

FEDERAL RESERVE SYSTEM

Citigroup Inc.
New York, New York

Citigroup Holdings Company
Wilmington, Delaware

Citicorp
New York, New York

Order Approving Acquisition of a Bank Holding Company

Citigroup Inc., Citigroup Holdings Company, and Citicorp, financial holding companies within the meaning of the Bank Holding Company Act (“BHC Act”) (together, “Citigroup”), have applied under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire at least 51 percent of the voting shares of Grupo Financiero Banamex Accival, S.A. de C.V. (“Banacci”), and Banco Nacional de Mexico, S.A. (“Banamex”), both in Mexico City, Mexico, and thereby indirectly acquire Banamex USA Bancorp, and its subsidiary, California Commerce Bank, both in Los Angeles, California (“CCB”).¹

Citigroup also has filed a notice under section 4(c)(13) of the BHC Act (12 U.S.C. § 1843(c)(13)) and the Board’s Regulation K (12 C.F.R. 211) to acquire Banamex, and its foreign banking and nonbanking investments.²

¹ Citigroup also has proposed to form another intermediate bank holding company between Citigroup and CCB.

² Banacci is a financial services holding company organized under the laws of Mexico. In addition to CCB and Banamex, Banacci’s main financial subsidiaries

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 31,649 (2001)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the BHC Act and other applicable statutes.

Citigroup, with total consolidated assets of \$902.2 billion, is the largest commercial banking organization in the United States, controlling approximately 3.9 percent of the total assets of insured commercial banks in the United States, and is one of the largest commercial banking organizations in the world.³ In California, Citigroup operates Citibank, Federal Savings Bank, San Francisco (“Citibank FSB”), the eleventh largest depository organization in California, with \$6 billion in deposits, representing approximately 1.3 percent of total deposits in insured depository institutions in the state (“state deposits”).⁴ Citigroup also operates depository institutions in New York, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Nevada, New Jersey, South Dakota, Texas, Utah, Virginia, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

CCB operates only in California and is the 41st largest depository institution in the state, with \$1.3 billion in deposits, representing less than

are Acciones y Valores de Mexico, S.A. de C.V., which engages in securities activities, and Seguros Banamex AEGON, S.A. de C.V., which engages in insurance underwriting and related activities. As a financial holding company, Citigroup has proposed to acquire these Banacci nonbanking subsidiaries pursuant to section 4(k) of the BHC Act. 12 U.S.C. § 1843(k).

³ Asset and U.S. ranking data are as of December 31, 2000.

⁴ In this context, depository institutions include commercial banks, savings banks, and savings associations. Deposit and state ranking data are as of June 30, 2000.

1 percent of state deposits. After consummation of the proposal, Citigroup would become the seventh largest depository organization in California, with \$7.3 billion in deposits, representing approximately 1.6 percent of state deposits.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.⁵ For purposes of the BHC Act, the home state of Citigroup is New York, and CCB is located in California. Based on a review of the facts of record, including a review of the relevant state statutes, the Board finds that all the conditions enumerated in section 3(d) of the BHC Act for an interstate acquisition are met in this case.⁶ In light of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or be in furtherance of a monopoly. The BHC Act also prohibits the Board from approving a proposal that would

⁵ See 12 U.S.C. § 1842(d). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

⁶ See 12 U.S.C. §§ 1842(d)(1)(A) and (B) and 1842(d)(2)(A). Citigroup is well capitalized and well managed. On consummation of the proposal, Citigroup would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the total amount of deposits of insured depository institutions in California. CCB has been in existence and operated continuously for at least 5 years, the period of time required by California law. See 12 U.S.C. § 1842(d)(1)(B); Cal. Fin. Code § 3825 (1999). The other requirements of section 3(d) also have been met.

substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.⁷

Citigroup's subsidiary savings association, Citibank FSB, competes directly with CCB compete in the Los Angeles, California banking market ("Los Angeles banking market").⁸ The Board has reviewed carefully the competitive effects of the proposal in the Los Angeles banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions in the market ("market deposits") controlled by Citigroup and CCB,⁹ the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI"), and other characteristics of the market.¹⁰

⁷ See 12 U.S.C. § 1842(c).

⁸ The Los Angeles banking market is defined as the Los Angeles Ranally Metro Area and the towns of Acton, Rancho Santa Margarita, and Rosamond, California.

⁹ Market share data are as of June 30, 2000, and are based on calculations that include the deposits of thrift institutions, except the deposits of Citibank FSB, weighted at 50 percent. The Board has indicated previously that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991). Because Citibank FSB is affiliated with a commercial banking organization, its deposits are included at 100 percent. See First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990).

¹⁰ Under the Department of Justice Merger Guidelines ("DOJ Guidelines"), 49 Federal Register 26,823 (June 29, 1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800. The Department

Citigroup operates the 15th largest depository organization in the Los Angeles banking market, controlling market deposits of \$1.7 billion, representing approximately 1.2 percent of market deposits. CCB is the 22nd largest depository organization in the market, with deposits of \$1.3 billion, representing less than 1 percent of market deposits. On consummation of the proposal, Citigroup would operate the ninth largest depository organization in the market, controlling deposits of \$3 billion, representing approximately 2.1 percent of market deposits. The HHI for the market would increase 2 points to 1019. The Los Angeles banking market would remain moderately concentrated after consummation of the proposal, with numerous competitors in the market.

The Department of Justice has reviewed the proposal and advised the Board that consummation of the proposal would not likely have any significantly adverse competitive effects in the Los Angeles banking market or any other relevant banking market. The Office of the Comptroller of the Currency (“OCC”) and the California Department of Financial Institutions (“CDFI”) also have been provided an opportunity to comment and have not objected to consummation of the proposal.¹¹

After carefully reviewing all the facts of record, and for the reasons discussed in this order, the Board concludes that consummation of the proposal would not likely result in a significantly adverse effect on competition or on the

of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers or acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

¹¹ The CDFI approved Citigroup’s proposed acquisition of CCB on July 12, 2001.

concentration of banking resources in the Los Angeles banking market or in any other relevant banking market.¹²

Convenience and Needs Factor

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effect of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).¹³ The purpose of the CRA is to require the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of local communities in which they operate, consistent with safe and sound operation. Accordingly, the CRA requires the appropriate federal supervisory agency to take into account an institution’s record of meeting the credit needs of its entire community, including low-and moderate-income (“LMI”) neighborhoods, in evaluating certain types of expansion proposals.

The Board has carefully considered the convenience and needs and the CRA performance records of Citigroup’s subsidiary insured depository institutions and CCB in light of all the facts of record, including comments received on the effect the proposal would have on the communities to be served by the relevant insured depository institutions. In this regard, the Board recently conducted a detailed review of the CRA performance records of the insured

¹² Several commenters urged the Board to deny this transaction because it would result in the acquisition by Citigroup of a banking organization that controls assets representing more than 10 percent of the assets controlled by banks in Mexico. These commenters argued that the provision restricting banking organizations from acquiring in excess of 10 percent of the total deposits in depository institutions in the United States should be applied to the acquisition by Citigroup of a Mexican bank. This provision of law does not apply outside the U.S., and the Mexican governmental authorities have already reviewed this transaction and found it to be in accordance with applicable Mexican law.

depository institutions controlled by Citigroup and found those records to be consistent with approval of a bank expansion proposal.¹⁴ The Board notes that the OCC also recently conducted a detailed review of the CRA performance record of Citibank, N.A., New York, New York (“Citibank NA”), the lead subsidiary insured depository institution of Citigroup, and found that record to be consistent with approval of a bank expansion proposal.¹⁵

A. Summary of Public Comments

Approximately eighty commenters responded to the Board’s request for public comment on this proposal. All the commenters opposed the proposal, suggested that the Board approve the proposal subject to conditions suggested by the commenter, or expressed concerns about the record of Citigroup in meeting the convenience and needs of the communities it serves. One commenter also questioned whether CCB served the credit needs of its entire assessment area.¹⁶

¹³ 12 U.S.C. § 2901 et seq.

¹⁴ Citigroup, Inc., Order dated July 2, 2001, 87 Federal Reserve Bulletin _____ (2001) (proposal by Citigroup to acquire European American Bank) (“Citigroup/EAB Order”).

¹⁵ Citibank, N.A., Order dated July 2, 2001 (proposal by Citibank NA, to merge with European American Bank).

¹⁶ Several commenters requested that Citigroup provide certain commitments and answer certain questions, or that the Board impose specific conditions or take specific actions, particularly with respect to the subprime lending activities of Citigroup’s affiliates. Several commenters also criticized the CRA-related pledge that Travelers Group Inc. (“Travelers”) and Citicorp made in connection with their merger in 1998 as being vague, ineffective, and insufficient as compared to commitments by other commercial banking organizations. Commenters also alleged that Citigroup’s senior management had declined requests for meetings with some community groups. The Board notes that the CRA requires that, in considering an acquisition proposal, the Board carefully review the actual performance records of the relevant depository institutions in helping to meet the

The commenters generally criticized Citigroup's record of home mortgage lending to LMI and minority residents and in LMI communities and communities with predominantly minority populations ("minority communities"), particularly in New York and California.¹⁷ Some commenters asserted that Citigroup had low levels of home purchase mortgage lending to LMI or minority residents or in LMI or minority communities.¹⁸ Several commenters alleged or expressed concern that data submitted under the Home Mortgage Disclosure Act ("HMDA")¹⁹ demonstrated that Citigroup engaged in disparate treatment of LMI or minority individuals in various areas in the United States, including New York,

credit needs of their communities. Neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges concerning future performance under the CRA, confer authority on the agencies to enforce pledges made to third parties, or require depository institutions to meet with particular persons.

¹⁷ Commenters were concerned about Citigroup's stated intention to use the Banamex brand name to market banking products and services to Hispanics and predominantly Hispanic communities in the United States. These commenters were particularly concerned that Citigroup would focus its strategy on credit cards with high fees and interest rates and would not invest in or provide lower cost loans to these individuals or communities. In addition, commenters urged Citigroup to reduce the fees for and increase the availability of money transmission services.

¹⁸ Commenters also criticized Citigroup for providing electronic benefit transfers ("EBT") to low-income individuals in areas where it has no bank branches and otherwise offers no access to other banking services and noted that this business practice resulted in a lawsuit against Citigroup by the State of New York. The parties settled the lawsuit in April 2001 after Citigroup agreed to provide a number of automatic teller machines for use by EBT recipients without a surcharge.

¹⁹ 12 U.S.C. § 2801 et seq.

and Los Angeles, Oakland, San Diego, and San Jose, California.²⁰ In addition, several commenters expressed concern that consummation of the proposal would adversely affect Mexican national interests.²¹

In addition, commenters criticized the lending and credit insurance practices of Citigroup's subprime lending subsidiaries, particularly those of Associates First Capital Corporation and its subsidiaries (together, "Associates"), which Citigroup acquired in November 2000. The commenters asserted that these entities are engaged in certain abusive lending practices, commonly referred to as "predatory lending," that are harmful to LMI and minority borrowers.²² Several

²⁰ A commenter asserted that Citigroup has discriminated in providing homeowners insurance by citing a complaint that was filed against Travelers in 1997. The Board considered a substantially identical comment in connection with its approvals of the proposed acquisition of EAB by Citicorp and the proposed acquisition of Citicorp by Travelers. See Citigroup/EAB Order; Travelers Group Inc., 84 Federal Reserve Bulletin 985, 1001 n.66 (1998). As noted in these orders, Travelers denied the allegations of discrimination in the complaints, and there has been no adjudication of wrongdoing by Department of Housing and Urban Development ("HUD"), or any court regarding this matter.

²¹ Included among these concerns are that consummation of the proposal could adversely affect the Mexican economy and banking system, in addition to LMI individual and communities in Mexico, through anticipated Banamex branch closures by Citigroup to achieve reductions in Banamex operating costs. Citigroup has not announced any decisions regarding the closing of branches of Banamex in Mexico. If Citigroup determines to close any branches of Banamex, the Board expects Citigroup and Banamex to make and implement that decision in full compliance with applicable Mexican law. This is a matter that is not governed by U.S. banking law, and is within the jurisdiction of the Mexican banking authority, not the Board.

²² Commenters asserted that Associates engaged in abusive marketing and sales practices that included misleading customers about key terms of a loan, such as the cost of credit insurance associated with the loan and the effect of balloon payments, and coercing customers to refinance loans that result in high points

commenters requested that the Board deny the application in light of the recent lawsuit filed by the Federal Trade Commission (“FTC”) against Associates and Citigroup, as the successor owner of Associates, or delay action on the proposal until this lawsuit and other consumer lawsuits concerning the lending and credit insurance sales activities of Associates and Citigroup are resolved.²³ Some commenters also asserted that Citigroup’s other subprime lender affiliates, such as CitiFinancial Credit Company (“CitiFinancial”), engage in many of the same lending practices as Associates.²⁴ In addition, some commenters contended, based

(interest paid at settlement) and other refinance charges. Commenters also asserted that Associates engaged in aggressive collection and foreclosure practices.

²³ As noted in the Citigroup/EAB Order, the consumer protection claims in the FTC’s lawsuit allege that Associates, before its acquisition by Citigroup in November 2000, engaged in abusive lending practices and lending law violations. There has been no adjudication of wrongdoing or injunctive action taken against Citigroup or any of its affiliates in connection with the FTC lawsuit. See Citigroup/EAB Order. A commenter asserted that the Board should deny Citigroup’s proposal, citing the Board’s earlier denial of an application of Shawmut National Corporation (“Shawmut National”) to acquire a bank while Shawmut National’s past mortgage lending operations were under investigation by the Department of Justice. See Shawmut National Corporation, 80 Federal Reserve Bulletin 47 (1994) (“Shawmut Order”). Unlike the facts in the Shawmut Order, where the mortgage subsidiary under investigation was controlled by Shawmut National at all relevant times, the activities at issue in the FTC’s complaint in the pending lawsuit involving Associates relate solely to the operations of Associates’ affiliates before their acquisition by Citigroup. The Board will monitor Citigroup’s progress in addressing any adverse findings that may result from the FTC lawsuit or any other litigation.

²⁴ Several commenters also asserted that the management of Citigroup has failed to take an appropriate leadership role in addressing abusive lending problems in the subprime lending market and has lobbied against some state and municipal legislative efforts to address predatory lending. In addition, commenters noted that the lending and insurance practices of Associates, CitiFinancial, and Citigroup’s Primerica Financial Services have resulted in several pending judicial proceedings

in part on HMDA data, that Citigroup improperly markets higher-cost subprime loan products to minority and LMI communities while it markets lower-cost prime loan products to nonminority and more affluent communities. Several commenters also alleged that Citigroup has indirectly supported predatory lending through its business relationships with unaffiliated third parties engaged in subprime lending.

B. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in this case in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisors.²⁵ Citibank N.A., the lead insured depository institution of Citigroup, received a "satisfactory" rating at its most recent CRA performance examination by the OCC, as of October 26, 1998. The other subsidiary depository institutions of Citigroup, with one exception discussed below, received "outstanding" or "satisfactory" ratings at their most recent CRA performance examinations.²⁶ CCB received a "satisfactory" CRA performance rating from the FDIC, at its most recent CRA examination as of January 10, 2000.

(in addition to the FTC litigation involving Associates) and that these practices are the subject of consumer complaints filed with several state and federal supervisory authorities. There has been no adjudication of wrongdoing by any Citigroup affiliate in these matters.

²⁵ See Interagency Questions and Answers Regarding Community Reinvestment, 65 Federal Register 25,088 and 25,107 (2000).

²⁶ Citibank (New York State), Pittsford, New York ("Citibank NYS"), received an "outstanding" rating from the Federal Deposit Insurance Corporation ("FDIC"), as of March 6, 2000; Citibank Delaware, New Castle, Delaware, received a

Associates National Bank (Delaware), Wilmington, Delaware (“Associates Delaware”), a limited-purpose bank that engages only in credit card operations and represents less than 1 percent of the consolidated assets of Citigroup, received a “needs to improve” rating from the OCC, as of May 30, 1997, before Citigroup acquired the bank as part of its acquisition of Associates in November 2000.²⁷ The Board has carefully reviewed the steps taken by Associates Delaware and those taken by Citigroup since it acquired the bank to

“satisfactory” rating from the FDIC, as of May 15, 2000; Citibank (Nevada), N.A., Las Vegas, Nevada (“Citibank Nevada”), received an “outstanding” rating from the OCC, as of March 29, 1999; Citibank (South Dakota), N.A., Sioux Falls, South Dakota (“Citibank South Dakota”), received an “outstanding” rating from the OCC, as of May 24, 1999; Citibank FSB received an “outstanding” rating from the Office of Thrift Supervision (“OTS”), as of July 12, 1999; Travelers Bank and Trust, fsb, Newark, Delaware, received an “outstanding” rating from the OTS, as of February 5, 2001; Universal Bank, N.A., Columbus, Georgia, received a “satisfactory” rating from the OCC, as of February 22, 1999; Citibank USA (formerly The Travelers Bank USA), Newark, Delaware, received an “outstanding” rating from the FDIC, as of March 15, 1999; Universal Financial Corporation, Salt Lake City, Utah, received a “satisfactory” rating from the FDIC, as of March 31, 1999; Associates Capital Bank, Inc., Salt Lake City, Utah, received an “outstanding” rating from the FDIC, as of September 27, 1999; and Hurley State Bank, Sioux Falls, South Dakota, received a “satisfactory” rating from the FDIC, as of April 19, 1999.

²⁷ Several commenters asserted that the Board should deny the proposal on the basis of the “needs to improve” CRA rating of Associates Delaware. In addition to representing less than 1 percent of Citigroup’s consolidated assets, Associates Delaware received its “needs to improve” rating before it was acquired by Citigroup. Moreover, examiners stated in the CRA performance evaluation that the bank had completed a majority of the corrective actions that it had initiated to address examiner concerns identified during a fair lending examination of the bank that was conducted concurrently with the CRA examination. Examiners also noted that Associates Delaware was taking steps to strengthen policies, procedures, training programs, and internal assessment efforts to prevent illegal discriminatory credit practices. See Citigroup/EAB Order; See also Sun Trust Banks, Inc., 76 Federal Reserve Bulletin 542 (1990).

correct the deficiencies noted in the examination and has consulted with the OCC, the appropriate federal supervisor of Associates Delaware.²⁸ Examiners found no evidence of prohibited discrimination or other illegal credit practices, or any substantive violations of fair lending laws at any of the other subsidiary insured depository institutions of Citigroup or at CCB. The Board also has evaluated substantial information submitted by Citigroup concerning the CRA performance of its subsidiary insured depository institutions since the dates of their most recent CRA performance evaluations. In addition, the Board has consulted with the OCC and has considered confidential supervisory information regarding Citigroup's CRA performance provided by the OCC.

C. CRA Performance Record of Citigroup

Citigroup proposes to acquire CCB and continue to operate it as a separate insured depository institution at this time. Citigroup has represented that it expects CCB will expand its CRA offerings to include products and programs offered by Citigroup, including Citigroup's community development programs for lending, investing, and services. In addition, Citigroup stated that it anticipates

²⁸ Several commenters disagreed with regulations promulgated by the Board that permit Citigroup, as a financial holding company (as defined in section 4 of the BHC Act), to continue to engage in expanded financial activities that are permissible for financial holding companies while Associates Delaware has a less than satisfactory CRA performance rating. As noted above, Associates Delaware received its CRA rating before it was acquired by Citigroup. Under the Board's regulations, Citigroup would become subject to activity restrictions if Associates Delaware does not receive at least a satisfactory rating at its next CRA examination. See Federal Reserve System, 66 Federal Register 400, 404 (2001). As required in the regulations, Citigroup submitted to the OCC a corrective action plan outlining the steps that are necessary for the bank to achieve at least a "satisfactory" rating at its next CRA examination. See id. at 402 and 416 (to be codified at 12 C.F.R. 225.82(d)).

conforming CCB's current lending activities to Citigroup's fair lending policies and procedures.

The Board has carefully reviewed the CRA performance records of the insured depository institution subsidiaries of Citigroup. A detailed description of the CRA lending, investment, and service activities of those subsidiaries is included in the Citigroup/EAB Order. Based on its review of the record in this case, the Board reaffirms and adopts in this case the facts and findings detailed in the Citigroup/EAB Order.

Because the proposal in this case involves the acquisition by Citigroup of an insured depository institution in California, the Board has devoted particular attention to the CRA performance records of Citibank FSB, Citigroup's subsidiary insured depository institution operating in California, as well as the CRA performance record of CCB.

Citibank FSB

Overview. As previously noted, Citibank FSB received an "outstanding" CRA performance rating from the OTS in its 1999 CRA performance evaluation ("1999 CRA Evaluation"). Examiners commended the savings association for its lending performance in its assessment areas during the review period.²⁹ Examiners reported that Citibank FSB made more than 25 percent of its total HMDA-reportable loans in its combined nationwide assessment areas in LMI census tracts during the review period.³⁰ Examiners noted that this

²⁹ At the time of the CRA performance evaluation, Citibank FSB had 20 assessment areas in California, Illinois, Florida, Maryland, Virginia, Connecticut, New Jersey, Texas, and the District of Columbia. The review period was from January 1, 1997, through March 31, 1999.

³⁰ The evaluation of Citibank FSB's HMDA-reportable lending included lending of the following Citigroup entities in Citibank FSB's assessment areas:

percentage exceeded the percentage of total owner-occupied housing units in LMI census tracts in its combined assessment areas and the percentage of total HMDA-reportable loans made by the aggregate of lenders (“aggregate lenders”) in these LMI census tracts in 1997.³¹ Examiners also noted that Citibank FSB offered a variety of home mortgage products and programs designed to meet the needs of first-time homebuyers and LMI borrowers, including programs that offer reduced closing costs and downpayment requirements and flexible underwriting standards.

In addition, examiners commended Citibank FSB for the variety of small business loan programs it provided and noted that the geographic distribution of its small business lending in low-income areas was generally favorable.³² Examiners also indicated that the savings association ranked first in small business loan originations (based on dollar amount) among savings associations nationwide and 12th in small business lending among all banks and savings associations in its combined assessment areas.

In the 1999 CRA Evaluation, examiners determined that Citibank FSB’s overall community development lending was excellent. The examiners favorably noted that the savings association engaged in a variety of community development lending activities, including multifamily home mortgage lending that provided housing for LMI families and lending to community

Citibank FSB; Citibank; Citicorp Mortgage (renamed CitiMortgage, Inc.); Citibank NYS; Citibank Nevada; Commercial Credit (renamed CitiFinancial).

³¹ The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given market.

³² The evaluation of Citibank FSB’s small business lending included lending of the following Citigroup entities in Citibank FSB’s assessment areas: Citibank FSB; Citibank NA; Citibank NYS; Citibank Nevada; and Citibank South Dakota.

development organizations that focused on affordable housing programs and the stabilization or revitalization of economically distressed areas. Citibank FSB originated community development loans totaling more than \$365 million during the review period.

Examiners also commended Citibank FSB for its community development investment program, which focused on providing equity investments for affordable housing, improving liquidity in the market for affordable mortgages, and strengthening community development financial institutions. During the review period, Citibank FSB doubled the amount of its CRA-qualified investments to approximately \$63 million. Examiners also commended the savings association for making almost \$5 million in community development grants during the review period.

In addition, examiners commended Citibank FSB for offering an extensive number of alternative systems for delivering retail banking services in LMI areas. Examiners also indicated that Citibank FSB provided an exceptional level of community development services, including educational seminars for LMI individuals, first-time homebuyers, and small business owners.

California. In the 1999 CRA Evaluation, examiners indicated that Citibank FSB had a strong overall record of lending in its assessment areas in California during the review period.³³ Examiners also found that the savings association's HMDA-reportable lending to LMI borrowers increased significantly each year during the review period. For example, the percentage of Citibank FSB's total number of HMDA-reportable loans to LMI borrowers almost

³³ The assessment areas of Citibank FSB include the following PMSAs: Los Angeles-Long Beach, Orange County, Ventura, San Francisco, Oakland, and San Jose, all in California.

tripled to 33 percent from the beginning of 1996 and through the first quarter of 1999.³⁴

Citigroup stated that Citibank FSB increased the number and dollar volume of its home purchase lending in LMI census tracts in California by 25 percent and 32 percent, respectively, as compared to its 1999 totals.³⁵ In 2000, 23 percent of Citibank FSB's total home purchase loans were made to borrowers in LMI census tracts in California, and more than 14 percent of its total home purchase loans were made to LMI households.³⁶

In addition, Citigroup represented that the number of home purchase loans that Citibank FSB made to Hispanic and African-American borrowers increased by 10 percent and 5 percent, respectively, in 2000 as compared to its 1999 totals. Citigroup stated that more than 22 percent of its total home purchase

³⁴ Examiners noted that the large increase in lending in LMI geographies from 1997 to 1998 resulted from the introduction by Citigroup of a program offering home improvement loans with low principal amounts. This program is discussed in more detail in the Citigroup/EAB Order.

³⁵ Citigroup's representations regarding Citibank FSB's home mortgage lending included lending by the following Citigroup entities in Citibank FSB's California assessment areas: Citibank FSB; Citibank NA; CitiMortgage, Inc. ("CitiMortgage"), including Source One Mortgage Corporation, which was merged into CitiMortgage in 2000; Citibank NYS; and Citibank Nevada.

³⁶ As noted in the Citigroup/EAB Order, Citigroup represented that CitiMortgage has initiated a five-year program with the Federal National Mortgage Association ("FNMA") under which CitiMortgage has committed to originate, and FNMA has committed to purchase, \$12 billion in affordable mortgage loans nationwide through a number of affordable mortgage programs of Citigroup. Of this amount, \$1.4 billion is allocated to Northern California and \$1.2 billion is allocated to Southern California/Nevada.

loans were made to Hispanic individuals and almost 4 percent were made to African-American individuals.³⁷

Examiners indicated that the geographic distribution of Citibank FSB's small business loans in low-income census tracts compared favorably with the number of small businesses in these census tracts. Examiners also noted that Citibank FSB offered a diverse array of products to address short- and long-term financing needs of small businesses in California. In addition, examiners commended the savings association for creating a pilot small business program called Capital Access that provided loans to creditworthy, underserved small businesses, such as high technology businesses, export businesses, and businesses owned by minorities, women, and veterans. Examiners also noted that Citibank FSB actively promoted small businesses through workshops and seminars for small business owners, and that the savings association had an active Small Business Administration loan program in California.

Citigroup stated that, in 2000, it more than doubled the number of loans to small businesses in California to more than 30,300 loans, and it increased the dollar volume of such loans by 45 percent to more than \$372 million.³⁸ Citigroup added that more than 95 percent of its small business loans in 2000 were in amounts less than \$100,000. In addition, Citigroup stated that it increased its

³⁷ Some commenters criticized the percentage of Citigroup's total home mortgage loans made to Hispanic individuals and communities as being too low and lagging behind the percentages achieved by other large depository organizations in the market.

³⁸ Citigroup's representations regarding Citibank FSB's small business lending in its California assessment areas included lending by the following entities: Citibank FSB; Citibank South Dakota; and Universal Financial Corporation (Utah).

lending to small businesses in LMI census tracts by 100 percent to more than 7,400 loans in 2000. Citigroup also stated that it made more than 9,100 small business loans in majority-minority census tracts in its California assessment areas in 2000, which more than doubled its total in 1999.³⁹

In the 1999 CRA Evaluation, examiners determined that Citibank FSB's community development loans in California, which totaled more than \$63 million, represented an excellent volume of community development lending. Examiners also commended the savings association for making CRA-qualified investments totaling more than \$21 million during the review period.

Citigroup stated that it increased the amount of its community development financing in California to more than \$153 million in 2000, more than double its 1999 total. Of this amount, more than \$136 million was provided for development of affordable housing. Citigroup noted that this community development financing included a financing package of more than \$30 million for an affordable housing/redevelopment project in the Mission Bay neighborhood in San Francisco that will include 100 apartments for low-income residents; \$33.6 million in financing for three affordable housing projects that include 324 units of affordable housing in a low-income district of San Francisco; and financing for a housing rehabilitation project by a Hispanic community development organization serving East Los Angeles.

In addition, Citigroup stated that it made more than \$17 million in qualified CRA investments in California during 2000 and the first six months of 2001. These investments included \$5 million in a venture capital fund formed to

³⁹ The term "majority-minority census tracts" means those tracts in which minority populations comprise at least 50 percent of the tract's population.

invest in commercial real estate in LMI areas of Los Angeles; \$10 million in a syndication formed to invest in telecommunications companies owned or managed by minority individuals; and \$4 million in a Habitat for Humanity-related entity to help generate liquidity to build new housing for LMI community residents.

Citigroup also stated that the Citigroup Foundation awarded more than \$3 million in grants to organizations in California during the last two years.⁴⁰ Seventy percent of this funding was provided to organizations that work to revitalize neighborhoods, help low-income individuals develop assets, increase financial literacy, and improve educational opportunities for children.

In the 1999 CRA Evaluation, examiners noted favorably that Citibank FSB delivered retail banking services throughout its assessment areas in California through its branch network, a large network of ATMs, and alternative delivery systems.⁴¹ Examiners also indicated that Citibank FSB offered a wide range of deposit and loan products at all its branches, including a low-cost checking account.

D. CRA Performance Record of CCB

As noted above, CCB received a “satisfactory” rating for CRA performance from the FDIC, as of January 10, 2000. CCB’s primary business focus, as noted by examiners, is international lending, particularly commercial lending to companies doing business in or with Mexico. Examiners reported that CCB also offers secured and unsecured consumer credit cards nationwide,

⁴⁰ Some commenters asserted that Citigroup did not provide a sufficient amount of grants to nonprofit organizations operated by Hispanics.

⁴¹ Some commenters asserted that Citibank FSB maintained few branches in California, particularly in LMI areas. Citigroup stated that Citibank FSB currently has 78 branches in California, including 18 located in majority-minority census tracts.

purchases mortgage loans originated within its assessment area, offers mortgage warehouse lines of credit, and engages in community development lending, investment, and services activities.⁴²

Examiners rated CCB's performance under the lending test during the review period as "high satisfactory," and stated that the bank's lending levels reflected a strong responsiveness to the credit needs of its assessment area. In particular, examiners commended the bank for its excellent distribution of loans among borrowers of different income levels.⁴³ Examiners also commended the bank for its good record of serving the credit needs of the most economically disadvantaged areas of its assessment area and low-income individuals.

Examiners noted that CCB had substantially increased the volume of purchased HMDA-reportable loans in its assessment area since 1998. In 1999, 53 percent of CCB's purchased HMDA-reportable loans by number and dollar volume were in LMI census tracts. Examiners noted that this percentage of HMDA-reportable lending in LMI census tracts well exceeded that of the aggregate lenders in 1998. Examiners also noted that the number and dollar volume of the HMDA-reportable loans to LMI individuals that CCB purchased exceeded the percentage of LMI households in its assessment area.

In addition, examiners noted that CCB provided mortgage warehouse lines of credit to mortgage banking companies that extend funds primarily for loans guaranteed by the Federal Housing Administration and the Veterans Administration. In 1998 and 1999, CCB provided approximately \$58 million through these lines of credit to finance 400 homes within its

⁴² The assessment area of CCB includes about 80 percent of the Los Angeles-Long Beach PMSA.

⁴³ The review period was from January 1, 1998, through September 30, 1999.

assessment area. Examiners noted that CCB reduced its processing fee for loans extended within its assessment area as an incentive for these mortgage banking companies to increase their lending in the area.

Examiners commended CCB for using innovative and flexible lending practices to serve the credit needs of its assessment area. In particular, examiners commended CCB for its secured consumer credit card program, which was designed to help meet the needs of LMI individuals, particularly new residents and immigrants without credit or employment history. In CCB's secured credit card program, the credit is secured by a savings account that is opened at the time the credit application is submitted. Originally, the minimum savings account needed to open and secure a CCB credit card was \$300, but CCB lowered this amount to \$200 in 1999. CCB also offers a semi-secured credit card program to participants in the secured card program who have maintained a good payment record for a defined period of time. Under this program, CCB increases the credit limit by 100 percent of the amount in the participant's savings account, up to a maximum credit limit of \$2,000. CCB also offers a further upgrade to a fully unsecured credit card with a maximum credit limit of \$3,000. Qualification for this upgrade also is based on the participant's tenure in the CCB credit card program and maintenance of a good payment record.

Examiners rated CCB's performance under the investment test as "high satisfactory." In particular, examiners commended CCB for increasing its qualified community development investment and grant levels by more than 350 percent since the previous CRA performance examination, which resulted in \$14.1 million in qualified investments and grants. CCB's qualified investments included the purchase of three government-sponsored mortgage-backed securities with 90 percent of the securities' principal amount backed by loans to LMI borrowers in Los Angeles County; commitments to invest in two equity funds

established to help rebuild distressed neighborhoods in California; and investments community development corporations in California that provide small business and real estate loans to borrowers who do not qualify for conventional bank loans, loans to small businesses in LMI areas, or loans to LMI borrowers.

Examiners noted that the bank operates two branches in Los Angeles. One branch is in an upper-income census tract in Century City and the other branch is in a moderate-income census tract in East Los Angeles. CCB also has established an ATM to serve East Los Angeles. Examiners found that the branches offered reasonable accessibility to all portions of CCB's assessment area.⁴⁴ In addition, examiners found that the bank used its Call Center effectively as an alternative delivery system by offering bilingual telephone banking service with a toll-free number that is available 24 hours a day. Examiners noted that the Call Center processed more than one million customer inquiries and requests in 1999.

E. Subprime Lending of Citigroup

As noted above, the Board carefully reviewed the issues raised by commenters concerning the subprime lending activities of Citigroup. Many commenters raised substantially the same issues as were raised in connection with Citigroup's proposal to acquire EAB. These issues were carefully and fully reviewed by the Board in that case.⁴⁵ The Board reiterates its expectation that bank

⁴⁴ A commenter asserted that CCB's branch in East Los Angeles provided little access to traditional banking services.

⁴⁵ Commenters have expressed various concerns about the lending practices of Associates and other subsidiaries of Citigroup, including matters related to the sale of insurance, matters raised in affidavits or statements by former or current employees of these subsidiaries, and concerns about foreclosure practices of these subsidiaries. In connection with the Board's recent review of the proposed acquisition by Citigroup of EAB, the Board carefully and extensively considered these concerns, including information provided by commenters and the affidavit of a former CitiFinancial employee filed in the FTC litigation. Commenters have

holding companies and their affiliates conduct their subprime lending operations free of abusive lending practices.⁴⁶ The Board has carefully considered the record of lending of Citigroup's affiliates, including those engaged in subprime lending, in light of all the comments received. In addition, the Board has consulted with each federal supervisory agency responsible for overseeing Citigroup's subprime lending affiliates.

CitiFinancial and Citigroup's other subsidiaries that engage in subprime lending have underwriting policies and procedures designed to prevent abusive lending practices, which include requiring all real estate-secured loan applications to be evaluated on an applicant's creditworthiness and ability to repay, using credit bureau scoring and proprietary models, and limiting points charged on certain refinanced loans. In addition, Citigroup's subprime lending affiliates have adopted a number of programs and other policies and procedures, including centralized loan underwriting systems, fair lending self-assessments (including matched-pair analyses), branch and corporate audits, and fair lending and compliance training, that are designed to prevent deceptive and abusive lending practices.⁴⁷

provided no additional information that warrants a change in the Board's findings on these matters in the Citigroup/EAB Order. As discussed in that order and below, the Board will conduct an examination of CitiFinancial pursuant to its supervisory authority.

⁴⁶ Several commenters contended that Citigroup will employ at Banamex and its affiliates in Mexico various lending practices that commenters believe are abusive. The lending activities of Banamex and its affiliates in Mexico are subject to the supervision and legal requirements of Mexican law and the Mexican banking authorities. The Board expects Citigroup to operate with the highest integrity worldwide and in compliance with the laws of each country in which it operates.

⁴⁷ See Citigroup/EAB Order.

In January 2001, the network of retail branches of Associates was transferred to CitiFinancial, and the former Associates consumer finance businesses in the United States and Canada became subject to the underwriting and compliance policies, procedures, and programs of Citigroup and CitiFinancial. In connection with its proposed acquisition of Associates in November 2000, Citigroup announced consumer protection initiatives that are in the process of being implemented at CitiFinancial (including the former branch offices of Associates) and certain other affiliates.⁴⁸ These initiatives relate to loans secured by real estate in the United States and include enhancing oral and written disclosures to purchasers of credit insurance products concerning the cost, coverage, terms, and cancellation policies of the insurance products offered.⁴⁹ In addition, Citigroup affiliates that engage in subprime lending will not originate subprime real estate loans with balloon payments and will not originate or purchase real estate loans with negative amortization features.⁵⁰ The initiatives also include plans for a “referral-up” program to be implemented nationwide by the end of 2001 that will refer CitiFinancial loan applicants who meet certain qualification criteria to CitiMortgage for a prime mortgage loan. In addition, Citigroup is implementing a program at CitiFinancial to provide rate reductions to

⁴⁸ Some commenters challenged the adequacy of these initiatives and expressed concern that Citigroup would not implement them effectively.

⁴⁹ Citigroup recently announced that it will discontinue the sale of single premium credit insurance for all real estate-secured loans by the end of 2001. Citigroup represented that CitiFinancial is in the process of obtaining the appropriate state insurance licenses so that it may offer nationwide credit life insurance with a premium paid monthly by the borrower.

⁵⁰ Citigroup has represented that, in the case of purchased or existing subprime loans in Citigroup’s portfolio, borrowers with balloon payments coming due will be given the option to refinance the loan in lieu of making the balloon payment.

subprime loan borrowers who make timely payments and a graduation program at CitiFinancial and CitiFinancial Mortgage (AHES) that refers qualifying borrowers who have CitiFinancial subprime loans to CitiMortgage for a prime loan product.⁵¹ As part of the initiatives, CitiFinancial also has created a compliance department that reviews pending and potential foreclosures to protect against inappropriate foreclosure proceedings against the borrowers' homes.⁵²

For the reasons explained in this order and the Citigroup/EAB Order, the Board believes that Citigroup has adopted comprehensive policies and procedures that are reasonably designed to ensure compliance with the fair lending laws and to prevent abusive lending practices by its holding company affiliates. As noted above, Citigroup has begun to implement many of these practices and

⁵¹ Citigroup represented that qualifying subprime borrowers of CitiFinancial will not be required to pay prepayment penalties for refinancing their loans with CitiFinancial or any other Citigroup affiliate.

⁵² In addition, the initiatives being implemented include (i) giving subprime loan borrowers a choice of paying a higher interest rate loan in exchange for the elimination of a prepayment penalty fee; (ii) limiting prepayment fees to the lesser of three years after a loan is made or the maximum term mandated by state law; (iii) establishing toll-free "hotlines" for customers to seek redress for complaints and problems concerning their loans; (iv) implementing a "mystery shopper" program at CitiFinancial branches (including former Associates branches) administered by a third party to help ensure that compliance procedures are followed; (v) providing updated training on compliance (including fair lending) for all consumer finance employees, (vi) strengthening compliance by and oversight of loan brokers; (vii) enhancing fair lending self-evaluations in consultation with outside counsel; (viii) prohibiting refinancing of certain below-market rate loans by nonprofit organizations and certain other programs within a specified timeframe; (ix) implementing additional limits on points charged on the refinancing by CitiFinancial of some of its loans; (x) enhancing disclosures regarding refinancing; and (xi) evaluating CitiFinancial's policies and procedures to prevent "loan flipping" (e.g., repeated refinancing of a loan to charge high points or fees) and implementing additional appropriate safeguards.

consumer protection initiatives at CitiFinancial, including the former branch offices of Associates.

As indicated in the Citigroup/EAB Order, the Board will conduct a thorough examination to assess the effectiveness of the implementation of the initiatives and other consumer protection measures proposed or adopted by Citigroup at its subprime lending affiliates, CitiFinancial and CitiFinancial Mortgage (AHES).⁵³ The Board has broad supervisory authority under the banking laws to require Citigroup to take any other steps necessary to address deficiencies identified in the examination.

F. HMDA Data

The Board also has carefully considered Citigroup's lending record in light of comments about HMDA data reported by its subsidiaries.⁵⁴ These HMDA data-related comments were substantially similar to those considered by the Board in connection with its approval of Citigroup's proposed acquisition of EAB. The Board's analysis of Citigroup's HMDA data, as detailed in the Citigroup/EAB Order, is incorporated by reference herein.

As noted in the Citigroup/EAB Order, the HMDA data generally do not indicate that Citigroup is excluding any race or income segment of the population or geographic areas on a prohibited basis. The data, however, reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups and persons at different income levels generally

⁵³ This examination will include CitiFinancial's offices in various areas in the United States, including Southern California.

⁵⁴ Based on 1999 and 2000 HMDA data, commenters criticized Citigroup's record of home mortgage lending to African-American, Hispanic, or Native-American individuals or to LMI individuals in various areas throughout the United States, particularly in New York and California.

and in certain local areas. The Board is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.⁵⁵ HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide an on-site evaluation of compliance by the subsidiary depository institutions of Citigroup with fair lending laws. As noted in the Citigroup/EAB Order, examiners found no evidence of prohibited discrimination or other illegal credit practices at any of the subsidiary depository institutions controlled by Citigroup.⁵⁶ The record also indicates that Citigroup has taken a number of

⁵⁵ The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

⁵⁶ As noted above, Associates Delaware received a "needs to improve" rating in its most recent CRA performance evaluation. This rating was received before Citigroup acquired control of Associates. Examiners stated that the bank had

affirmative steps to ensure compliance with fair lending laws. As discussed in the EAB Order, Citigroup has instituted corporate-wide compliance policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations, employed compliance officers and staff charged with monitoring compliance, and conducted corporate and branch audits of compliance. Citigroup's housing-related lending subsidiaries have established detailed fair lending procedures in addition to Citigroup's corporate policies and procedures, including extensive fair lending training programs for employees and fair lending self-assessments using matched-pair testing and statistical analyses. CitiMortgage and CitiFinancial also have implemented a "mystery shopping" program administered by a third party to help verify that compliance procedures are followed.

In addition, the Board has considered the HMDA data in light of Citigroup's overall lending and community development activities discussed above and in the Citigroup/EAB Order, which show that Citigroup's subsidiary banks significantly assist in helping to meet the credit needs of their entire communities, including LMI areas.⁵⁷ The Board believes that, viewed in light of the entire

initiated corrective actions to address the examiner criticisms and implemented additional measures to strengthen policies, procedures, training programs, and internal assessment efforts to prevent illegal discriminatory credit practices.

⁵⁷ Commenters alleged that some of Citigroup's lending subsidiaries have violated HMDA reporting requirements. The Board considered the same comments when it evaluated Citigroup's proposal to acquire EAB. As noted in the Citigroup/EAB Order, the Board has forwarded these allegations to HUD. Some commenters also noted that the New York State Banking Department ("NYSBD") and Citigroup entered into a letter agreement executed on June 25, 2001 ("June 2001 Agreement"), that stated two affiliates of Associates submitted erroneous 1999 and 2000 HMDA data. In the June 2001 Agreement, Citigroup committed to submit to HUD a corrected data report or a plan satisfactory to HUD for addressing the identified errors, within six months of the agreement.

record, the HMDA data indicate that Citigroup's record of performance in helping to serve the needs of its communities is consistent with approval of the proposal.

G. Conclusion on Convenience and Needs Consideration

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered the entire record, including all the information provided by commenters, Citigroup, and CCB; evaluations of the performance of Citigroup's insured depository institution subsidiaries and CCB under the CRA; and confidential supervisory information.

Based on all the facts of record and for the reasons discussed above and in the Citigroup/EAB Order, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

Financial and Managerial Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including public comments, supervisory reports of examination, other confidential supervisory information assessing the financial and managerial resources of the organizations, and other information provided by Citigroup.

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. The proposed acquisition is structured as an exchange of cash and Citigroup shares, and Citigroup proposes to incur debt to finance the cash portion of the proposal. As a result of this acquisition, the Board notes that Citigroup's risk-based regulatory capital ratios would decline by approximately 90 basis points. Citigroup's ratios on a consolidated basis would remain above the

well-capitalized thresholds applicable to banking organizations; however, bank regulatory capital ratios do not address insurance underwriting risks, nor do they take explicit account of diversification considerations, credit risk concentrations, or credit risk differentials within the loan portfolio. The Board believes that all banking organizations, particularly those undertaking significant expansion, should have robust risk management and economic capital assessment processes and need to ensure on an ongoing basis that their capital positions are adequate in relation to the full array of risks to which the organizations are exposed. As part of the ongoing supervisory process, the Board will continue to assess Citigroup's consolidated capital adequacy on this basis and in light of its future acquisition plans.

The Board also has considered the managerial resources of Citigroup and CCB, the examination reports of the federal financial supervisory agencies that supervise these organizations, including Citigroup's subsidiary depository institutions, and other confidential supervisory information. In addition, the Board has consulted with these federal financial supervisory agencies.

The Board received several comments on the proposal criticizing the managerial resources of Citigroup and its subsidiaries.⁵⁸ Several commenters asserted that Citigroup's management has failed to implement effective policies and programs to address alleged abusive lending and sales practices of Citigroup's subsidiaries, including those engaged in subprime lending and insurance

⁵⁸ One commenter alleged that Citigroup's management lacks ethnic diversity and raised questions regarding Citigroup's failure to use more minority vendors. Although the Board fully supports programs designed to promote equal opportunity and economic opportunities for all members of society, these issues are beyond the factors the Board is authorized to consider under the BHC Act. See e.g., Deutsche Bank AG, 86 Federal Reserve Bulletin 509, 513 (1999).

activities.⁵⁹ These commenters asserted that adverse managerial resources are evidenced by the pending FTC lawsuit against Associates and Citigroup, as Associate's successor owner, and by consumer lawsuits and complaints filed against Associates and other Citigroup affiliates.⁶⁰

After reviewing all the facts of record, the Board concludes that Citigroup and its subsidiary insured depository institutions and CCB are well managed.⁶¹ In reaching this conclusion, the Board has considered the supervisory experience and assessments of management by the various bank supervisory agencies, Citigroup's efforts to address supervisory and other concerns about the operation and management of the organization, the management's due diligence efforts and record of integrating other organizations, and the organization's record of compliance with applicable banking law. As previously discussed, the Board

⁵⁹ Commenters also asserted that Citigroup relied on home improvement loans with low principal amounts, resulting in Citigroup's alleged failure to meet lending projections made by Citicorp a July 1998 letter agreement with the NYSBD in connection with the merger of Travelers and Citicorp. The Board notes that compliance with projections in an agreement made with the NYSBD is a matter within the exclusive jurisdiction of the NYSBD. In the June 2001 Agreement, the NYSBD and Citigroup clarified the projections and extended them for an additional three years.

⁶⁰ These comments were substantially similar to those considered by the Board in connection with its approval of Citicorp's proposal to acquire EAB. See Citigroup/EAB Order.

⁶¹ Several commenters also raised other matters, including contentions regarding the terms under which Citigroup originally acquired its existing affiliate bank in Mexico, environmental claims, claims about lending activities in India, and concerns about the Board's ability to obtain information regarding the activities of offices of Banamex and Citigroup located outside the United States. All these matters are either outside the jurisdiction of the Board or have been previously considered by the Board and involve matters regarding which commenters have presented no new information.

has reviewed the compliance policies and procedures of Citigroup and its subsidiaries, including those engaged in subprime lending, and consulted with the appropriate federal supervisory agencies and state supervisors.⁶² Based on these and all other facts of record, the Board concludes that the financial and managerial resources and the future prospects of Citigroup and its subsidiary depository institutions and CCB are consistent with approval, as are the other supervisory factors the Board must consider under section 3 of the BHC Act.⁶³

⁶² The Board also received several comments asserting that recent investigations on money laundering activities by staff of the Subcommittee on Investigations of the Committee on Governmental Affairs of the United States Senate and the United States General Accounting Office and several press reports demonstrate that Citibank NA and other affiliates of Citigroup lack sufficient policies and procedures and other resources to protect against money laundering. See Correspondent Banking: A Gateway for Money Laundering, S. Doc. No. 69-919 (1st Sess. February 5, 2001) (Report of the minority staff of the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs of the United States Senate); Suspicious Banking Activities, General Accounting Office, GAO-01-120 (October 2000). These comments also were substantially the same as those considered by the Board in connection with its approval of Citigroup's proposal to acquire EAB. As noted in the Citigroup/EAB Order, the Board has carefully reviewed supervisory examinations of Citibank NA and consulted with the OCC, the appropriate federal financial supervisory agency of the bank, regarding the policies, procedures, and practices of Citigroup to comply with the Bank Secrecy Act. In addition, the Board has reviewed recent enhancements to Citigroup's policies and procedures to prevent money laundering that address the issues raised in those investigations. See Citigroup/EAB Order. A commenter also noted that Banamex was subject to a temporary cease-and-desist order issued by the Board in 1998 concerning the bank's compliance with U.S. anti-money laundering laws. The Board released Banamex from this order in March 2000 after determining that the bank had sufficiently enhanced its anti-money laundering compliance policies and procedures.

⁶³ Commenters asserted that senior officials of Citigroup had improper ex parte communications with various U.S. and Mexican government officials regarding the proposed acquisition. The Board's policies regarding ex parte communications do not apply to contacts between an applicant and officials outside the Federal

Investments and Activities Abroad

Citigroup also has requested the Board's consent under section 4(c)(13) of the BHC Act and section 211.5(c) of the Board's Regulation K (12 C.F.R. 211.5(c)) to acquire Banamex and its foreign banking and nonbanking investments. Under section 4(c)(13) of the BHC Act, the Board may permit a bank holding company to acquire a company that does no business in the United States except as incident to its international or foreign business if the Board determines that the acquisition would not be substantially at variance with the purposes of the BHC Act and would be in the public interest. Regulation K provides that a bank holding company may acquire companies engaged in activities usual in connection with the transaction of banking or other financial operations abroad. Regulation K further states the Board's policy that investors shall at all times act in accordance with high standards of banking or financial prudence, having due regard for diversification of risks, suitable liquidity, and adequacy of capital.

The Board has reviewed information with respect to Banamex and its existing operations and has determined that Banamex may be considered well capitalized and well managed within the meaning of Regulation Y (12 C.F.R. 225.90). Banamex currently operates agencies in New York, New York, and Houston, Texas. Citigroup has committed that each of these agencies will engage only in activities permitted to an Edge corporation under Regulation K (12 C.F.R. 211.4(e)). Based on the facts of record, the Board has determined that all factors required to be considered under the BHC Act and Regulation K are consistent with approval. To the extent that any activities or investments of Banamex do not currently comply with the provisions of Regulation K, Citigroup has committed to

Reserve System, and do not govern communications with an applicant concerning issues that are not raised by a timely comment or communications when no application or other request for approval of the proposed acquisition is pending.

conform these activities or investments within six months of the acquisition of Banamex.⁶⁴

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the application and notice should be, and hereby are approved.⁶⁵ In reaching its conclusion, the Board has considered all the facts of

⁶⁴ The Board also has received a comment questioning Citigroup's authority to own an interest in a telecommunications company whose shares are currently owned by Banacci. Citigroup will acquire and temporarily hold this interest pursuant to section 4(c)(13) of the BHC Act while Banamex divests control of the company, in accordance with the requirements of Mexican law, after Citigroup consummates its proposed acquisition of Banacci and Banamex. Citigroup must fully conform any remaining investment in the Company to the merchant banking provisions of section 4(k) of the BHC Act (12 U.S.C. § 1843(k)) and the Board's Regulation Y (12 CFR Subpart J), within six months of consummation.

⁶⁵ Several commenters requested that the Board hold a public meeting or hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authority. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully these commenters' requests in light of all the facts of record. In the Board's view, the public has had ample opportunity to submit comments on the proposal and, in fact, the commenters have submitted extensive written comments that the Board has considered carefully in acting on the proposal. Many of the commenters' requests were based on issues that the Board carefully considered in connection with its action on Citigroup's proposal to acquire EAB. In addition, many requests were based on activities of Banacci or Citigroup in Mexico that are subject to the supervision and legal requirements of Mexican law and Mexican governmental authorities. The commenters' requests fail to demonstrate why their written comments do not present their views adequately or why a meeting or hearing otherwise would be necessary or

record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.⁶⁶ The Board's approval is specifically conditioned on compliance by Citigroup with all the representations and commitments made in connection with the application and notice, the conditions described or referenced in this order, and on the receipt by Citigroup of all necessary regulatory approvals. These representations, commitments, and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests for a public meeting or hearing on the proposal are denied.

⁶⁶ A number of commenters requested that the Board delay action or extend the comment period on the proposal. The Board has accumulated a significant record in this case, including reports of examination, confidential supervisory information, public reports and information, and considerable public comment. In the Board's view, for the reasons discussed above, commenters have had ample opportunity to submit their views and, in fact, have provided substantial written submissions that the Board has considered carefully in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant action at this time, and that a further delay in considering the proposal, an extension of the comment period, or a denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

The acquisition of Banacci, Banamex, and CCB may not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,⁶⁷ effective July 16, 2001.

(signed)

Jennifer J. Johnson
Secretary of the Board

⁶⁷ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.