. Three students have been hired as interns in a partnership between Citibank and Cushman and Wakefield for this summer. In addition, a permanent annual donation of $3,000 has been given to LaGuardia's Partners in Cooperative Education (PICE) Scholarship Fund.

Citibank administrators and staff have worked hand in hand with LaGuardia Community College over the past twenty-five years as a mentor, sponsor, and a friend. On behalf of LaGuardia Community College, its faculty, staff, students and alumni, I proudly support the merger of Citibank and Travelers Group and look forward to the benefits this merger will bring to our many students and various programs who depend upon Citibank for program funding and support.

Thank you for this opportunity to speak on behalf of LaGuardia Community College for the proposed merger between Citibank and the Travelers Group.

AN OPEN LETTER

NEW YORK Christian Times
7 years of journalistic excellence

The Board of Governors of the Federal Reserve
FEDERAL RESERVE BANK OF NEW YORK
New York, NY 10045-0001

Dear Sirs:

The recent survey conducted by The New York Christian Times and the Community News and Information Service (CNIS) is cause for great concern. We write to direct your attention to the findings and ask that you – the regulators – offer an immediate response to what, by all accounts, are some very disturbing discoveries.

Good News for a Change!

The 6-month study was developed and implemented in cooperation with many of New York's major banks, and it fielded 1,000 respondents, representing more than 480 Black churches. It is perplexingly clear that although Citibank and other major lending institutions brag about their outreach and home-buyer education programs, most members New York's Black community continue to grope in darkness and lack the very basic information regarding the obtaining of a mortgage and the most elementary steps towards home ownership.

We invite you to conduct a similar study by polling the general Black population of New York, and we remain confident that your results will not differ significantly from ours.

If you ask me, it is a down-right disgrace that in a city where the 10 top banks and the 5 major thrifts have assets of over 1 trillion dollars, one third of the population lacks the basic information on how to obtain a mortgage. The one thousand people were asked, "Do you know of any organizations that can help you get your first home?" While 830 respondents said no, only 170 said yes, and of that number, 11 of them listed The New York Christian Times, a newspaper, as such an organization.

We draw your attention to the full results of the study (attached), which polled a broad cross-section of Blacks at various socio-economic levels, and ask that you move expeditiously to help ensure that Blacks gain fair access to information and mortgages in their own communities.

Racism and discrimination in its most subtle form continues to exist in the loan rooms of Citibank and other New York banking institutions. It is abundantly clear that the global business interests – looking to advance technology and make big profits in Asia, Europe and North America – have better and greater access to the more than $11 billon that Blacks deposit in Citibank and the more than $38 billion that Blacks deposit in the 14 other top banking institutions than Blacks themselves.

Dollars trickle in Black communities at a slower rate than a slow dripping faucet while millions of dollars flow into other communities like a watermain break. In the Sunday, April 20, 1997 edition of the New York Daily News, a report stated that the loan rejection rate for Blacks was more than double that of Whites. "Even worse, studies revealed that Blacks with identical credit backgrounds to that of Whites would often get turned down

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while the Whites were accepted," the article stated.

The imagery that our major banks are projecting is but a facade similar to the false pretenses that children present to their parents at the end of the school day – only to discover on open school night that the picture is not as pretty as the one that the student has painted.

The Christian Times has documented and catalogued information with corresponding material published by Citibank and the other major banks and thrifts showing them as "good, caring neighbors", supposedly working and reinvesting in the community – only to discover that the facts contradict the statements. My grandmother has always said that the proof is in the pudding, and she's right. There is no tangible proof of a pipeline of Blacks getting mortgages and commercial loans from Citibank or any of the major banks that enjoy our community's deposits, and even the most recent data will show that many smaller banks and mortgage banks sell more mortgages to our community than the area's banking giants.

We are not suggesting that banks should not work to further their economic interest and enjoy good business in this "free enterprise society". However, we are very concerned that this is being done at the expense of our race, although they manage to cloak the "nothing" that they do in a few community corporate responsibility activities and market maintenance advertising.

It occurs to me that Citibank and others are playing Tickle-Me-Elmo with regulators. They seem to rush out when necessary and drop a few loans in our community to satisfy their CRA requirements and make a few people happy, if but for a quick second. Anything to win a merger – then it's back to business as usual.

In view of this report, we call upon you, the enforcement community, to tighten the laws and its enforcement. The Citibank - Travelers merger must be blocked if we are to protect local communities. But more so, our community needs your help in ensuring that we have, at the very least, the same access to our deposits as people of other communities have to these dollars. Only last year, an executive at Citibank told me that Citibank's interest is in the global market. That means using *local* deposits for *global* investments. And as far as Citibank is concerned, the Black/Latino communities here in New York can go to take a hike.

Secondly, we draw to your attention the fact that mortgage and house buying information is not reaching our community with any degree of effectiveness. The level of ignorance is disturbing and the real slap in the face is that these banks invest millions of dollars in an effort to educate and counsel potential home buyers through organizations that are foreign to our community.

These organizations, although heavily funded by mega-banks, remain "best kept secrets" in New York's Black community, as the survey reveals, while hard-working organizations that are indigenous and popular among its people struggle to educate and inform potential home buyers with little to no support from the banking community.

One may need to question the seriousness of Citibank and these other banking institutions and the motive behind their involvement in our community. Are they driven by a desire to sell mortgages and make a profit in doing so or are they more concerned about getting our deposits for their global enterprise and then issuing a few mortgages to make it look good?

They themselves admit that there is not a pipeline of Blacks rushing to get loans – but considering the past history of redlining, the present lack of education and the convenient passage of misinformation, Black New Yorkers are suffering from the once bitten, twice shy syndrome. WE SEEK YOUR INTERVENTION!

Sincerely,

Rev. Dennis A. Dillon
Publisher

Citibank & Others Discriminate Against Blacks

Reprinted from The New York Christian Times, October 1-15, 1997

A recent report made public by the office of Congressman Charles Schumer reveals that racial discrimination is alive and well at the city's banks and savings and loan institutions. The city's three largest banks still issue mortgages and other loans along racial lines, the study reveals.

But according to Rev. Dennis Dillon, publisher of the Christian Times and a leading advocate for bank consumers, banks doing business in New York's Black community have always had and maintain a pattern of discrimination against Blacks. "If these banks, namely Chase, Citi and Fleet, have such a pitiful record when it comes to mortgage loans to our community, imagine how bad the numbers must look when it comes to business loans," Dillon said in a recent statement released following the report. "While the government monitors the banks' activities relative to home mortgages and mandates that banks disclose their mortgage applications and rejections by race through the Home Mortgage Disclosure Act (HMDA data), no such requirements is in place for commercial loans," he explained.

Despite a near Black majority in New York City, Chase Manhattan received 57,500 White applicants for mortgages compared with 3,900 Black applicants and 5,200 Hispanic. While Fleet has received 25,000 applications from the White community and 2400 from the Hispanic, only 1,600 were taken from the Black community. Citibank received 8,000 White applicants compared with 2,000 Hispanics and 665 Black applicants; Dime had 2,600 White applicants compared to 220 Black applicants.

"It is criminal that the 4 leading banks for Black depositors in New York took 93,100 mortgages from White applicants, 10,000 from Hispanics and only 5,385 from Blacks, and on top of that, Blacks with the same credit circumstances as Whites were rejected almost 3 times as often," said Dillon. "How do you take the city's most powerful consumer group that makes the most significant deposits and then give them the least amount of loans after you have taken the least amount of applications from them. This is evil," he contends.

21st Century Partnership

BankWatch

THURSDAY, June 25, 1998, NEW YORK

CITIBANK TRAVELERS MERGER DRAWS COMMUNITY CONCERNS

NEW YORK GROUP SAYS CITICORP/TRAVELERS MERGER NEEDS A CLOSER LOOK

Date: June 25th, 1998

To: Members of the CitiBank/Travelers Hearing Panel

From: Rev. James H. Daniel, Jr.

Ladies and Gentleman, unfortunately because of a prior commitment to a "Faith Based" community development conference in upstate New York I'm unable to personally present testamony on the CitiBank/Travelers merger, however the young man before you is more than capable of presenting our thoughts succinctly .

First let me state that the biggest merger In American History Should Be Closely Scrutinized Before Being Passed.

We of the 21st Century Partnership have had a relationship with CitiBank for over 10 years and believe that they mean well in their efforts to meet the credit needs of their service area, however, meaning well and doing well are distinctly different. The banks CRA rating needs to improve

Because the merging financial institutions have not at this point given any indication of how this proposed merger will serve the public interest and more particularily low to moderate income communities; the investment alliance believess consideration for appproving the merger should be considered based upon a definative community re-investment plan with a definative action plan and timeline created in consultation with community organizations and elected officials from the impacted communities.

We call upon the government bank regulators, members of the U.S. Congress and Senate to look more carefully at biggest merger in history: This merger at face value does very little to expand credit and other needed financial services in inner city communities right now it only increases the value of Citibank and Travelers stock. It is important to note that Citicorp has a less than exemplary CRA record among the major banks. Salomon Brothers and Smith Barney have never developed any community investment plans and Travelers Insurance is a redliner with little presence in the miniority community. While Citibank does have some presence in low income communities one can only hope that if this merger goes through that before it does there will have been a plan developed in cooperation with the broader community that succintly details how the bankwill do better than it presently does.

Our concerns with these findings and CitiBanks lack of substanative involvement in support of community programs the members of the Alliances BankWatch Community Leaders and Financial Services Committee believes that if government regulators were to earnestly assess CitiBank re-investment record they would rate them with a "Need To Improve" and stipulate such that before any merger is approved there rating must substantially increase.

I at this time would like to raise another point this country already has enough crime and in a number of circles it is believed the merger is illegal. This illegality stems from a notion that Alan Greenspan the Federal Reserve Chairman, in a closed door weekend meeting with Citicorp, tentatively agreed to give Citicorp an exemption from the law without approval from Congress one can only trust that such allegations are just allegations.

. When we hear that the Chairman of Travlers made over 208 million dollars on the day the merger was announced, just from the announcement of the merger, and that this amount is more than his company contributed to minorities over its entire history we hope that such enormous amounts of money can somehow find it's way into areas where poverty still reigns.

According to research conducted by the Greenlining Institute of California The CEO of Citicorp, John reed made more onthe day of themerger ($62 million) than Citicorp contributed to low income groups over the last three years.

. Prince Alwaleed of Saudi Arabia, a major shareholder, made 1.5 billion dollars on the same day from the announced merger; he has no known U.S. chairitable program aimed at inner cities or or inner city residents

.. One other interesting note is that the combined company will be largest financial institution in the world with 160,000 employees providing they don't have a mass lay off because of the merger, they will have 70 billion dollars in revenue, and seven billion in earnings.

<u>These are the Issues as we now see them</u>

Alan Greenspan and/or Secretary of the Treasury Robert Rubin can delay or stop this merger if they want and they should if as is alleged that under present law the merger is ILLEGAL and if we accept that as a fact then something that starts out illegally is more than likely to end up the same. .

Let us consider the following, if the merger deal is successful, Merrill Lynch and Wells Fargo would most likely disappear as seperate enities. Chase manhattan Bank could consider purchasing Merill Lynch and even Bank of America could be a thing of the past if this proposed merger is approved, and after that why not Fleet Bank and American Express or AllState

We have laws against monopolies and with this merger leading the way can America afford a monopolized banking industry, under the guize of more efficent and low cost financial services and if the answer is yes what assurances will low income communities have that they will be better served because of these mergers and will any of the alleged cost savings reach underserved communities through greater access to credit? ;

While we would like to believe so we however, without a definative plan as to how, believe that any approval of this merger should be associated with a definative plan worked out in consort with the affected communities in advance of any approval of the applications. While the 21st Century Partnership has enjoyed the support of CitiBank and would welcome the expansion of our relationship; we call upon them to act in a more responsible and accountable manner than what is ehibited in their present efforts around this merger and more particulerly to commit to getting a n"Outstanding CRA rating.

There must be a direct correlation between what CitiBank/Travelrs puts on paper and what they invest in commuities through lending and philanthropy and presently we don't see that in this present merger. In closing we choose to believe that CITIBANK and Travelers want to do the right thing and if the merger is approved as is or in a modified state we will work with them to the degree that it becomes possible to assure that the delivery of quality financial products and financial services to the underbanked and people in general is a reality . We call upon the bank regulators and elected representatives to help them do just that for to much is at risk for any thing less .

Thank you

Rev. James H. Daniel, Jr.

Ladies and Gentlemen:

My name is David Wolin, and I am a partner in the law firm of Willkie, Farr & Gallagher. I am testifying today on behalf of our client, Habitat for Humanity International, which we represent on a pro bono basis. My purpose in testifying today is to describe Citicorp's involvement in Habitat's innovative securitization program to raise additional funds to build more low income housing and to describe the Traveler's Group's program for providing low cost homeowner's insurance to Habitat families.

A. Background of Habitat for Humanity

Habitat for Humanity was founded in 1976 to build and sell simple decent homes at no profit to low income families who are not eligible for conventional financing. Those families finance their homes with a no-interest mortgage to Habitat.

In the United States, the Habitat for Humanity program is run by 1,450 local not-for-profit affiliate in different communities. In 1997, Habitat affiliates built, repaired or renovated 3,717 houses. The typical mortgage is for twenty years and the average combined monthly payment, including taxes and insurance, is $290. Typically, family income for a Habitat family of four ranges from just under $11,000 to under $21,000.

Although the homes are generally built by volunteers, the affiliates are limited in the number of homes they can build because of a lack of funds.

B. Habitat for Humanity's Securitization Program

Citicorp has been active in helping local affiliates raise money and by providing volunteers.

In particular, Citicorp has purchased bonds in Habit's securitization program which is converting Habitat's portfolio of mortgages into cash to build additional housing. The Affiliates hold millions of dollars in zero interest mortgages which previously were illiquid assets. With approximately 18,000 mortgages held in the United States, the total potential pool of Habitat mortgages is approximately 500 million dollars.

Habitat's goal is to raise 100 million dollars for its affiliates through this program over the next five years. To date, 25 affiliates have raised approximately 5 million dollars to build new homes. Habitat for Humanity International is expecting to make its next offering of bonds in the fourth quarter of 1998. The bonds pay interest at a below market rate to its investors.

Citicorp has already invested $400,000 in low interest bonds that were secured by mortgages issued by the Rochester, New York and Washington, D.C. affiliates. By providing the necessary liquidity for these affiliates, Citibank has allowed their programs to expand.

For example, the Rochester affiliate has been able to expand the types of services it provides. For years, the Rochester affiliate had been trying to establish a program to rehabilitate homes in its community, in addition to its building new homes. However, it had been unable to raise the funds for the rehabilitation program. Using Citibank's investment in the Habitat bonds, the Rochester affiliate has been able to institute the long-awaited rehabilitation program. In addition, Citicorp has provided direct grants to the Rochester affiliate and permits its employees to take time off to work on Habitat homes.

Citibank has made a commitment to Habitat that it will continue to invest in bonds which are secured by mortgages held by affiliates in one of Citibank's service areas. Through Citibank's commitment to the securitization program, affiliates in Citibank's service area have needed liquidity which allows them to provide more homes with low income families.

C. Homeowner's Insurance Program.

In addition, Habitat has worked with Traveler's since 1993 to provide low cost homeowner's insurance to our partner families. Traveler's currently insures approximately one-third of all Habitat homes in the United States.

Traveler's program has helped to allieviate the difficult problem of Habitat families obtaining homeowner's insurance. Because Habitat homes are typically in low income neighborhoods and have low dollar values, many insurance carriers will not insure them. Some affiliates have even been unable to transfer ownership of the homes because the family could not to obtain insurance. Even when coverage was available, the polices only provided limited coverage, and the family had to pay substantially higher premiums than would be paid by homeowners in more affluent communities.

Traveler's policies are issued to the homeowners without any credit checks or limitations on home value. Traveler's coverage is even available to Habitat families in states where because of weather related problems, insurance is difficult to obtain. Under its program, Traveler's charges Habitat homeowner's its lowest rate for homes situated in that community.

The policies provide full replacement cost for the home and property, and $100,000 in liability coverage. The typical homeowner pays between $150 and $250 per year for this coverage. Because the average Habitat homeowner earns between 25% and 50% of the area median income, the low premium can be the difference between being able to afford a home or not.

In conclusion, I want to emphasize that Habitat for Humanity has been fortunate to work with Citicorp and Travelers in the past and is looking forward to a long term relationship with the new Citigroup.

Thank you

LONG ISLAND DEVELOPMENT CORPORATION

MONEY & TECHNICAL ASSISTANCE FOR SMALL BUSINESS

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NASSAU COUNTY DEPT. OF
COMMERCE & INDUSTRY
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SUFFOLK OFFICE
SUFFOLK COUNTY DEPT. OF
ECONOMIC DEVELOPMENT
(516) 853-4800

June 25, 1998

Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045-0001

Att: James K. Hodgetts, Sr. VP

Re: Proposal by Travelers Group, Inc. to
acquire Citicorp

Gentlemen:

Thank you for allowing me to testify at the public meeting regarding the above proposal. This shall constitute my written testimony. Long Island Development Corporation supports the proposed acquisition.

What is Long Island Development Corporation (LIDC)?
LIDC is a not-for-profit (501C3) economic development organization providing financing and technical assistance to small businesses in Nassau and Suffolk Counties, Long Island, New York. LIDC's members represent the economic development community of Long Island and include representatives of Citicorp. LIDC has made over 1,000 loans to LI small businesses under the following programs:

- SBA 504. LIDC is the US Small Business Administration's Certified Development Company under the SBA 504 loan program. Funds are provided to help small businesses acquire and renovate capital assets. LIDC's loans provide up to 40% of the project cost in a long term, subordinate mortgage at a low, fixed interest rate. Banks or other lenders provide 50% of the project cost and the small

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businesses provide equity of 10%. This scenario induces small businesses to expand, create and retain jobs and otherwise aid the economy. The 504 funding comes from debentures issued by the certified development companies nationwide, pooled and sold to major institutional investors. The pool is guaranteed 100% by the SBA. The program operates at a zero subsidy rate and receives no federal appropriations. LIDC approves, closes,services and liquidates the SBA 504 loans it makes to small business.

- New York Job Development Authority (JDA) (under auspices of Empire State Development Corp.). LIDC is the Long Island branch bank of the JDA. In small business capital asset projects where both SBA 504 and JDA financing are used, LIDC has authority to commit state funds. JDA loans provide long term, subordinate funds up to 40% of a project. JDA issues bonds to fund the loans. LIDC underwrites and approves the loans. JDA closes and services them.
- LI Defense Diversification Revolving Loan Fund (Defense RLF). The RLF is funded by grants from the Economic Development Administration (US Dept. Commerce) and NYS. The fund provides loans to help defense dependent manufacturers diversify. Applicants are required to undergo a self improvement process under the NYS Industrial Effectiveness Program. LIDC underwrites, approves, closes, services and liquidates these loans.
- LI Fisheries Assistance Revolving Loan Fund (Fish RLF). The RLF is funded by the EDA and NYS and provides loans to commercial fishermen and fishing related companies negatively impacted by pollution or regulation. Technical assistance is provided by Cornell Cooperative Extension. LIDC underwrites, approves, closes,services and liquidates these loans.
- Suffolk County HUD 108 Revolving Loan Fund. This is a fund to provide working capital to small businesses in Suffolk County, in depressed areas in need of revitalization. It is funded by Suffolk County and HUD. LIDC underwrites the loans for the county.
- Conventional Loan Placement. LIDC packages and places conventional loans (non government guaranteed) with banks and other lenders on a fee based basis.
- SBA 7A Packaging. LIDC packages and places SBA 7A loans for small businesses with banks and nonbank lenders. In some cases,

LIDC approves, closes and services the loans on behalf of the lenders.

- Hempstead Minority & Womens Micro Revolving Loan Fund. LIDC provides technical assistance for and underwrites loans for a local micro loan fund for minority and women owned businesses in the Town of Hempstead.
- In formation: LI Working Capital Loan Fund. Eleven area banks are lending $12 million to LIDC to lend to targeted industries on Long Island in cooperation with technical assistance programs and loan loss reserve funds provided by NYS and Nassau and Suffolk Counties.
- In formation: DCC Growth Fund LLP. LIDC is a co-founder and limited partner in two new national Small Business Investment Companies which will provide small business venture capital for economic development.

In addition to lending, LIDC provides free counseling to small businesses to help them obtain and perform on government and other contracts under the LI Procurement Technical Assistance Program (PTAP). PTAP is funded by grants from the Department of Defense and local matching private sector sources. LIDC works with small companies to find them contracts, help them submit bids and assist them with performance issues. Under this program, LIDC has worked with 1800 small businesses on Long Island and brought over $180 million in DOD contracts alone to very small LI companies. In this initiative, LIDC works with Black Women Enterprises on a national certification program for women owned businesses in cooperation with the Women Business Owners Corporation and Fortune 500 Companies.

LIDC is also active in community development and regional marketing. LIDC is a founder,financial and technical supporter of the Long Island Neighborhood Initiative (LINDI) which provides technical assistance to community based groups to accomplish projects in blighted areas. LIDC coordinates a regional economic development effort which promotes Long Island to a national audience. It is centered around a major sports event and televises Long Island nationally, promoting Long Island as a place to do business.

LIDC staff and members are active in a number of national,state, and local business,civic and charitable organizations and they interface with a number of the organizations testifying before this group on this matter.

<u>What is LIDC's relationship with Citicorp and Travelers?</u>
LIDC has no direct relationship with Travelers. Several of its small business borrowers have insurance with Travelers. LIDC does, however, have numerous interactions with Citicorp through its subsidiary Citibank NA:

- Douglas Asofsky, VP Citibank NA, has been a member of LIDC's voting board of directors since January 24, 1996. Michele DiBenedetto, VP Citibank NA, is a member of the procurement technical assistance program committee of LIDC.
- Citibank NA has participated in at least 21 of LIDC's financing projects with first mortgages in front of SBA 504 loans.
- Citibank NA has assisted LIDC in marketing its programs by sponsoring meetings, inviting LIDC representatives to speak before Citibank NA customers and potential customers, etc.
- Citibank NA is a participant in the LI Working Capital Loan Fund and is providing a $1 million loan to LIDC under that fund. Citibank NA is also acting as lead bank in the venture.
- Citicorp has tentatively committed to providing a $6 million investment in the new DCC Growth Fund LLP (national SBIC's for venture capital for small business).
- Citibank NA is a founder, major funder and participant in LINDI.
- Citibank NA provides an annual grant to the LI PTAP.

<u>Why does LIDC support the acquisition of Citicorp by Travelers Group Inc.?</u>

- The acquisition will result in a large increase in funds committed by Citicorp to small business and community development. Citicorp has pledged $115 billion (twice its domestic deposits) for community initiatives. This will greatly increase Citicorp's participation in the SBA 504 program as a first mortgage lender. It will also increase the conventional and SBA 7A loans available to small businesses on Long Island. Initiatives such as LINDI which help to revitalize blighted areas will be increased as a result of this commitment.

- The acquisition will create a direct tie between the insurance products offered by Travelers and the lending by Citicorp. This will increase the availability of insurance products such as bonding to Long Island small businesses. Ability to bond contracts is a major need of small businesses seeking to expand and do government contracting work.
- The acquisition will give the Citicorp small business lenders access to a variety of products and services which can benefit the small business customer. For example, Travelers investment banking and other finance businesses provide the knowledge to create innovative financing products (such as securitization of small business loans) for small business.
- The acquisition will provide increased accessibility for small business customers to Citicorp products via the Travelers agents network. Instead of having to go to a Citibank NA branch for service, a customer will be able to work through its insurance agent's office.
- Due to the acquisition, an office of financial literacy will be created which will increase the knowledge base of the small business person as well as the individual consumers. It will also spread information about financial products available including those offered by LIDC and other government programs.

For all these reasons, LIDC supports the proposed acquisition of Citicorp by Travelers Group Inc.

Thank you for your courtesies.

Very truly yours,

LONG ISLAND DEVELOPMENT CORPORATION

Roslyn D. Goldmacher
Executive Director
RG/
<u>Disclosures:</u>
Roslyn D. Goldmacher owns 100 shares of the Travelers Group Inc. in a retirement account. There also may be mutual funds held by her or in the LIDC pension plans which own shares of Citicorp or Travelers.

FEDERAL RESERVE BANK OF NEW YORK

RE: PUBLIC MEETING REGARDING THE PROPOSAL BY TRAVELERS GROUP INC. TO ACQUIRE CITICORP.

LOCATION: Federal Reserve Bank of New York. 33 Liberty Street NYC 12th. Fl.
TESTIMONY - PANEL # 14 June 25, 1998
PRESENTED BY: Dr. M. Vicki Wacksman, President & CEO
New York State Association of Black Women Owned Enterprises Inc.
730 Fulton Avenue. Hempstead, NY 11550 (516) 485-5900

My name is M. Vicki Wacksman. I am the President and CEO of the New York State Association of Black Women Owned Enterprises Inc. The Association is known publicly as Black Women Enterprises or BWE. Black Women Enterprises is the outreach and service division of the organization. For the purposes of this testimony, I will refer to our organization as BWE.

I am here this afternoon, on behalf of the BWE Board of Directors and our 625 members, to share some of the experiences our organization has had with Citibank over the years. It is our hope that these experiences will assist your deliberations related to the proposed Travelers Group, Inc. acquisition of Citicorp.

Black Women Enterprises, ("BWE") is a nonprofit, statewide, 501 (c) 3 organization, established in 1993 and located in Hempstead Long Island. The 1991 Croson Report was the catalyst for the founding of the organization. The report studied the awarding of contracts to women and minorities by New York State agencies. The report revealed that the greatest disparity fell upon Black women owned firms.. To reverse this trend, a group of progressive Black women business owners established BWE.

The mission of BWE is .to *remove barriers that impede the success of Black women who desire to start or expand a business.* Our mission is achieved through the delivery of a comprehensive Monday-Friday, 10-6 p.m., counseling, technical assistance and training service to BWE members. The organization started in November 1993 with 25 members. Today, four and one-half years later, we have over 625 members. We remain the only organization in New York State to specifically target the disparity issues affecting Black women owned firm: the State's largest group of minority women owned enterprises. The chart below, presents data provided by a 1998 report by the National Foundation of Women Business Owners. It describes the enormous gap that exists between Black women owned enterprises and enterprises owned by Caucasians, Hispanic, and Asian women.

Comparison between Women Owned Businesses in New York State by number of firms, employment and sales FY 1996

Group	# Firms	# Employees	$ Sales		Sales Average
All Women	527,000	1,365,200	$ 205,639,300	(205.6 billion)	$ 390,000
White	437,100	1,277,000	191,918,000	(191.9 billion)	439,000
Asian	27,700	36,800	7,258,500	(7.3 billion)	262,000
Hispanic	27,900	40,800	4,319,000	(4.3 billion)	155,000
Black	**34,300**	**10,600**	**2,143,800**	**(2.1 billion)**	**63,000**

Its important to note, that all women and minority owned enterprises fall at the bottom rung in overall sales. However, it is important to our mission to show that the targeting of Black women owed firms in economic development is not race-based but need driven. Black women owned firms average $63,000 annually in sales while their Hispanic, Asian and Caucasian counterparts average from $155,000 to $439,000

Since opening our door for services in January 1994, BWE has sponsored 84 workshops in small business planning and management, provided over 2,000 hours of individualize technical assistance and business development coaching and in 1997, piloted a Corporate Procurement and Technical Assistance Program. This program makes a frontal attack on the disparity we talked about earlier by helping our members win corporate contracts. Our goal for Phase I was $700,000 in contract awards and we achieved $1,619,000. We are finally getting a handle on how to help small micro businesses compete effectively and we hope to double and triple these achievements in the coming year.

BWE's achievements would be far less without the help and support from Citibank. In establishing the organization, we broadly reached out to government and the corporate community to assist the funding and implementation of our mission.

Citibank was among the first to respond. To assist our outreach and start-up service delivery, Citibank donated $20,000. They also invited us to attend some of the community development and revitalization training that Citibank offers which broaden our perception, skills and knowledge about economic development and revitalization issues. We needed to get our mission before legislators, especially those serving minority communities. Citibank assisted this need by sponsoring our BWE Legislative Reception that is held in Albany each year during the Black and Puerto Rican Caucus Weekend. We cannot achieve our mission without advice and guidance in identifying easy to use resources from the private-sector. We formed a Corporate Advisory Board for this purpose. Citibank accepted our invitation to join and actively assist the planning and implementation of all BWE programs including the Corporate Procurement and Technical Assistance Program. Each year they provide $5,000 to assist our cash match requirement for grants we use to support overall program delivery. We have attached a newsletter, brochure and a calendar of events to illustrate how we have leveraged this important help into a comprehensive service delivery.

Thus, Citibank has truly been an excellent partner. It provides BWE invaluable assistance. From the very beginning of our relationship, Michelle DiBenedetto, Citibank's Vice President for Government and Community Relations and CRA Officer for Long Island, provides advice on a regular basis. She has encouraged us to reach out to other lending institutions for support and assistance. As illustrated in our newsletter, this outreach has fostered a variety of helping relationships with other banks.

We feel certain that the Citibank/Travelers acquisition will result in greater opportunities for the entire community and especially for small minority and women-owned businesses. Our members say that Citibank "listens and provide real guidance in business finance". We know, first hand, that Citibank knows how to help people who need help the most and have the capacity to do so while maintaining the integrity of a helping relationship.

We sincerely hope that this testimony will provide decision makers a clearer insight into the people behind the name Citibank and ask that the proposed acquisition request be granted. We feel confident that the combined strength of Travelers and Citicorp will enhance their capacity to support to assist women and minority in their quest to participate more fully in economic development.

Thank you for the opportunity to share our views.

BWE Board of Directors and Founding Officers:

Phyllis Hill Slater
Chairperson

Vera Moore
Vice Chairperson

Viola Newton
Secretary/Treasurer

M. Vicki Wacksman D.P.A..
President and C.E.O.

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Hartford's Strategic Plan for Teen Pregnancy Prevention

Progress Report, Spring/Summer 1998

BREAKING THE CYCLE

of children having children having children having children having children

Community Shows Progress On Pregnancy Goals

Births to Hartford teens dropped significantly in 1997 over 1996 in all three age categories targeted for reduction by ***Breaking the Cycle.*** For the first time in two decades, teen births dropped below 20 percent of total births in the city.

Teen births declined in almost every Hartford neighborhood during 1997. Beyond improvements throughout the city and in every age category, the data also show that Hartford substantially exceeded goals set by ***Breaking the Cycle*** in November 1995.

"We're very pleased with this development," said Hartford Action Plan President Don Wilson. "The community's work is paying off."

"This progress is very good news for Hartford," said Deputy Mayor Frances Sanchez, "but now we need to work even harder. We have to keep the numbers going down," Sanchez said, "and not let what happened in other places happen to us. They got the numbers down and then forgot about it and within a year they were way back up there."

Breaking the Cycle believes that credit for the progress belongs to the multiple efforts made by many individuals and groups throughout the city. Some campaign partners are already making plans to expand their work.

"The Postponing Sexual Involvement program has made a significant difference in the lives of both our fifth grade participants and our high school teen leaders," said Special Assistant to the Superintendent Jacquelyn Hardy. "For this reason, we are working to hire additional health educators and bring PSI to more schools next year."

The city Health Department's epidemiologist is working with ***Breaking the Cycle*** to further analyze the data. In addition, ***Breaking the Cycle's*** partners are collecting more information about existing youth programs that could help impact teen pregnancy.

The data on teen births in 1997 were acquired through the Hartford Health Department's participation in ***Breaking the Cycle*** and are considered preliminary until validated by the state.

Margaret Henson (l) and Elizabeth Carrasco (r) accept an award on behalf of Project YES (Youth Educating for Success). Project YES was one of many organizations and individuals honored by Breaking the Cycle for teen pregnancy prevention work. Story and photos, page 2. (Photo by Phillip Fortune)

DECLINE IN TEEN BIRTHS BY AGE GROUP, 1996 - 1997

Year	Mother's Age: Under 15	15 - 17	18 - 19	Total Hartford births to teens	Total Hartford births (all ages)	% births to teens
1996	18	240	263	521	2,256	23.1%
1997	11	190	238	439	2,204	19.9%
% of Decrease	**-39%**	**-21%**	**-10%**	**-16%**	**-2%**	**-14%**

TEENS FIND CHALLENGES, REWARDS TEACHING PSI

Teens from Bulkeley, Hartford Public, and Weaver High Schools are teaching the Postponing Sexual Involvement (PSI) curriculum to Hartford fifth graders for the second year. PSI helps fifth graders develop the attitudes and skills they need to resist peer pressure and avoid becoming sexually active at too early an age.

***Breaking the Cycle** asked teen leaders from all three high schools to talk about what teaching PSI has meant to them and to their students. We will print additional essays in future editions of the **Breaking the Cycle** Progress Report.*

PSI

BY JESSICA CASTEBLANCO

"I KNOW THAT WHAT I SAY AND HOW I SAY IT CAN

curiosity, to understand social pressures, and to resist peer-pressure.

Participating in this program has given me a sense of pride. I know that what I say and how I say it can make a difference in a child's life. I have been a teen leader since PSI began. The training was rigorous and I could never seem to put in enough time. My first class was nerve wracking. I didn't know how the fifth graders would react. Luckily, they were one of the best classes I've ever had. When I spoke, they listened, and they'd ask me questions if they didn't understand. They liked us, my teaching partner and I, and we liked

All photos by Philip Fortune

1. *Elizabeth Carrasco (l) and Natesha Burton (r) of Project YES role-play a mother-daughter conversation about sex.*
2. *Deborah Campagna, Vice President of the Connecticut Children's Medical Center Foundation (left) and Katherine McCormack, Director of Health for the City of Hartford (right) applaud* ***Breaking the Cycle*** *award recipients.*
3. *Dr. Ramón Rojano, Hartford Director of Human Services, introduces Project YES.*
4. *Hartford Deputy Mayor Frances Sanchez (left) talks about her involvement with* ***Breaking the Cycle*** *through the City Council, the Hartford Public Schools and the Hartford Action Plan. Action Plan President Don Wilson looks on.*
5. *Connecticut State Representative Annette W. Carter helped* ***Breaking the Cycle*** *secure state funding for teen pregnancy prevention work in Hartford.*
6. *Hartford Action Plan President Don Wilson (left) thanks WTIC-TV/Fox 61 General Manager Jerry Martin (center) and Public Relations Director Chris Moses (right) for the station's support. Fox's pro-bono PSA encouraging parents to talk with their children about sexuality and values is currently airing on television stations throughout the Hartford market.*
7. *Members of Project YES (Youth Educating for Success) display their recognition award.* ***Breaking the Cycle*** *recognized Project YES for its community presentations on parent-child communication. Left to right: Natesha Burton, Norma Velazquez, Beverly Ryan, Margaret Henson, Elizabeth Carrasco, Julianne Gonzalez, Maria Castillo.*

CAMPAIGN HONORS ORGANIZATIONS, STUDENTS, CORPORATIONS

Hartford Public High senior Natesha Burton, Fox 61/WTIC-TV, and the Travelers Foundation were among 50 groups and individuals honored by ***Breaking the Cycle*** for contributions to teen pregnancy prevention at BTC's 1997 awards luncheon. Burton, an honors student and athlete, is a Postponing Sexual Involve-

Rep. Carter helped secure state funding for teen pregnancy prevention in Hartford. Carol Jackson-Lawhorn provided leadership to launch PSI. Hartford Deputy Mayor Frances Sanchez has championed ***Breaking the Cycle*** throughout the city.

Others recognized for individual contributions to *Breaking the Cycle* include:

Teens Find Challenges *(continued from page 1)*

ATTITUDES about sex, BUT it's NOT OK to HAVE sex.

Being a teen leader has given me more than I could have imagined. It has helped me career-wise. It has given me skills in reading and analyzing the curriculum. I have learned how to prepare for a class and how to deal with students. All this has given me confidence and experience I will be able to utilize as a future classroom teacher. My Spanish has improved because I have taught two bilingual classes. My oratorical skills have improved. Most importantly, I have become a better person.

Hartford has one of the worst teen pregnancy problems in the nation. Through this program teen pregnancies can decrease. I was born in Hartford and I've lived here all my life. I know that there is hope out there. I have put a lot into this program and I know that my effort will help break the cycle of babies having babies.

Jessica CasteBlanco is a Bulkeley High School junior and has been a PSI teen leader for two years. She is a National Honor Society member & plans to pursue a career in education.

BY JASON A. WYATT

To me, PSI is making the future better. It motivates our younger generation to be more aware of the dangers of having sex. As one of the 30 PSI teen leaders in my school, I am in the program to lower Hartford's alarmingly high preteen and teen pregnancy rates and to reduce the casual sex prevalent among these young people. Each Tuesday, I look forward to attending our PSI training meetings. Then on Wednesday when I am assigned to teach at SAND Elementary School, I bring an important message to the fifth grade students. I enjoy motivating them to make wise decisions about when they should become sexually active. I believe the decisions that they make about sex will affect the rest of their lives.

"DECISIONS THAT THEY MAKE ABOUT SEX WILL AFFECT THE REST OF THEIR LIVES."

- Jason Wyatt

Because I plan to have kids one day, I don't want to have to worry about them growing up in a sex-crazed world where preteens and teens struggle with the many painful consequences of having sex at an early age. One way for me to make a difference and ensure that this scenario won't happen is to go out and share information with the younger generation coming up behind me. PSI gives me the chance to do just that. I like being part of it.

Also, PSI develops a keen sense of responsibility in us teen leaders. We soon discover that although teaching is rewarding, it is not an easy thing to do. Just like anything else in life, we get back as much as we put into it. We see that our hard work produces positive results. Spending the time to prepare for teaching determines if we succeed or fail at presenting PSI to the fifth graders.

As PSI teen leaders, we are committed to attending weekly meetings, studying our materials, preparing lessons and visuals, and showing up on time to teach. Our sense of responsibility and our presentation skills have both increased as a result. Many of us joined the program to help fifth graders, but found out that it benefited us just as much.

Jason Wyatt is a junior at Hartford Public High School where he is also an all-conference football player. This is his first year as a PSI teen leader.

BY MORGAN ROANE

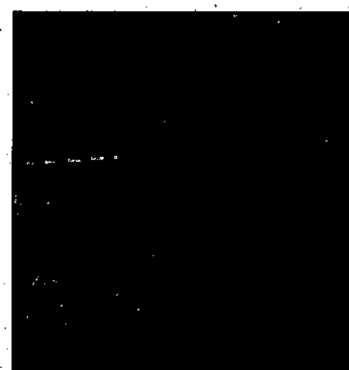
In my high school being pregnant is a fashion statement. We have girls walking the halls with their jeans unbuckled because their pants can no longer accommodate the size of their bellies. There are girls boasting about receiving public assistance. There are girls fighting over a certain boy who has fathered both of their certain life. Every day is a struggle. Her life as a teenager ended abruptly.

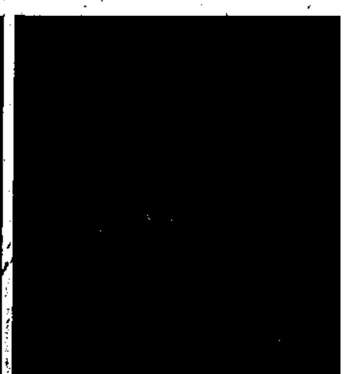
Having observed the consequences of teenage pregnancy, I decided t come a PSI teen leader. By focusing on fifth graders, we catch students whil are thinking about sex but may not have acted on their feelings.

PSI teen leaders do not preach. Rather our purpose is to foster understa and dialogue. We use videos, art, and group discussions to address issues lik pressure, the importance of abstinence, and the consequences of pregnanc sexual involvement. We role-play tricky situations students might find themsel and suggest ways to get out of them. I often ask my students, "If your fri forcing you to do something, is he/she really your friend?" I tell the students, " times making the right choices means losing the wrong friends." Our goal is tell the students never to have sex or to scare them, but to let them know th best thing to do is postpone sex until they are responsible.

I have participated in PSI for three years now and enjoy every minute. wonderful feeling to know you have made a positive impact on a young persor do not reach everyone, but we are making a difference. It is my hope that pro like this one will help make teenage pregnancy a fashion faux pas.

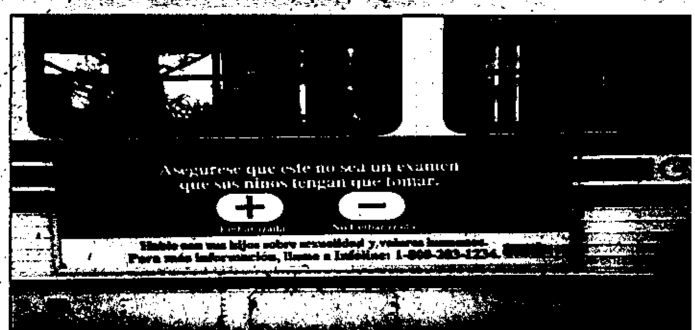
*Morgan Roane is a senior at Weaver High School and will begin college in Septem An earlier version of her essay appeared in the **Hartford Inquirer.***





*(Left) Marketing consultant and Public Awareness Work Group member Ana Alfaro introduces **Breaking the Cycle's "Let's Talk"** campaign to the media. (Staff photo)*

(Right) Bulkeley High School Teen Leader Gladys Santiago talks about the need for good communication between parents and children about sexuality. (Staff photo)



(Above) Breaking the Cycle's "Let's Talk" campaign gets rolling on CT Transit. The message in English read: "Make this the one test your kids don't have to take. Talk with your child about sexuality and values. For information, call Infoline: 1-800-203-1234." (Photo courtesy P&C Media.)

Breaking the Cycle tells parents; "Let's Talk"

Partnership finds success with first media effort

Breaking the Cycle's first public awareness campaign has attracted positive response in Hartford and around the state of Connecticut. Launch in December 1997, the campaign includes public service announcemen and ads on television, radio, and public buses that encourage parents talk with their children about sexuality and values. The initiative, know

National Expert On Sexuality Training Speaks On What Works To Prevent Teen Pregnancy

As keynote speaker at *Breaking the Cycle's* 1997 awards luncheon, Barbara Huberman challenged Hartford to maintain and build upon its commitment to teen pregnancy prevention. Huberman, an international expert with 25 years' experience in the field of adolescent sexuality, is Director of Training at Advocates for Youth and a board member of the National Campaign to Prevent Teen Pregnancy.

Huberman praised BTC's effort to involve every sector of the community and to focus on setting measurable goals. Huberman also emphasized the importance of insuring access to contraceptive services, noting that nationally 80 percent of youth are sexually active during their teen years.

Just back from a European fact-finding mission, Huberman noted reasons for Europe's low teen pregnancy rate as compared to that of the United States. First, most European countries provide all youth with access to balanced, accurate sexuality education that helps them make informed decisions. Second, most European teens have access to free health care, including family planning services not easily accessible to U.S. teens. Finally, reproductive health policy in Europe focuses more on contraception than on so-called "abstinence only" approaches.

While in Hartford, Huberman also met with BTC partners, including staff, volunteers and teens from the PSI program, Project YES, and many other Hartford youth organizations. With support from the Annie E. Casey Foundation, Huberman has also been a consultant to the Hartford Action Plan's Plain Talk/Hablando Claro program, helping the program develop its services for sexually active teens and their parents.

Adult Health Leader Cindi Avezzi (left) and Advocates for Youth Director of Training Barbara Huberman (right) discuss **Breaking the Cycle** *and services for sexually active teens. (Photo: Phillip Fortune)*

TRAVELERS TAPS *BREAKING THE CYCLE* AS PROGRAM OF THE YEAR

The Travelers Foundation selected Breaking the Cycle as its program of the year for 1997.

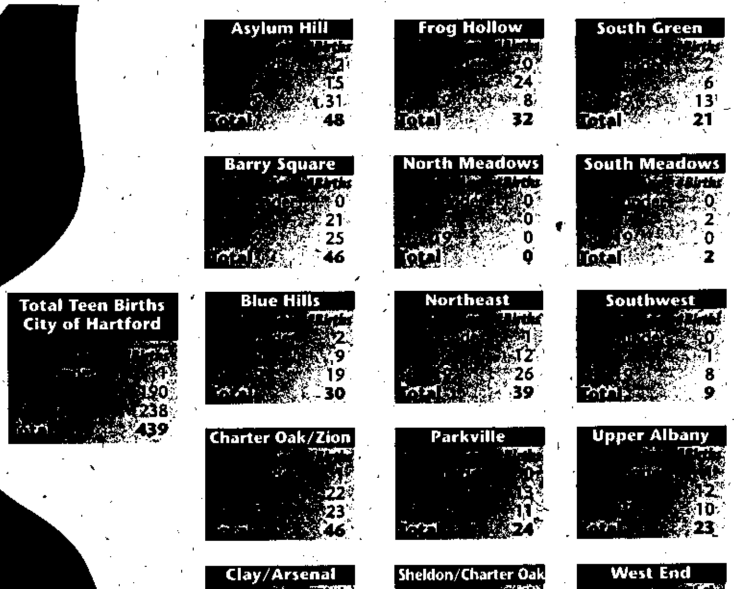
Travelers, a supporter of ***Breaking the Cycle*** since its inception, took a particular interest in the Postponing Sexual Involvement Program (PSI) last year. Travelers Foundation staff from Hartford and New York attended PSI training sessions and met with PSI teen leaders on several occasions.

"We reviewed more than 100 programs that received grants from the Travelers Foundation and selected ***Breaking the Cycle*** as our program of the year," said Travelers Foundation Manager Susan Glucksman. "There are a number of excellent, critically needed service organizations in our community, but this was an easy choice. It's a great program."

The award comes with an additional grant from the Travelers Foundation, which continues to support ***Breaking the Cycle's*** efforts in 1998.

Teen Births in Hartford, January 1 - December 31, 1997

Numbers on map at left represent total teen births for each neighborhood. For more detailed information, see charts below.



Teen Friendly Clinics:

IMPROVING SERVICES TO SEXUALLY ACTIVE TEENS

To reduce teen pregnancy in Hartford, *Breaking the Cycle* must improve reproductive health services for sexually active youths. To achieve this, Breaking the Cycle is working with health providers throughout the city to develop comprehensive reproductive health services for teens, including "teen friendly" reproductive health clinics. What makes a clinic "teen friendly?" How do reproductive health services for teens fit into *Breaking the Cycle's* overall strategy? Read on to learn more.

HOW TO MAKE REPRODUCTIVE HEALTH SERVICES MORE "TEEN FRIENDLY" IN HARTFORD:

Include reproduct[illegible] hea[illegible] care for teens as part o[illegible] prima[illegible] care and make it a reg[illegible] part of annual physical exam for all teens;

Make sure that al[illegible] clinics provid[illegible] ing reproductive health services to teens:

- [illegible]e visible sig[illegible] and be lo[illegible]ted in [illegible]ace easily a[illegible]essib[illegible] to [illegible]ens;
- [illegible]ch out to te[illegible]s th[illegible]ugh adver[illegible]g, attendin[illegible] commun[illegible] [illegible]nts, and networking w[illegible] s[illegible]ools, agen[illegible] and c[illegible]mmuni[illegible] [illegible]anizatio[illegible]
- a[illegible]re tee[illegible] conf[illegible]n-t[illegible]y;
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- h[illegible] and [illegible] to make te[illegible] comfo[illegible]ble and respe[illegible]
- offer[illegible] lo[illegible]t services;
- allow w[illegible]nd don't keep teens wait[illegible]ing appointments;
- have staff that speaks the language and understands and respects the culture of the teens who use the clinic;
- offer the full range of age-appropriate services including education; counseling, birth control, and testing for pregnancy and STDs.

Because teens are teens *and not* adults, parents, other responsible adults, schools, and the broader community must also identify

Citibank Testimony June 25, 1998

Good afternoon. My name is Lydia Tom and I am director of Housing and Finance for The Enterprise Foundation's New York office. I would like to tell you briefly about Enterprise's involvement with Citibank, and how the bank has partnered with Enterprise in working to improve the quality of life in low-income neighborhoods, through the development of housing and support services, both nationally and in New York.

Citibank has been an invaluable partner in helping Enterprise to provide different financial resources to low-income communities. Citibank has assisted us on many levels: as a funder, tax credit investor and loan source.

Enterprise and Citibank have been working together since 1991. Enterprise was established by Jim and Patty Rouse in 1982 to provide the opportunity for low-income Americans to secure decent affordable housing and move up and out of poverty. Since that time, Enterprise has helped create over 86,000 affordable apartments nationally, including 8,000 in New York.

Citibank has worked with Enterprise in many cities around the country, including New York, Buffalo, Rochester, Syracuse, Delaware, Maryland, the District of Columbia, Florida, San Antonio, St. Louis, Nevada and California.

Since 1991, Citibank and the Citicorp Foundation have provided $987,000 in grants to Enterprise and $1.75 million in below market rate loans. Citibank has provided or committed to provide $74 million in equity through the Low Income Housing Tax Credit. This $74 million includes $50 million invested in the New York Equity Fund, as well as nearly $20 million in national funds that have supported special needs housing in New York. This housing serves the formerly-homeless, the elderly, those with a history of mental illness or substance abuse, and those with AIDS.

These numbers have a real impact on communities. The funds have been used to extend credit to low-income families for homeownership, to develop affordable rental housing by placing equity from Citibank in tax credit eligible multi-family housing and to support special programs through grants, in such areas as job training and child care that improve the quality of life for residents.

As an investor in the tax credit and a source of predevelopment loans, Citibank has facilitated the creation of affordable housing for those who need it most. You may have read a recent New York Times article that noted that the number of housing needy families in the United States outnumber affordable apartments by 4.4 million. The Low Income Housing Tax Credit has been a valuable tool in filling this gap. Citibank's total commitment to the credit will help produce an estimated 1,750 safe, decent affordable homes nationally.

Citibank is also participating in Enterprise's CityHome program, an effort with NYC and The Community Preservation Corporation to provide homeownership opportunities for low and moderate-income families. Citibank will be providing mortgages for these first-time buyers. CityHome targets smaller, abandoned City-owned buildings and helps bring stability to neighborhoods by transforming eyesores into community assets and bringing back owners to deteriorated blocks.

Predevelopment loans are another tool Citibank has provided for the development of affordable housing. In New York, Citibank has provided $1.5 million in predevelopment funds over the past two years. This includes some monies to upstate regions. These funds help nonprofits pay for expenses such as architectural and legal fees, so that construction can close.

Support services such as child care, job training and greening projects build on housing and uplift the quality of life in neighborhoods. Citibank has been sensitive to these needs. Citibank was an early funder of a child care initiative Enterprise established. Through this project, two facilities have been developed that provide quality child care for over 200 children from low-income families. Citibank also provided funds for a training program connected with one of these centers through which low-income women receive training in the Montessori Method of early childhood development while working as teacher aides and classroom assistants. This program, serving about 20 women, has made it possible for several participants to get off welfare and pursue a career in early childhood education.

Citibank has also used its resources to fund employment initiatives, a major concern now that welfare reform has impacted communities. On a national level, Citibank funds made it possible for Enterprise to launch the Volunteer Institute in 1994. The Volunteer Institute provides training for AmeriCorps volunteers solicited by selected nonprofit groups for community safety programs. Thanks to Citibank's generosity, this program has had outstanding results for people at very low income levels, some of whom are having their first experience in the work world.

Citibank also funded a new job training effort in New York called the "Treekeeper Training Program" which will train residents in low-income neighborhood in tree maintenance and landscaping and link them with jobs with smaller landscaping contractors looking to create city-based work crews.

On the community level, Citibank has used its resources to develop creative partnerships to meet local needs. Through its Culture Builds Community program, Citibank funded a program, implemented by Enterprise and Trees New York in 1995, to plant street trees along W. 159th St. in Washington Heights. The Community League of W. 159th St. was the local sponsor. Residents helped plant and have since cared for and maintained the trees. Not only has the program helped bring greenery to the block, but the care of the trees has served as an organizing tool for tenant associations.

Finally, the leadership of Citibank senior executives has been a great asset to Enterprise. Janet Thompson and Emilio Fernandez serve on Enterprise advisory boards in New York and Miami, respectively. In New York, Janet has been instrumental in examining ways in which Enterprise and Citibank can contribute to a more comprehensive approach to community development. Other Citibank executives have been very active in Enterprise New York's "Junior Board", a group of young professionals who participate in hands-on activities in neighborhoods, such as planting community gardens and furnishing community rooms. Citibank has been very helpful with Enterprise's annual Network Conference, which now involves over 1,300 housing professionals from around the country. Citibank executives have addressed the conference and participated in workshops.

Enterprise supports the application for Citibank and Travelers to merge. We hope that this is an opportunity to expand services to low-income communities, through the combination of Citibank's existing initiatives with the resources that Travelers brings, including $100 million in tax credit investments made by Salomon Brothers.

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Good ~~afternoon~~ Evening.

My name is Maria Rosado; and, I am the president of MHR Management, a real estate management company based in Williamsburg, Brooklyn. I am here to speak on behalf of the proposed merger of Citicorp and Travelers Group.

My testimony is based on my experience with Citibank's Community Development and their commitment to the neighborhoods where we manage low and moderate-income properties. Through the NEP Program, we were able to borrow $10 Million Dollars from Citibank to renovate 12 buildings in Bedford-Stuyvesant. We have already completed seven buildings; and are preparing to initiate phase two of this restoration work.

Although this venture is modest, it is one of many projects that are necessary to revitalize the well being of an important community. Many families, for the first time, see the reality of investment in the metamorphosis of their apartments, their homes, and their neighborhood. It is tangible evidence of the commitment already made; and suggests a grander, more stable future for communities already following this dynamic duo.

Everyone benefits from an enlightened acquaintance. Investment, loans, insurance, and financial re-education will follow a natural progression from those already persuaded. And, just as surely, as a new home engenders real hope, conservation, and commitment, an educated partner will see the need for savings, insurance and re-investment in and beyond their self –interests.

This merger, I believe, will put all of the needed tools for financial stability within reach of communities previously under-nourished in this area. It is only right that we have an opportunity to learn from the Biggest and the Best.

Thank you.

The NONPROFIT CONNECTION
Management Assistance To Nonprofit Organizations

TESTIMONY TO THE FEDERAL RESERVE BANK OF NEW YORK RE CITIBANK'S COMMUNITY DEVELOPMENT ACTIVITIES

Donna Panton, Executive Director
June 25, 1998

The Nonprofit Connection provides management assistance to nonprofit, community-based organizations throughout New York City. For the past 21 years, we have worked with these nonprofits to improve their administration and operations in order to enhance the effectiveness of their services.

Citibank has supported our work since 1977 with grants totalling $125,000.

Since our clients are the human service, arts and community development organizations that build and strengthen the communities and neighborhoods of New York City, the goal of my statement today is to present three partnership initiatives that The Nonprofit Connection has undertaken with Citibank's support, and to urge that these kinds of programs be strengthened, should the merger be approved.

First : Citibank has helped The Nonprofit Connection expand the services we provide in the boroughs of Queens and Staten Island -- boroughs that historically have been underserved by foundations and corporate funders. Citibank funded us to provide workshops and technical assistance, and gave grants to the organizations themselves to pay for technical assistance services to improve fundraising, board development, financial management, strategic planning, program design and other areas of operation.

Second: In 1993 and 1995, Citibank funded two series of planning workshops for senior managers of community-based organizations that receive support from by the bank. These workshops helped groups -- many of whom had never formally planned their programs and operations -- to understand the process and to apply strategies that would increase their effectiveness and strengthen their position vis-a-vis the funding community.

Third: Since 1996, The Nonprofit Connection has received funding to conduct the Citibank Community Development Institute, a five-month course aimed at helping community development corporations (CDC's) strengthening their sustainability -- in other words, helping them develop their internal capacity and plan economic development projects. As you know, CDC's play a critical role in community revitalization and in the creation of opportunity for businesses and low-income residents.

Specifically, the Institute helped these CDC's to:

- Review the needs of their constituents
- Strengthen staffing and administrative procedures
- Refocus programs
- Utilize market analysis and create marketing plans to maximize the potential success of new initiatives
- Prepare and submit economic development projects for financing

Twenty-five CDC's have participated in three separate Institutes conducted for organizations from Brooklyn, from Queens and Staten Island, and from the Bronx and Upper Manhattan -- which is currently underway. As a direct result of this participation, eight CDC's have raised over $1.5 million from private and public sources to support new administrative and program initiatives. We are discussing with Citibank the possibility of extending the program to Westchester County in the fall.

Specific economic development projects developed or refined through the Institute include:

- Merchant organizing
- Commercial and retail strip development
- Advice and incubator services for small businesses
- Increased access to credit and capital for local businesses and home buyers
- The development of for-profit ventures including: a funeral parlor, a book store, a residential weatherization business, thrift shops, home health care services, and food service delivery

In addition, the CDC's were able to develop or strengthen relationships with Citibank:

- Four of the Brooklyn groups were awarded first-round grants in Citibank's Partners In Progress program, which provides substantial funding for economic development projects
- A number of other groups developed new relationships with community relations officers that helped them to access Citibank funding for the first time

Benefits also accrued to Citibank itself:

- Staff from the Foundation and the community development and loan departments served as speakers and advisors
- Branch managers, loan officers, and mortgage analysts had an opportunity to meet with people involved in community building and learn about the work of the

CDC's when they attended sessions where Institute participants presented their projects

Participants in the Citibank Community Development Institute:

Brooklyn
January-May 1997

ACCION New York
Astella Development Corporation
Central Brooklyn Partnership
Cypress Hills Local Development Corporation
East Williamsburg Valley Industrial Development Corporation
Erasmus Neighborhood Federation
The Fifth Avenue Committee
Flatbush Development Corporation
Midwood Development Corporation
Neighbors Helping Neighbors
Pratt Area Community Council
South Brooklyn Local Development Corporation

Queens and Staten Island
September 1997-January 1998

Jackson Heights Development Corporation
Jamaica Business Resource Center
Northfield Local Development Corporation
Rockaway Development & Revitalization Corporation
West Brighton Local Development Corporation

The Bronx and Upper Manhattan
March-July 1998

Audubon Partnership
The Bronx Council for Economic Development
Citizens Advice Bureau
Harlem Congregations for Community Improvement, Inc.
Mid-Bronx Senior Citizens Council
The Point Community Development Corporation
Women's Housing and Economic Development Corporation

In closing, let me say that Citibank has had considerable impact on community development initiatives in New York City -- through its support of CDC's; community development financial institutions; arts, educational and human service organizations; and technical assistance organizations like The Nonprofit Connection.

We hope that the new corporate entity -- if it is realized -- will expand this commitment to community building, particularly here in New York.

TESTIMONY

OF

PETER J. KIERNAN, ESQUIRE

Chairman, Brooklyn Sports Foundation

Before:

Division of Consumer and Community Affairs,
Board of Governors, Federal Reserve System.

Regarding:

Citicorp and Travelers Group

June 25, 1998

Good evening. I am Peter J. Kiernan, Chairman of the Brooklyn Sports Foundation. I am grateful for this opportunity to testify regarding the proposed merger of Citicorp and the Travelers Group.

My testimony is about Citicorp and the very positive, significant and generous contributions Citicorp has made in respect of the Brooklyn Sports Foundation.

The Brooklyn Sports Foundation (the "Foundation") is a duly organized Section 501 (c) (3) not-for-profit foundation. Its fundamental purposes are to address and solve the lamentable dearth of amateur sports facilities in Brooklyn. Brooklyn has more then 2.3 million residents. It has a school age population of nearly 500,000. However, its sport facilities are completely inadequate. For example, there are more than 100,000 kids per outdoor track, and about 500,000 kids per indoor track in Brooklyn. That does not leave much room to run.

Organized sports play a key role in nurturing, in socialization, in education, and in building healthy bodies and a healthy society. Learning how to play by the rules; learning how to set goals and how to measure progress against those goals; and learning how to win and how to lose are among life's most important lessons. Society has the obligation and the need to provide the opportunities for such lessons to be taught and experienced. The Foundation, predicated on the behalf that sports can be an antidote to racism and crime, began a sustained effort in 1987 to maximize the opportunity for youths to participate in organized sports. I am pleased to report that final design is underway for Sportsplex, a sports complex to be located in Coney Island featuring an arena seating 12,500. (Currently the largest public assembly space in Brooklyn is 2,500.) The Foundation will develop and operate Sportsplex.

The Foundation enjoys the support and participation of Brooklyn's business, academic, religious, and athletic communities. None of the Foundation's support has exceeded that of Citicorp in terms of financial contributions, personnel time and talent, and reputational stake.

Sportsplex will be located in Coney Island for a variety of reasons not the least of which is that what once was a wold famous location symbolizing an era of recreation, fun and harmony has become a dreary example of abandonment, decay, and urban segregation. Citicorp recognized that while Brooklyn desperately needs sports facilities, it also needs economic development. Citicorp recognized that Coney Island is not simply a vestige of a foregone economic era, made obsolete by air conditioning and interstate highways. Rather, Coney Island is a choice repository of economic opportunity. Coney Island has land, transportation, human resources and a tradition of entrepreneurship . Citicorp prominently associated itself with a determined effort to demonstrate that public capital funding of a sports complex on public land in Coney Island will generate private economic development on ancillary private land. Citicorp prominently committed itself to the notion that development of an adjunct to New York City's education infrastructure can be good economics and, conversely, that good economic development can be very wise education policy.

Since 1997 the State and the City of New York have pledged more than $70,000,000 in cash and land to Sportsplex. Ancillary private commercial development of $100,000,000 has been announced and an additional $20,000,000 for a minor league baseball stadium in a revitalized Coney Island has just been approved . More than $25,000,000 in direct annual tax revenues has been forecast to result. Hundreds of permanent jobs will be created. A major expansion of the subway terminus in Coney Island has begun. All of this is given impetus by Sportsplex and to Coney Island all of this will be to the early 21st Century what the Coney Island amusement parks were to the early 20th Century.

Citicorp continues to assist this effort broadly. In doing so it gives genuine definition to the phrase "corporate citizen." It gives far more than just money, facilities and talent. It gives the weight of its credibility and its commitment to proactive public policy. And Citicorp never asks for anything in return.

Thank you for your attention.