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OF THE  
**FEDERAL RESERVE SYSTEM**  
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TO THE BOARD

June 30, 2006

Carl Howard, Esq.  
General Counsel  
Bank Regulatory  
Citigroup Inc.  
425 Park Avenue  
2nd Floor/Zone 2  
New York, New York 10022

Dear Mr. Howard:

This is in response to the request by Citigroup Inc. (“Citigroup”), New York, New York, on behalf of Citibank (West), FSB (“CitiWest”), San Francisco, California, for an exemption from section 23A of the Federal Reserve Act and the Board’s Regulation W to permit CitiWest to acquire all the shares of its affiliate, CitiFinancial Mortgage Company, Inc. (“CitiFinancial Mortgage”), Irving, Texas.<sup>1</sup>

Citigroup proposes to consolidate its residential mortgage origination and servicing operations as part of a reorganization of its mortgage business. Citigroup currently conducts these activities through two principal subsidiaries, CitiFinancial Mortgage, an operating subsidiary of Citicorp Trust Bank, fsb (“CTB”) and CitiFinancial Mortgage, Inc. (“CMI”), an operating subsidiary of CitiWest. As a first step in the reorganization, Citigroup would transfer all the shares of CitiFinancial Mortgage to CitiWest, a federal savings bank subsidiary that is subject to section 23A.<sup>2</sup> After CitiFinancial Mortgage becomes a direct

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<sup>1</sup> 12 U.S.C. § 371c; 12 CFR part 223.

<sup>2</sup> Specifically, Citigroup would cause all the shares of CitiFinancial Mortgage’s parent, CTB, to be distributed by its intermediate parents, Citicorp Banking Corporation and Associates First Capital Corporation, to Citigroup. Citigroup

subsidiary of CitiWest, CitiFinancial Mortgage would merge into CMI. Within 90 days of that merger, CitiWest would convert to a national bank and be merged into Citigroup's lead subsidiary bank, Citibank, N.A. ("CBNA"), New York, New York, as part of Citigroup's larger plan to consolidate its insured depository institutions.

CitiFinancial Mortgage, which originates, services, and holds residential mortgages and mortgage-related assets, was transferred to CTB as an earlier step in the process of Citigroup's consolidation of its mortgage operations. In connection with that transfer, the Board granted Citigroup's request for an exemption from section 23A and Regulation W, and Citigroup committed to compensate CTB for any losses associated with the transferred assets for a period of five years. Citigroup has represented that CitiFinancial Mortgage and its successor CMI will track the assets that were transferred to CTB as part of that transaction, and Citigroup will continue to make cash contributions to the parent insured depository institution of CitiFinancial Mortgage on a quarterly basis for those transferred assets that become low-quality assets each quarter for the remainder of the five-year period (consistent with its earlier commitment).<sup>3</sup>

Section 23A and Regulation W limit the amount of "covered transactions" between a bank (including a federal savings bank) and any single affiliate to 10 percent of the bank's capital stock and surplus and limit the amount of covered transactions between a bank and all its affiliates to 20 percent of the bank's capital stock and surplus. "Covered transactions" include a bank's purchase of assets from an affiliate and a bank's extension of credit to an affiliate. The statute and regulation also require a bank to secure its extensions of credit to, and certain other covered transactions with, affiliates with prescribed amounts of collateral. In addition, section 23A and Regulation W prohibit a bank from purchasing low-quality assets from an affiliate.

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would then cause CTB to dividend the stock of CitiFinancial Mortgage up to Citigroup, subject to approval by the Office of Thrift Supervision. Finally, Citigroup would contribute the stock of CitiFinancial Mortgage through a series of intermediate holding companies to CitiWest.

<sup>3</sup> Citigroup would make any such cash contributions (i) to CitiWest while CitiFinancial Mortgage, or its successor, CMI, is a subsidiary of CitiWest and (ii) to CBNA after CitiWest is merged into CBNA.

Regulation W provides that a bank's acquisition of a security issued by a company that was an affiliate of the bank before the acquisition is treated as a purchase of assets by the bank from an affiliate if (i) the company becomes an operating subsidiary of the bank as a result of the transaction and (ii) the company has liabilities at the time of the acquisition.<sup>4</sup> CitiFinancial Mortgage is currently an affiliate of CitiWest, would become an operating subsidiary of CitiWest immediately after the reorganization, and would have liabilities at the time of the reorganization. Accordingly, Citigroup's transfer of all the shares of CitiFinancial Mortgage to CitiWest would be an asset purchase subject to the quantitative and qualitative limitations of section 23A and Regulation W. For purposes of Regulation W, the value of the covered transaction would be approximately \$17.3 billion -- the total liabilities of CitiFinancial Mortgage at the time of the reorganization.<sup>5</sup>

To accomplish the reorganization, Citigroup has requested an exemption from section 23A and Regulation W to permit CitiWest to acquire all the shares of CitiFinancial Mortgage. Section 23A and Regulation W specifically authorize the Board to exempt, in its discretion, transactions or relationships from the requirements of the statute and regulation if the Board finds such exemptions to be in the public interest and consistent with the purposes of section 23A.<sup>6</sup>

The Board has approved exemptions under section 23A for one-time asset transfers that were part of a corporate reorganization and structured to ensure the quality of the transferred assets.<sup>7</sup> As in previous cases, the proposed transaction in this case is part of a one-time corporate reorganization. Citigroup is consolidating its residential mortgage origination and servicing business into CitiWest. In addition, this transaction is, in substance, a transfer of assets between two insured depository institutions that are wholly owned by Citigroup. Thus, the transaction does not introduce new assets into the federal deposit insurance system. Citigroup expects this exemption to enhance the efficiency of its lending programs and to contain or reduce its operating expenses.

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<sup>4</sup> See 12 CFR 223.31(a).

<sup>5</sup> See 12 CFR 223.31(b).

<sup>6</sup> 12 U.S.C. § 371c(f)(2); 12 CFR 223.43(a).

<sup>7</sup> See, e.g., Board letters dated November 22, 2005, to Robin J. Maxwell, Esq. (The Royal Bank of Scotland Group plc); May 14, 2004, to James E. Scott, Esq. (Citigroup); and February 10, 2004, to David Teitelbaum, Esq. (Merrill Lynch).

As part of this transaction, Citigroup proposes to transfer approximately \$561 million in low-quality assets to CitiWest. Section 23A and Regulation W prohibit a bank from purchasing low-quality assets from an affiliate. Under Board precedent, however, CitiWest would not be viewed as purchasing any low-quality assets from an affiliate as part of the proposed reorganization because Citigroup has committed to transfer approximately \$561 million in cash to CitiWest to offset the low-quality assets before or at the time of the transfer of CitiFinancial Mortgage to CitiWest.<sup>8</sup>

Citigroup also has made the following commitments as part of this exemption request:

1. Until CitiWest is merged into CBNA, Citigroup will make quarterly cash payments to the parent depository institution of CitiFinancial Mortgage equal to the book value plus write-downs taken by the parent depository institution of CitiFinancial Mortgage of any transferred assets that become low-quality assets during the quarter.<sup>9</sup>
2. Before the purchase of assets is consummated, CitiWest's directors will review and approve the transaction.

In addition, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision have informed the Board that they have no objection to the proposal. In light of these considerations and all the facts you have presented, the reorganization transaction appears to be consistent with safe and sound banking practices and on terms that would ensure the quality of the assets transferred.

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<sup>8</sup> See Board letters dated December 22, 2004, to Winthrop N. Brown, Esq. (HSBC Bank); and February 27, 2003, and August 28, 2001, to Carl Howard, Esq. (Citigroup).

<sup>9</sup> The merger of CitiWest into CBNA will be reviewed by the Office of the Comptroller of the Currency under the Bank Merger Act (12 U.S.C. § 1828(c)). As discussed above, with respect to the assets held by CitiFinancial Mortgage at the time it was transferred to CTB, Citigroup will continue to make quarterly cash contributions to the parent insured depository institution of CitiFinancial Mortgage for any of those assets that become low-quality each quarter for the remainder of the five-year period.

Accordingly, the transaction appears to be consistent with the purposes of section 23A, and the Director of the Division of Banking Supervision and Regulation, pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby grants the requested exemption.

This determination is specifically conditioned on compliance by Citigroup, CTB, CitiWest, and CitiFinancial Mortgage with all the commitments and representations made in connection with the exemption request. These commitments and representations are deemed to be conditions imposed in writing in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances surrounding the proposed transaction and may be revoked in the event of material change in those facts and circumstances or failure by Citigroup, CTB, CitiWest, or CitiFinancial Mortgage to observe its commitments or representations. Granting this exemption does not represent a determination concerning the permissibility of any other transactions engaged in by Citigroup, CTB, CitiWest, or CitiFinancial Mortgage that are subject to section 23A or Regulation W.

Sincerely yours,

*(signed)*

Robert deV. Frierson  
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York  
Federal Deposit Insurance Corporation  
Office of Thrift Supervision