

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 America¹ 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

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.

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:

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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 these 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

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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

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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,

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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

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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.