FEDERAL RESERVE SYSTEM

Citigroup Inc.
New York, New York

Order Approving the Acquisition of Savings Associations

Citigroup Inc. ("Citigroup"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and (j)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire all the voting shares of California Federal Bank ("Cal Fed"), San Francisco, California, a federally chartered savings association. Citigroup proposes to acquire Cal Fed by acquiring all the voting shares of Golden State Bancorp Inc. ("Golden State"), which controls Cal Fed,[1] and to indirectly acquire Citibank (West), FSB (in formation) ("Citibank (West)"), both in San Francisco, California.

The proposed transaction is primarily a merger of Cal Fed and part of the branch network of Citigroup's existing subsidiary depository institutions in California and Nevada into Citigroup's newly formed subsidiary savings association, Citibank (West). With Citibank (West) as a newly formed subsidiary

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1 Citigroup intends to acquire Golden State's other direct and indirect nonbanking subsidiaries, including Auto One Acceptance Corporation, Dallas, Texas ("Auto One"), and First Nationwide Mortgage Corporation, Frederick, Maryland ("First Nationwide"), pursuant to section 4(k) of the BHC Act (12 U.S.C. § 1843(k)) and the post-transaction notice procedures of section 225.87 of Regulation Y.

savings association and surviving entity of the merger transaction, the transaction is subject to review by the Office of Thrift Supervision ("OTS") under the Home Owners' Loan Act (12 U.S.C. § 1461 et seq.) and the Bank Merger Act (12 U.S.C. § 1828(c)). The Board has consulted with the OTS regarding its review of Citigroup's proposal under these acts.[2]

Citigroup, with total consolidated assets of approximately $1.1 trillion and total insured domestic deposits of $143.3 billion, is the largest commercial banking organization in the United States, controlling approximately 8.5 percent of total assets of insured commercial banks and approximately 2.7 percent of total deposits of insured depository institutions in the United States ("total U.S. deposits").[3] Citigroup operates subsidiary depository institutions in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Nevada, New Jersey, New York, South Dakota, Texas, Utah, Virginia, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. Citigroup is the ninth largest commercial banking organization in California, controlling deposits of $6.4 billion, representing approximately 1.3 percent of total deposits in insured depository institutions in the state ("state deposits").[4] Citigroup is the fifth largest commercial banking organization in Nevada, controlling deposits of $1.4 billion, representing approximately 6.7 percent of state deposits.

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[2] Citigroup also applied to the Federal Deposit Insurance Corporation ("FDIC") for deposit insurance for Citibank (West) pursuant to the Federal Deposit Insurance Act (12 U.S.C. § 1815(a)). The Board has consulted with the FDIC regarding its review of the proposal under this act.

[3] Asset, deposit, and national ranking data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

[4] State deposit and state ranking data are as of June 30, 2001.

Golden State, with total consolidated assets of $52 billion, operates depository institutions in California and Nevada. Golden State is the fifth largest depository organization in California, controlling total deposits of $21.9 billion, representing approximately 4.5 percent of state deposits. In addition, Golden State is the sixth largest depository organization in Nevada, controlling deposits of $1 billion, representing 4.7 percent of state deposits.

On consummation of the proposal, Citigroup would remain the largest commercial banking organization in the United States, with total consolidated assets of approximately $1.1 trillion and total insured deposits of approximately $166.2 billion, representing approximately 3.2 percent of total U.S. deposits. Citigroup would become the third largest commercial banking organization in California, controlling deposits of $28.3 billion, representing approximately 5.8 percent of state deposits. Citigroup would become the third largest commercial banking organization in Nevada, controlling deposits of $2.4 billion, representing approximately 11.4 percent of state deposits.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[5] The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. Citigroup has committed to conform all the activities of Cal Fed to those permissible for a bank holding company under section 4 of the BHC Act and Regulation Y and to conform all the other activities of Golden State to those permissible for a financial holding company.

[5] 12 C.F.R. 225.28(b)(4).

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Golden State by Citigroup "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[6] As part of its evaluation of the public interest factors, the Board reviews the financial and managerial resources of the companies involved, as well as the effect of the proposal on competition in the relevant markets.[7] In acting on notices to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 et seq.).[8]

Public Comment on the Proposal

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (67 Federal Register 39,988 (2002)), and the time for filing comments has expired. Because of the public interest in the proposal, Board staff also participated in a formal meeting held by the OTS on July 8, 2002, in Daly City, California, which gave commenters an opportunity to present additional oral and written testimony on the various factors that the Board must review under the BHC Act.[9] Representatives of 15 organizations testified at the formal meeting; all the commenters who testified also submitted written comments.

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[6] 12 U.S.C. § 1843(j)(2)(A).

[7] See 12 C.F.R. 225.26.

[8] See, e.g., BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997).

[9] The meeting also was conducted through videoconferencing facilities at OTS offices in Santa Ana, California; Washington, DC; and Jersey City, New Jersey.

More than 80 organizations and individuals submitted comments on the proposal, either through oral testimony or written comments. Commenters included members of the Congress, state and local government officials, community groups, nonprofit organizations, union representatives, customers of Citigroup, and other interested organizations and individuals. Comments were submitted by organizations, individuals, and representatives from several states, including California, Georgia, New York, North Carolina, and Ohio, and the District of Columbia.

Certain commenters supported the proposal and commented favorably on Citigroup's performance under the CRA. These commenters commended Citigroup for its commitment to local communities and expressed support for Citigroup's CRA-related products and services. Most commenters, however, opposed the proposal, requested that the Board approve the proposal subject to certain conditions, or expressed concerns about the CRA performance or consumer compliance records of Citigroup. As discussed in more detail below, many commenters criticized the lending and insurance sales practices of Citigroup's subprime lending subsidiaries, particularly CitiFinancial Credit Company, Inc., Baltimore, Maryland ("CitiFinancial"). Other commenters expressed concerns about Citigroup's managerial resources in light of certain lawsuits, investigations, and settlements involving Citigroup or its securities subsidiary, Salomon Smith Barney, Inc., New York, New York ("SSB").

In evaluating the statutory factors under the BHC Act, the Board carefully considered the views and information presented by the commenters at the formal meeting and in writing. The Board also considered the information presented in the notices and supplemental filings by Citigroup, various reports filed by the relevant companies, publicly available information, and other reports. In addition, the Board consulted with other relevant federal supervisory agencies, including the OTS, FDIC, Department of Justice ("DOJ"), and Securities and Exchange Commission ("SEC"), and reviewed confidential supervisory information, including supervisory reports on the holding companies and their subsidiary depository institutions and other subsidiaries, and information provided by other federal regulatory agencies and various state regulatory agencies.

Competitive Considerations

As part of its consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record.[10] Citigroup and Golden State compete directly in the Los Angeles, San Francisco-Oakland-San Jose, and Las Vegas banking markets.[11] The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record, including the number of competitors that would remain in the markets, the relative share of total deposits in depository institutions controlled by Citigroup and Golden State in the markets ("market deposits"),[12] the concentration

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[10] See First Hawaiian, Inc., 79 Federal Reserve Bulletin 966 (1993).

[11] These markets are described in Appendix A. The effects of the proposal on the concentration of banking resources in these banking markets are described in Appendix B.

[12] Deposit and market share data are based on annual branch reports filed as of June 30, 2001, and on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated 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). Citigroup's deposits in the relevant banking markets are those of its subsidiary savings association, Citibank, Federal Savings Bank, San Francisco, California ("Citibank FSB"). Because Citibank FSB

level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Guidelines ("DOJ Guidelines"),[13] and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each relevant banking market. After consummation of the proposal, all three banking markets would remain moderately concentrated as measured by the HHI. Based on these and all other facts of record, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the three banking markets noted above or any other relevant banking market.

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is affiliated with a commercial banking organization, its deposits are included at 100 percent. See, e.g., First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990) ("First Banks Order"). Furthermore, because the Board has analyzed the competitive factors in this case as if Citigroup and Golden State were a combined entity, the deposits of Cal Fed are included at 100 percent in the calculation of pro forma market share. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks Order.

[13] Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI is more than 1800. The DOJ 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 DOJ has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

Records of Performance Under the Community Reinvestment Act

As previously noted, the Board reviews the records of performance under the CRA of the relevant insured depository institutions when acting on notices to acquire a savings association.[14] The CRA requires the Board to assess each institution's record of meeting the credit needs of its entire community, including low-and moderate-income ("LMI") neighborhoods, consistent with the institution's safe and sound operation, and to take this record into account in evaluating bank holding company notices.[15] The Board has carefully considered the CRA performance records of each subsidiary insured depository institution of Golden State and Citigroup in light of all the facts of record, including public comments on the proposal.

A. Summary of Public Comments

In response to the Board's request for public comment on this proposal, two of the 85 commenters supported the proposal and praised Citigroup for the financial and technical support it provided to their community development organizations. The other 83 commenters opposed the proposal, recommended approval only if subject to conditions suggested by the commenter, or expressed concerns about the CRA performance or fair lending and other consumer law compliance records of Citigroup.[16]

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[14] See, e.g., Northfork Bancorporation, Inc., 86 Federal Reserve Bulletin 767 (2000).

[15] 12 U.S.C. § 2903.

[16] As previously noted, many commenters also expressed concerns about the lending and insurance sales practices of Citigroup's subprime lending affiliates. These matters are discussed later in a separate section of the order.

Many commenters expressed concern that consummation of this proposal would result in fewer financial services choices for consumers, and that Citigroup's corporate decisions would not take into account California's diversity and community reinvestment needs.[17] Some commenters alleged that Citigroup had low levels of home mortgage lending to LMI or minority borrowers and in LMI or predominantly minority communities, particularly in California and New York City. Other commenters asserted that Citigroup had inadequate levels of community development loans, investments, and grants in California. Several commenters alleged that Citigroup's small business lending in California and Nevada was inadequate, particularly to businesses in LMI or predominantly minority communities.[18]

Many commenters alleged that Citigroup provided inadequate and costly banking services to LMI or minority individuals. Several commenters asserted that Citigroup had an insufficient number of depository institution branches in LMI communities in its California and New York City assessment areas. In addition, some commenters expressed concern that consummation of the

[17] The Board considered these comments in connection with its review of the effect of the proposal on competition in the relevant banking markets and Citigroup's plan to make various banking products and services available in the communities served by Citigroup and Cal Fed as discussed in the order.

[18] A number of commenters criticized the terms of Citigroup's ten-year, $120 billion community reinvestment pledge for California and Nevada as inadequate, particularly in comparison with the current community reinvestment agreement between Cal Fed and certain community organizations in California. Neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into agreements with any organization. The Board, therefore, views such pledges and their enforceability as matters outside the CRA and focuses on the existing record of a notificant and the programs that the notificant has in place to serve the credit needs of its community. See Fifth Third Bancorp, 80 Federal Reserve Bulletin 838 (1994).

proposal would result in branch closures in LMI or predominantly minority communities in California. Several commenters also contended that, based on data submitted under the Home Mortgage Disclosure Act ("HMDA"),[19] Citigroup engaged in disparate treatment of minority individuals in home mortgage lending. These commenters alleged that Citigroup denied loan applications from minorities more frequently than it denied applications from whites.

In addition, several commenters expressed concern about the loss of Cal Fed as an independent organization and the possible termination of its affordable mortgage loan and community development programs. On the other hand, one commenter asserted that Cal Fed was not an active participant in affordable mortgage programs for LMI borrowers.[20]

B. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the proposal in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the notice process because it represents a detailed evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisors.[21]

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[19] 12 U.S.C. § 2801 et seq.

[20] This commenter also alleged, based on HMDA data and lending testing results, that Cal Fed engaged in disparate treatment of minorities in several communities in Southern California. The commenter stated that this allegation was referred to the Department of Housing and Urban Development ("HUD"). The Board has consulted with HUD on the referral.

[21] See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

The subsidiary insured depository institutions of Golden State and Citigroup directly involved in the proposal received “outstanding” ratings at their most recent CRA performance evaluations. Cal Fed received an "outstanding" rating from the OTS, as of July 30, 2001 (“Cal Fed 2001 Evaluation”). Citibank FSB received an "outstanding" rating from the OTS, as of October 15, 2001 (“2001 CRA Evaluation”), and Citibank Nevada received an "outstanding" rating from the Office of the Comptroller of the Currency (“OCC”), as of March 29, 1999 (“1999 CRA Evaluation”).

Citigroup’s other subsidiary depository institutions received either "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations.[22] Citibank, N.A., New York, New York (“Citibank NA”), the lead depository institution of Citigroup, received a “satisfactory” rating from the OCC, as of October 16, 2000 (“2000 CRA Evaluation”).

As discussed in more detail below, the Board has considered carefully the fair lending policies and procedures of Citigroup and its affiliates. In addition, the Board has evaluated substantial information submitted by Citigroup about the CRA performance of its principal insured depository institutions since their most recent CRA performance evaluations. The Board also has consulted with the appropriate federal supervisors of Citigroup’s insured depository institutions.

C. CRA Performance of Citigroup

As noted above, Citigroup proposes to merge Cal Fed, the California retail branches of Citibank FSB, and the retail branches of Citibank Nevada into the newly formed Citibank (West), with Citibank (West) as the surviving entity. The branches and operations of Citibank (West) would be

[22] See Appendix C for the CRA ratings of all Citigroup’s subsidiary depository institutions.

subject to Citigroup's CRA and fair lending policies, procedures, and oversight. The CRA assessment areas of Citibank (West) would be the same as Cal Fed's current assessment areas.[23] Citigroup represented that each market or major assessment area in California and Nevada would have a full-time CRA officer. In addition, Citigroup stated that the community development lending and investment in the assessment areas of Citibank (West) would be conducted by Citigroup's Center for Community Development Enterprise ("CCDE"), and that all grants to community organizations in California and Nevada would be conducted by The Citigroup Foundation ("Foundation"). The CCDE and Foundation conduct such activities for all Citigroup's subsidiary depository institutions that are subject to the CRA.

Citibank FSB

Overview. Citibank FSB, with total assets of $30.3 billion, is a savings association that would be involved in the acquisition of Cal Fed by Citigroup. In the 2001 CRA Evaluation, examiners commended Citibank FSB for demonstrating a high level of responsiveness to the credit and community needs of its combined nationwide assessment areas during the review period.[24] Citibank FSB received "outstanding" ratings in the overall lending, investment, and service performance tests.

[23] The California assessment areas of Citibank FSB and the assessment areas of Citibank Nevada are included in Cal Fed's assessment areas.

[24] At the time of the 2001 CRA Evaluation, Citibank FSB had 19 assessment areas in California, Illinois, Florida, Maryland, Virginia, Connecticut, New Jersey, Texas, and the District of Columbia. The review period was January 1, 1999, through June 30, 2001, which was three months longer than the previous review period.

Examiners praised the lending record of Citibank FSB, noting that it had a high volume of lending that exceeded the loan volume ratios of its peer group in almost every loan category. Citibank FSB and its affiliates originated and purchased $24 billion in total HMDA-reportable loans in the institution's combined assessment areas during the review period.[25] Examiners noted that the level of Citibank FSB's total HMDA-reportable lending to LMI borrowers during the review period was higher than that of the aggregate of lenders ("aggregate lenders") for the combined assessment areas.[26] Citibank FSB's lending to LMI borrowers increased by 48 percent in its assessment areas since the previous evaluation. Examiners indicated that the geographic distribution of Citibank FSB's HMDA-reportable loans in almost every assessment area was superior to the performance of the aggregate lenders and, in particular, showed a favorable penetration of LMI areas.

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[25] Citibank FSB elected to have the OTS consider loans in certain lending categories made by affiliates in its assessment areas. The HMDA data reviewed by examiners included data reported by: CitiMortgage, Inc., St. Louis, Missouri ("CitiMortgage"); Citibank NA; Citibank Nevada; Citibank (New York State), Pittsford, New York ("Citibank NYS"); Source One Mortgage Company, Inc. (1999 only); Central Pacific Mortgage Company (1999 only); and CitiFinancial and CitiFinancial Mortgage Company, Inc., Irving, Texas ("CitiFinancial Mortgage"). Beginning in 2001, CitiFinancial and CitiFinancial Mortgage data included data from Associates First Capital Corporation ("Associates"), also in Irving, and its affiliates after the mortgage lenders merged. Examiners noted that the percentages of total number of HMDA loans to LMI borrowers and in LMI census tracts by Citibank FSB and its affiliates did not materially change by including the lending of Citibank FSB's subprime lending affiliates, including CitiFinancial and CitiFinancial Mortgage.

[26] The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given market. In the 2001 CRA Evaluation, examiners reviewed aggregate lending data for 1999 only.

Examiners commended Citibank FSB for its innovative and flexible home mortgage loan programs designed to meet the needs of first-time homebuyers and LMI borrowers, which include the CitiAffordable Mortgage and CitiAffordable Assistance programs that provide assistance to such borrowers with down payments and closing costs. Examiners also noted favorably Citibank FSB's Special Loan Portfolio, which is composed of loans that do not fit traditional underwriting criteria but are approved during a secondary review process. In addition, examiners reported that Citibank FSB offered affordable mortgage products of the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation that featured low down payment requirements, down payment and closing cost assistance, and flexible underwriting criteria. Examiners also reported that during the review period, Citibank FSB announced a new affordable mortgage partnership between CitiMortgage and the FNMA to help provide thousands of LMI and minority families with below-market rate mortgages ("FNMA Program").[27] Under this program, Citibank FSB agreed to originate and the FNMA agreed to purchase \$12 billion in mortgage loans over a five-year period.[28]

The 2001 CRA Evaluation commended the small business lending record of Citibank FSB and its affiliates in the combined assessments areas during the review period. Examiners reported that, based on dollar volume, Citibank FSB was the leading small business lender among savings associations in its combined

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[27] In this program, FNMA agreed to buy home-related loans from Citigroup to LMI or minority borrowers or to borrowers in LMI or majority-minority census tracts. "Majority-minority" census tracts are those in which minorities comprise 50 percent or more of the population.

[28] Citigroup stated that it originated more than \$3 billion in mortgage loans nationwide under this program in 2001.

assessment areas in 1999.[29] Examiners found that the geographic distribution of small business loans by Citibank FSB and its affiliates generally was lower than demographic benchmarks but was reasonably comparable with aggregate lenders in 1999.

In the 2001 CRA Evaluation, examiners also commended Citibank FSB for its strong record of community development lending, which they characterized as exhibiting an exceptional amount of innovation. Examiners reported that Citibank FSB made more than 730 community development loans totaling $674 million in its combined assessment areas during the review period. The institution's qualified community development investments totaled approximately $145 million, representing a 130 percent increase since the previous CRA performance evaluation, and its community development grants totaled more than $18 million. The institution's community development investment portfolio included low-income housing tax credits, mortgage-backed securities, equity investments in community development organizations, equity funds focused on low-income urban areas, investments in not-for-profit community development organization loan funds, and certificates of deposits in community banks and credit unions serving LMI areas.

Examiners reported that Citibank FSB's retail banking services were readily accessible to all segments of its assessment areas. Examiners found that Citibank FSB's distribution of branch offices in LMI census tracts was somewhat low in comparison to the percentage of the population living in such communities. However, they favorably noted that Citibank FSB's retail banking services also

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[29] The small business lending performance reviewed by examiners included data of the following affiliates of Citibank FSB: Citibank NA; Citibank (South Dakota), N.A., Sioux Falls, South Dakota ("Citibank SD"); and Universal Financial Corporation, Salt Lake City, Utah. For purposes of this analysis, small business loans included business loans with an original amount of $1 million or less.

were available through its alternative delivery systems, including telephone banking, on-line computer banking, ATMs, and bank-at-work and bank-by-mail programs.

In addition, examiners strongly commended Citibank FSB for providing a superior level of community development services during the review period. Examiners reported that the number of Citibank FSB's financial literacy seminars more than doubled since its previous CRA performance evaluation. Seminar topics included first-time home buying, personal money management, and small business financing. Examiners also noted that Citibank FSB engaged in educational training efforts through individual development account programs, which establish special savings accounts with matching features to help LMI individuals accumulate funds for specific purposes such as a down payments for first-time home purchases and continuing education tuition.

California. In the 2001 CRA Evaluation, Citibank FSB received an "outstanding" rating under the lending test in its California assessment areas.[30] Examiners characterized Citibank FSB's overall loan volume as strong. During the review period, Citibank FSB and its affiliates originated and purchased $14 billion in HMDA-reportable loans in the California assessment areas. Examiners reported that the geographic distribution of Citibank FSB's HMDA-reportable loans compared favorably with the aggregate lenders' distribution. During the review period, Citibank FSB's total HMDA lending in the California assessment areas increased more than 40 percent since its previous CRA evaluation, and increased more than 133 percent in LMI geographies.

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[30] At the time of the 2001 CRA Evaluation, Citibank FSB's California assessment areas included the following Primary Metropolitan Statistical Areas ("PMSAs"): Los Angeles-Long Beach, San Francisco, Oakland, San Jose, Orange County, and Ventura.

Examiners noted that Citibank FSB's managerial reports indicated almost 22 percent of its total home purchase loans were made to borrowers in LMI census tracts and more than 18 percent to LMI borrowers, which exceeded the percentage of the aggregate lenders in 1999. Examiners reported that Citibank FSB had intensified its focus on LMI mortgage lending during the review period.

Citigroup has continued to originate and purchase a significant volume of HMDA-reportable loans in California.[31] Based on information reported by Citigroup, it originated and purchased HMDA-reportable loans totaling $8.3 billion in Citibank FSB's California assessment areas in 2001.[32] Citigroup originated and purchased HMDA-reportable loans totaling $793 million to LMI borrowers in the California assessment areas in 2001, including $662 million in loans by its prime lending affiliates.[33] This lending included home purchase loans to LMI borrowers totaling $200 million, 98 percent of which were made by Citigroup's prime lending affiliates.

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[31] The data provided by Citigroup included loans originated and purchased by Citibank FSB, Citibank NA, CitiMortgage, CitiFinancial Mortgage, and Citicorp Trust Bank, FSB (formerly Travelers Bank & Trust, FSB), Newark, Delaware ("Citicorp Trust"). These data excluded transactions between affiliates.

[32] Some commenters criticized Citigroup's practice of purchasing rather than originating a substantial number of its prime home mortgage loans to LMI and minority borrowers. The commenters argued that Citigroup should not receive CRA credit for loan purchases and urged Citigroup to use more flexible underwriting standards to increase its loan originations to LMI and minority borrowers. The federal regulatory agencies' regulations implementing the CRA do not differentiate between loan originations and purchases for purposes of evaluating an institution's CRA lending performance. See, e.g., 12 C.F.R. 228.22.

[33] For purposes of these data, Citigroup's prime lending affiliates include Citibank FSB, Citibank NA, and CitiMortgage.

In the 2001 CRA Evaluation, examiners noted that the high cost of housing in most of Citibank FSB's California assessment areas presented challenges in providing home financing for LMI households. Examiners commended Citibank FSB for using a number of innovative and flexible lending programs to assist LMI families and first-time homebuyers.[34] During the 18-month review period, Citibank FSB made 578 loans totaling almost $88 million under its specialized affordable housing programs.

Since the 2001 CRA Evaluation, Citibank FSB's use of these specialized affordable housing programs has declined. In 2001, Citibank FSB made 147 loans totaling almost $26 million under these programs in California. Citigroup represented, however, that it made home mortgage loans totaling more than $1.5 billion through the FNMA Program.

In the 2001 CRA Evaluation, examiners characterized Citibank FSB as a leader in lending to small businesses in California. Examiners noted that Citibank FSB's volume of small business lending increased significantly during the review period, particularly to businesses in LMI census tracts. This increase in Citibank FSB's small business lending was due primarily to the introduction of small business credit cards by affiliates in 1999.[35] During the review period, Citibank FSB's and its affiliates' small business loans totaled more than $789 million in the California assessment areas, including $202 million in loans to business in LMI census tracts. Examiners also noted that more than 98 percent of the number of small business loans by Citibank FSB and its affiliates were in

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[34] Several commenters argued that Citigroup's volume of lending under its group of affordable mortgage loan products was low in California.

[35] Commenters criticized small business lending through credit cards for having lower limits and being more expensive to borrowers than traditional small business loan products.

amounts of $100,000 or less, which compared favorably with the aggregate lenders. In addition, examiners noted that Citibank FSB increased its emphasis on Small Business Administration ("SBA") lending during the review period through the development of a seminar to help generate applicants for SBA loans.[36]

Citigroup stated that its small business lending in Citibank FSB's assessment areas has continued to increase significantly since the 2001 CRA Evaluation. Citigroup represented that its small business lending more than tripled in California, increasing from more than 30,000 loans to almost 92,000 loans in 2001. In addition, Citigroup stated that the percentage of its small business lending in LMI census tracts in California increased from approximately 24 percent to 29 percent in 2001.

In the 2001 CRA Evaluation, examiners reported that Citibank FSB's community development lending performance in California was very strong and exhibited an exceptional amount of innovativeness and complexity. Citibank FSB originated 94 community development loans totaling almost $122 million in the California assessment areas during the review period. Examiners indicated that the majority of Citibank FSB's community development lending supported affordable multifamily housing loans. During the review period, Citibank FSB also issued letters of credit totaling approximately $141 million to enhance bond funding of large public works projects in addition to its direct community development lending.

Citigroup represented that, in 2001, it more than doubled the dollar volume of community development lending in Citibank FSB's California

[36] Commenters urged Citigroup to become an active participant in SBA loan programs. Citigroup stated that it was working to increase its SBA lending volume in California by conducting a direct marketing campaign, employing a dedicated SBA loan sales staff, and conducting SBA-related seminars and events.

assessment areas during the previous year from $153.1 million to $320.2 million. In 2001, the CCDE provided a financing package, which included a $6 million letter of credit and a $400,000 construction loan to support the purchase and rehabilitation of a 34-unit HUD Section 8 affordable apartment building for seniors in a San Francisco neighborhood. In addition, Citigroup provided an extensive financing package to California State University ("CSU") to provide 900 new affordable housing units for the faculty and staff of CSU's new Channel Islands campus in Ventura County, a high cost-of-living area of California.

Citibank FSB received an "outstanding" rating under the investment test for the California assessment areas.[37] Examiners commended Citibank FSB for its overall community development investment performance in California and for taking a leadership role in its investments. Citibank FSB made 34 qualified investments totaling almost $41 million during the review period. Examiners reported that Citibank FSB made investments totaling $13.8 million in low-income housing tax credits, $4.4 million in mortgage-backed securities, and $22.7 million in various community development organizations, credit unions, equity funds, and community development project subsidies. In addition, examiners noted that Citibank FSB donated $2.5 million to a variety of organizations that provided housing assistance or community development support in California.

Citigroup represented that it has made additional community development investments in California totaling almost $12 million since the 2001 CRA Evaluation. These investments included a $100,000 certificate of deposit in the People's Community Partnership, the only financial institution in a

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[37] The majority of community development investments were purchased by affiliates of Citibank FSB, and all community development grants were provided by the Foundation. Qualified investment balances are as of October 11, 2001, and grant balances are as of June 30, 2001.

low-income area of Oakland, and $4 million investment in Quad Ventures, a private equity fund focused on segments of the education industry. In addition, Citigroup stated that the Foundation has awarded community development grants totaling more than $1.5 million to organizations in California to increase financial literacy, improve educational opportunities for children, and help low-income individuals develop assets.

In the 2001 CRA Evaluation, Citibank FSB received an "outstanding" rating under the service test in the California assessment areas.[38] Examiners reported that Citibank FSB's banking services were readily accessible to all segments of its California assessment areas.[39] Examiners noted that more than 17 percent of its branches, and almost 22 percent of its ATMs, were in LMI census tracts.[40] Examiners found that, although Citibank FSB's distribution of branch offices in low-income census tracts was reasonable in comparison to the percentage of the population in these geographies, the institution's presence in

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[38] Commenters alleged that Citigroup has not demonstrated a commitment to providing meaningful services to LMI and predominantly minority communities in California, such as free checking accounts and money transmission services.

[39] One commenter expressed concern that Citigroup's subsidiary bank in Mexico was marketing loan products in the United States without being subject to the CRA. Citigroup stated that it launched that marketing program in 2002 through Banamex USA Bancorp and its subsidiary bank, California Commerce Bank ("CCB"), both in Century City, California, which is subject to the CRA. Under this program, customers of CCB could purchase consumer goods offered by an unaffiliated third party through a catalog, and the goods would be delivered in Mexico. Citigroup represented that it discontinued this program because of limited customer response.

[40] Commenters criticized Citigroup's performance as the contractual provider of California's Electronic Benefits Transfer ("EBT") program for not providing a sufficient number of ATMs or other free access points in LMI communities where the majority of welfare recipients reside.

moderate-income census tracts was not significant based on local demographic characteristics. Currently, 19 percent of Citibank FSB's branch offices are in LMI census tracts.

Examiners commended Citibank FSB for its community development services during the review period, noting that the institution had held consumer education seminars for more than 20,000 individuals. Seminar topics included first-time homebuying, small business financing, consumer financial education, investments, and insurance.

Citibank Nevada. As previously noted, Citibank Nevada received an "outstanding" CRA performance rating from the OCC in the 1999 CRA Evaluation.[41] Citibank Nevada received a "high satisfactory" rating under the lending test in the 1999 CRA Evaluation.[42] Examiners reported that Citibank Nevada made home mortgage loans totaling more than $172 million, including home purchase loans totaling more than $61 million.[43] Citibank Nevada was particularly commended for its excellent distribution of home mortgage loans in LMI geographies and to LMI borrowers. Examiners considered Citibank Nevada's level of home mortgage lending in low-income census tracts and to LMI borrowers very favorably in light of demographic data, the level of

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[41] At the time of the 1999 CRA Evaluation, Citibank Nevada's assessment area included most of the Las Vegas MSA. The review period for the lending test was from January 1, 1997, through December 31, 1998; the review period for the service and investment tests was from May 7, 1997, through March 29, 1999.

[42] Examiners noted that Citibank Nevada was a unique hybrid institution that consisted of a large credit card center and a smaller retail banking branch network.

[43] In the 1999 CRA Evaluation, the review of Citibank Nevada's home mortgage lending included the lending activities of Citibank FSB and CitiMortgage in the bank's assessment area.

comprable lending by aggregate lenders, and the bank's overall market share. For example, Citibank Nevada made 51 percent of its home purchase loans to LMI borrowers, which significantly exceeded the aggregate lenders' percentage of 29 percent.

Citigroup stated that Citibank Nevada's volume of total HMDA-reportable loans declined slightly from 2000 to 2001, but that its lending in LMI census tracts as a percentage of total HMDA lending increased during this time period. Citigroup represented that Citibank Nevada's volume of total HMDA-reportable lending to LMI households also declined slightly from 2000 to 2001, which was consistent with an overall decline in lending by other creditors because of the rising housing prices in Nevada. The volume of home refinance loans, however, increased dramatically from 2000 to 2001. Citigroup stated that the number and dollar volume of Citibank Nevada's home refinance loans in LMI census tracts tripled, and the volume of such loans to LMI borrowers doubled, in 2001.

In the 1999 CRA Evaluation, examiners found that Citibank Nevada offered a variety of proprietary home mortgage loan programs and participated in first-time home buyer programs sponsored by state and municipal agencies. These programs included a program that provided pre-approved credit and loan commitments before home selection and four special mortgage assistance programs specific to the southern Nevada area. During the two-year review period Citibank Nevada made 90 loans totaling $8 million under these special programs. Citigroup stated that Citibank Nevada made home mortgage loans totaling $295 million under its proprietary home mortgage programs in 2001.

In the 1999 CRA Evaluation, examiners determined that Citibank Nevada's small business lending compared satisfactorily with that of its competitors.[44] Examiners reported that Citibank Nevada's small business lending totaled $20.6 million and that 34 percent of its total business lending was to small businesses.[45] They also noted that the majority of the bank's small business loans were small, with an average loan amount of $82,000.

Since the 1999 CRA Evaluation, the volume of Citibank Nevada's small businesses lending has significantly increased. Citigroup represented that Citibank Nevada's small business loan volume increased from almost 1,300 loans in 2000 to 6,700 loans in 2001, primarily through the issuance of small business credit cards by affiliates. In addition, Citigroup represented that Citibank Nevada increased the percentage of its small business lending to businesses in LMI census tracts, in 2001, to a level that exceeded that of the aggregate lenders' percentage. Citigroup also represented that almost all its small business loans in 2001 were in amounts of less than $100,000.

In the 1999 CRA Evaluation, examiners reported that the level of Citibank Nevada's community development lending significantly exceeded the amount of such lending by similarly situated banks in the community. Examiners reported that Citibank Nevada made community development loans totaling more than $2 million during the review period, and that these loans helped finance affordable housing developments for low-income families.

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[44] Examiners indicated that Citibank Nevada held only a small portfolio of small business loans and chose instead to focus on residential lending to alleviate unmet home mortgage lending needs in the community. During the review period, Citibank Nevada offered small business loans only as an accommodation to the bank's retail customers.

[45] For purposes of this analysis, small businesses include businesses with gross annual revenues of $1 million or less.

Examiners commended Citibank Nevada for establishing its Community Lending Center in North Las Vegas ("CLC") in 1998 to facilitate community development lending in LMI areas.[46] Examiners reported that the CLC, which is in a low-income community, made almost 100 loans during its first six months of operation, including loans totaling almost $2 million that promoted affordable housing development.

Citigroup stated that, during the two-year period since the 1999 CRA Evaluation, the CCDE made community development loans totaling more than $9 million in Citibank Nevada's assessment area. This community development lending included loans to several multifamily affordable housing projects.

In the 1999 CRA Evaluation, Citibank Nevada received an "outstanding" rating under the investment test. Examiners commended Citibank Nevada for an excellent level of community development investments. Examiners reported that Citibank Nevada made $41 million in qualified community development investments during the review period, mostly targeted mortgage-backed securities, Nevada housing bonds, low-income housing tax credits, and investments in community development intermediaries. In addition, examiners noted that Citibank Nevada made investments in and grants to a number of civic and community economic development organizations to benefit LMI individuals or communities.

Citigroup represented that it made more than $19 million in community development investments in Citibank Nevada's assessment area in

[46] Examiners noted that the CLC's loan products were tailored to meet the needs of the surrounding community and included small personal loans, secured and unsecured home improvement loans, and special-purpose mortgage loans. They also reported that the bank's CRA officer managed the CLC and spent a substantial amount of time meeting with local community groups.

2000 and 2001. These included investments totaling $9.8 million in low-income housing tax credits, $6.2 million in community development intermediaries, and $500,000 in qualified equity funds. In addition, Citigroup stated that the Citigroup Foundation has awarded more than $341,000 in grants to organizations in Nevada, primarily to community development or education-related organizations to revitalize neighborhoods or increase financial literacy.

Citibank Nevada received an "outstanding" rating under the service test in its 1999 CRA Evaluation. Examiners reported that Citibank Nevada provided a retail delivery system through traditional branches and state-of-the-art technology, which was accessible to individuals of different income levels in the assessment area. During the review period, Citibank Nevada staff also offered qualified community development services through the CLC and provided financial and technical support to numerous community organizations.

Since the 1999 CRA Evaluation, Citigroup has continued to expand its community development services. Citigroup stated that it has provided community development services in Nevada in partnership with programs sponsored by its Community Development Institute, including the Community Development Capacity Building Program that provides credit training and project development assistance to nonprofit practitioners engaged in neighborhood revitalization. In addition, Citigroup represented that it participated with a local government agency in providing homebuyer education and loan applications to LMI first-time homebuyers and held a series of free seminars on various topics, including homebuying, investments, and SBA lending.

Citibank NA

New York City. As previously noted, Citibank NA received a "satisfactory" rating in its 2000 CRA performance evaluation ("2000 CRA Evaluation").[47] Citibank NA received a "high satisfactory" rating under the lending test.[48] Examiners particularly commended Citibank NA's significant level of community development lending in the New York assessment area during the review period and noted that Citibank NA extended more than 53,000 home mortgage and small business loans totaling $3.3 billion.[49] Examiners found that Citibank NA was among the leading home purchase lenders to LMI borrowers in the New York assessment area and that the bank's distribution of HMDA-reportable loans to LMI borrowers and in LMI geographies was good. In addition, examiners commended Citibank NA for the excellent geographic distribution of its home improvement loans, particularly in LMI geographies where its market share

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[47] Citibank NA's assessment areas in New York included the New York Metropolitan Statistical Area ("MSA"), excluding Putnam County, and the Nassau-Suffolk MSA ("New York assessment area"). The evaluation period for the lending test generally was October 1, 1998, through June 30, 2000. For community development loans under the lending test, the investment test, and the service test, the evaluation period was October 27, 1998, through October 16, 2000.

[48] The lending data includes HMDA-reportable loans originated and purchased by Citibank FSB, Citibank NYS, CitiMortgage, and CitiFinancial, and small business loans originated and purchased by Citibank FSB, Citibank SD, and Universal Bank, N.A., Columbus, Georgia (subsequently merged into Citibank SD).

[49] Examiners noted that the New York assessment area was one of the highest cost-of-living areas in the United States and, despite the extended period of economic prosperity, income disparity had increased and LMI families had limited opportunities for home ownership because the amount of owner-occupied housing in New York City remained relatively scarce.

substantially exceeded that of its overall home improvement lending in the assessment area.[50]

In the 2000 CRA Evaluation, examiners reported that Citibank NA made more than 19,000 affordable mortgage loans during the review period. Examiners particularly commended Citibank NA for its home loan product's innovation and flexibility. In 1997, Citibank NA established the Special Loan Portfolio for borrowers with credit weaknesses who would not otherwise qualify for the bank's standardized affordable mortgage products. Examiners noted that Citibank NA expanded its commitment to this Special Loan Portfolio in 1999 and that the bank made almost 340 of these loans totaling $20.5 million during the review period.

The 2001 HMDA data indicate that Citigroup has continued to provide a significant volume of HMDA-reportable lending in Citibank NA's New York assessment area. In 2001, Citigroup originated and purchased HMDA-reportable loans totaling $3.6 billion, of which more than $387 million of were in LMI census tracts, and almost $320 million were to LMI borrowers in the New York assessment area.[51]

Examiners determined that Citibank NA's community development lending volume was excellent and had a positive impact on the bank's overall

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[50] In the 2000 CRA Evaluation, examiners noted that the preponderance of home improvement loans reflected the bank's strategy of using this product as an initial marketing method to strengthen home mortgage lending and deposit relationships with LMI customers and communities. Examiners also noted that the volume of these loans peaked in 1999, and that the bank's home purchase lending subsequently increased in 1999 and 2000, exceeding its overall market share of such loans to all borrowers.

[51] These data are for Citibank NA and CitiMortgage and may include transactions with affiliates.

lending activity. During the review period, the CCDE made community development loans totaling almost $240 million in the New York assessment area. Examiners noted that this amount included more than $110 million in community development loans for affordable housing, including $30 million in loans to two community-based corporations under New York City's Neighborhood Entrepreneur Program to provide financing for housing projects in the Bronx and Brooklyn.[52]

Citigroup represented that it had increased its community development lending since the 2000 CRA Evaluation. Citigroup stated that it made community development loans totaling more than $325 million in the New York assessment area from July 2000 through May 2002. This community development lending included $13 million in loans to a community-based organization in 2000 for the rehabilitation of affordable residential units and commercial spaces in the Bronx, and $33 million in loans in 2001 to rehabilitate an office building in Harlem that was part of an Upper Manhattan redevelopment and revitalization plan.

Citigroup NA also received an "outstanding" rating under the investment test in the 2000 CRA Evaluation. Examiners reported that Citibank NA was a leader in community development investments and effectively leveraged its investments through strategic partnerships with nonprofits and community

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[52] Commenters alleged that Citibank NA failed to meet the credit needs of minorities and LMI individuals in New York City. These commenters argued that Citibank NA controlled more than 25 percent of all deposits in New York City, but made less than 1 percent of all direct HMDA-reportable loans for multifamily housing in the city. As previously noted, examiners commended Citibank NA for an excellent level of community development lending in the New York assessment area and noted that almost half of its community development loans were for affordable housing.

development corporations. During the review period, Citibank NA's community development investments increased from $56 million to $121 million. Almost half the bank's qualified investments supported affordable housing, including a $40 million investment in equity partnerships whose funds were used to create affordable rental projects in the New York Metropolitan area and a $1.3 million investment in a limited partnership equity fund that acquires and develops properties in inner city and LMI areas to promote revitalization. Citibank NA's other community development investments promoted community services for LMI individuals and small business financing in LMI neighborhoods.

Since the 2000 CRA Evaluation, Citigroup has continued to increase its level of qualified investments. Citigroup represented that it made $145.5 million in community development investments from July 2000 through June 2002, to promote affordable housing, economic development, and other community development projects, such as providing computer software for large school districts.

In the 2000 CRA Evaluation, Citibank NA received a "high satisfactory" rating under the service test. Examiners reported that Citibank NA's delivery systems were accessible to individuals and geographies of different income levels in the New York assessment area.[53] In addition, examiners commended Citibank NA for its excellent level of community development services, which focused on financial literacy and increasing the access of LMI individuals to banking services, particularly credit.[54]

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[53] Commenters alleged that Citibank NA lacked a sufficient number of branches in low-income neighborhoods in New York City.

[54] Commenters expressed concern about Citigroup's role as the contractual provider of EBT services in New York because Citigroup allegedly did not have

D. CRA Performance of Cal Fed

As previously noted, Cal Fed received an overall "outstanding" rating for CRA performance from the OTS in the Cal Fed CRA Evaluation, with "outstanding" ratings for each of the lending, investment, and service tests in California and Nevada.[55] Examiners particularly commended Cal Fed for its distribution of HMDA-reportable loans among customers of different income levels and for its extensive use of innovative and flexible lending programs to help finance home purchases by LMI persons. In particular, examiners reported that Cal Fed's lending to low-income borrowers or in low-income census tracts reflected an excellent record of serving the credit needs of the most economically disadvantaged areas, individuals, and businesses. Citigroup represented that it expects to continue a number of Cal Fed's specialized mortgage lending programs designed to assist LMI individuals, small business programs, and community development lending and service programs.

Examiners commended Cal Fed for excellent responsiveness to home mortgage credit needs in its combined assessment areas. During the review period, Cal Fed funded residential mortgage loans totaling more than $34 billion in its combined assessment areas, including more than $34 billion in California and

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enough ATMs and other access points of services in LMI areas, which caused welfare recipients to incur fees to access their welfare benefits. In 2000, Citicorp Electronic Financial Services, Inc., the subsidiary of Citigroup that received the EBT contract, reached an agreement with the New York State Attorney General to provide 150 ATMs with no user surcharge in low-income neighborhoods in Manhattan, Queens, Brooklyn, and the Bronx.

[55] The review period was July 1, 1998, through March 31, 2001. Examiners included the loans originated and purchased by Cal Fed's two principal lending subsidiaries, First Nationwide (mortgage loans) and Auto One (auto loans).

$594 million in Nevada. In the Cal Fed CRA Evaluation, examiners found that the percentages of Cal Fed's total HMDA-reportable loans in LMI census tracts and to LMI borrowers in California during the review period exceeded that of the aggregate lenders in 1999.

Examiners indicated that Cal Fed's small business lending in its combined assessment areas also reflected excellent responsiveness to area credit needs. Cal Fed made small business loans totaling more than $410 million during the review period, including $404 million in California and $7.6 million in Nevada. In the Cal Fed CRA Evaluation, examiners reported that almost 30 percent of Cal Fed's small business loans were to businesses in LMI census tracts during the review period.

Examiners characterized Cal Fed as a leader in community development lending. They noted that Cal Fed's community development lending focused on providing shelter to very low-income persons and those with special needs. During the review period, Cal Fed originated more than $62 million in community development loans, including $52.6 million in California and $7.5 million in Nevada. Examiners noted that Cal Fed's community development lending resulted in the creation or rehabilitation of more than 1,900 units of affordable housing.

In addition, examiners commended Cal Fed for its diverse community development investments.[56] Examiners reported that Cal Fed made qualified investments totaling more than $645 million, most of which were in California. They indicated that the majority of Cal Fed's community development investments

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[56] Citigroup represented that, on consummation of the proposal, Cal Fed's community development investment portfolio would be managed by the CCDE, and the Foundation would evaluate Cal Fed's grants and determine whether to extend additional funds to recipients.

were mortgage-backed securities and collateralized mortgage obligations secured by properties in its combined assessment areas.

In the Cal Fed CRA Evaluation, examiners noted that Cal Fed provided a high level of retail services through branch offices, ATMs, and telephone banking and provided customers throughout its assessment areas with an array of affordable banking products. Examiners found that its banking offices were readily accessible to all segments of the community, including LMI areas. In addition, examiners reported that Cal Fed provided a high level of community development services in its assessment areas, including a broad array of financial literacy training, homeownership counseling, and technical assistance and training for small business owners.

E. <u>HMDA Data and Fair Lending Record</u>

The Board also has carefully considered Citigroup's lending record in light of comments on HMDA data reported by its subsidiaries.[57] The 2001 HMDA data indicate that Citigroup's denial disparity ratios for African-American and Hispanic applicants generally were higher than the denial disparity ratios for the aggregate lenders for the total HMDA-reportable loans in

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[57] Several commenters alleged that Citigroup's 2000 or 2001 HMDA data in various MSAs indicated that Citigroup disproportionately denied African-American and Hispanic applicants for home purchase or home refinance loans. The commenters noted that Citigroup's denial ratios for minority applicants were higher than the denial ratios for nonminority applicants and that these denial disparity ratios compared unfavorably with those of the aggregate lenders in the MSAs. The denial disparity ratio compares the denial rate for minority loan applicants with that for nonminority applicants. A commenter also alleged that the percentages of Citigroup's home purchase and refinance loans to African-American and Hispanic borrowers in several MSAs compared unfavorably with the percentages for the aggregate lenders.

the markets reviewed.[58] In addition, Citigroup's housing-related loan originations to African-American and Hispanic individuals, as a percentage of its total HMDA-reportable lending, generally were below that of the aggregate lenders in some of the markets.[59] Citigroup's percentage of housing-related loan originations to borrowers in minority census tracts, however, was comparable with or exceeded that of the aggregate lenders in a number of the markets.[60]

Although the HMDA data 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 and in certain local areas, the 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 Board nevertheless 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, gender, or national origin. 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,

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[58] The Board analyzed 2000 and 2001 HMDA data for Citigroup's lending affiliates in their assessment areas in California, New York, and other assessment areas discussed by commenters. The Board's review included the HMDA data for Citibank FSB, Citibank NA, Citibank NYS, and CitiMortgage.

[59] In addition to loan originations, Citigroup purchases a substantial volume of HMDA-reportable loans. Combining Citigroup's originations and purchases in the markets reviewed generally results in higher percentages of Citigroup's HMDA-reportable loans in minority census tracts and to minority borrowers.

[60] For purposes of this HMDA analysis, minority census tract means a census tract with a minority population of 80 percent or more.

moreover, provide only limited information about the covered loans.[61] 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 with fair lending laws by Citigroup's subsidiary depository institutions. Examiners found no evidence of prohibited discrimination or other illegal credit practices or any substantive violations of fair lending laws at any of the current depository institutions controlled by Citigroup.[62]

The record also indicates that Citigroup has taken a number of affirmative steps to ensure compliance with fair lending laws. Citigroup has instituted corporatewide compliance policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations, employed compliance officers and staff responsible for monitoring

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[61] The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applications 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.

[62] In connection with the 2001 CRA Evaluation, OTS and OCC examiners conducted a joint fair lending review of Citibank FSB, CitiMortgage, and Citibank NA. During this review, examiners evaluated the denied and approved home purchase applications from minorities and nonminorities, and no violations of the substantive provisions of the antidiscrimination laws or regulations were identified.

compliance, and conducted regular audits of compliance. Citigroup's subsidiary depository institutions 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. In addition, all declined applications are independently reviewed by two underwriters, the second of whom must be a Senior Underwriter or Risk Management Expert. Declined applications go through a third level of review if the applicant is a LMI borrower, is applying for a community lending product, or lives in a minority or LMI census tract.[63]

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

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[63] Some commenters alleged that Citigroup provides minority homebuyers with a disproportionate number of mortgage loans sponsored by the Federal Housing Administration and the Department of Veterans' Affairs compared with the number of such loans it provides to nonminority homebuyers. The Board notes that such mortgage loan products provide many homebuyers with lower lending-cost opportunities and that the CRA does not require banks to provide any particular types of loan products or programs to meet the credit needs of their communities. As previously noted, examiners found no evidence of prohibited discrimination or other illegal credit practices at any of Citigroup's subsidiary depository institutions or any violations of substantive provisions of the fair lending laws.

F. Branch Closings

Several commenters expressed concern about the possible effect of branch closings in the California assessment areas of Citibank FSB and Cal Fed that might result from this proposal. The Board has carefully considered the comments on potential branch closings in light of all the facts of record. The Board has reviewed Citigroup's branch closing policies, preliminary review of potential closures and consolidations, and record of opening and closing depository institution branches.[64]

Citigroup has represented that it would follow its existing branch closure policy before closing or consolidating any branches. Under this policy, Citibank must review a number of factors before closing or consolidating a branch, including a profile of the branch, the marketplace demographics, a profile of the community where the branch is located, and the effect on customers. The most recent CRA examinations of Citigroup's subsidiary depository institutions indicated that they had satisfactory records of opening and closing branches.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings.[65] Federal law requires an

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[64] One commenter alleged that Citigroup has closed branches in LMI and predominantly minority communities in the past. The Board considered substantially identical comments when it approved the acquisition of European American Bank by Citigroup in 2001 and the acquisition of Citicorp by Travelers Group Inc. in 1998. See Citigroup Inc., 87 Federal Reserve Bulletin 600, 611 (2001) ("Citigroup/EAB Order"); Travelers Group Inc., 84 Federal Reserve Bulletin 985, 999 (1998).

[65] Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Federal Register 34,844 (1999)), requires that a bank provide the public with at least 30-days' notice and the appropriate federal supervisory agency with at least 90-days' notice before the date of the proposed branch closing. The bank also is

insured depository institution to provide notice to the public and to the appropriate federal supervisory agency before closing a branch. In addition, the Board notes that the OTS, as the appropriate federal supervisor of Citibank FSB, will continue to review Citibank FSB's branch closing record in the course of conducting CRA performance examinations.

G. Conclusion on CRA Performance Records

The Board has carefully considered all the facts of record, including reports of examination of CRA records of the institutions involved, information provided by Citigroup, all comments received and responses to the comments, and confidential supervisory information. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that the CRA performance records of the institutions involved are consistent with approval.

Subprime Lending of Citigroup

In its order approving the acquisition by Citigroup of EAB, the Board announced that it would conduct a thorough examination to assess Citigroup's effectiveness in implementing various initiatives proposed by Citigroup ("Initiatives") to help ensure compliance with the fair lending laws and to prevent abusive lending practices by Citigroup's subprime lending subsidiaries, CitiFinancial and CitiFinancial Mortgage.[66] The Board explained in the order that, in addition to monitoring implementation of the Initiatives, the Board had broad supervisory authority under the banking laws to require Citigroup to take any other steps necessary to address deficiencies that might be identified in the examination.

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required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

[66] Citigroup/EAB Order at 609. Citigroup proposed the Initiatives to the OCC, FDIC, and New York State Banking Department ("NYSBD"), and adopted them in connection with its acquisition of Associates in November 2000.

The Board also indicated that it would consider the information gathered in its examination and supervisory reports in reviewing future proposals by Citigroup as relevant and appropriate.

The Board is in the midst of conducting its examination of CitiFinancial and CitiFinancial Mortgage. The examination is being conducted jointly by the Board and the Federal Reserve Bank of New York, in close cooperation with the NYSBD. Because of the number and scope of the offices and activities of CitiFinancial and CitiFinancial Mortgage, the examination is not yet complete. Moreover, the Board has determined to expand the scope of the examination to encompass the insurance sales activities of CitiFinancial.

Some commenters have taken the opportunity provided by this notice to give the Board information and comments about the subprime lending and insurance sales activities of Citigroup's subprime lending affiliates. A number of commenters asserted or expressed concern that Citigroup's nondepository subprime lending affiliates engage in various lending practices that the commenters argue are abusive, unfair, or deceptive, particularly in connection with the subprime lending and related insurance sales practices of CitiFinancial involving LMI and minority borrowers.[67] For example, several commenters expressed concern that CitiFinancial prices its loans without considering a customer's credit risk profile, does not provide customers that have excellent credit ratings with access to Citigroup's prime rate products, and engages in aggressive loan collection and

[67] Several commenters also expressed concerns about the sale by a Citigroup affiliate, Primerica Financial Services (and its agents), of loan products of Citicorp Trust (previously called Travelers Bank and Trust, FSB) and insurance products of other affiliates. The Board has consulted with the OTS, the appropriate federal supervisor of Citicorp Trust, and relevant state regulatory agencies and forwarded the comments to those agencies.

foreclosure practices.[68] In addition, several commenters alleged that Citigroup has indirectly supported predatory lending through its business relationships with unaffiliated third parties engaged in subprime lending.[69] Commenters also argued that the Board should deny this notice or impose conditions requested by the commenters in light of the concerns expressed about Citigroup's subprime lending and related activities.

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[68] Some commenters also contended, based in part on HMDA data, that Citigroup engages in violations of the fair lending laws, and improperly markets higher-cost subprime loan products to minority, LMI, and rural communities while it markets lower-cost prime loan products to nonminority and more affluent communities. As noted above, the Board recognizes, as with disparities in denial ratios, that HMDA data alone provide an incomplete measure of an institution's lending in its community. Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports and other confidential supervisory material.

[69] Several commenters alleged that Citigroup has indirectly supported predatory lending by unaffiliated consumer lenders through the warehouse lending and securitization activities of its subsidiary, SSB. Citigroup indicated that SSB engages in underwriting securities backed by subprime mortgage loans and provides warehouse loans to some mortgage banking customers for which it underwrites securities. Citigroup stated that SSB does not control the origination of subprime loans from its unaffiliated mortgage banking customers, but that it reviews each lender's policies and procedures and sets eligibility criteria for the loans it will finance through its warehouse lending and securitization arrangements. In addition, SSB, or an outside firm hired and supervised by SSB, reviews a sample of any loan pool to be securitized for compliance with consumer protection laws and its loan eligibility criteria before making any warehouse loan advance. Moreover, the Board notes that the Federal Trade Commission ("FTC"), HUD, and DOJ have responsibility for enforcing the compliance with fair lending laws by nondepository institutions.

Several commenters challenged the adequacy of the Initiatives, including those designed to address fair lending compliance, and asserted that Citigroup had not implemented them effectively.[70] In particular, a number of commenters questioned the effectiveness and implementation of the programs to refer qualified customers of Citigroup's subprime lenders to its prime mortgage lenders (the "Referral Programs").[71]

The Board continues to expect all bank holding companies and their affiliates to conduct their subprime lending operations free of any abusive lending practices and in compliance with the fair lending laws. Subprime lending is a permissible activity and provides needed credit to consumers who have difficulty meeting conventional underwriting criteria. On the other hand, the Board recognizes that the development of the subprime market has been marred with reports of abusive and deceptive practices that can deny the market's beneficial aspects to borrowers. Borrowers do not benefit from expanded access to credit if the credit involves abusive lending practices. The Board believes that bank holding companies should be conscious of and avoid abusive or deceptive lending practices.

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[70] For example, several commenters alleged that Citigroup undermined the effectiveness of the "mystery shopper" program (whereby minority and nonminority individuals pose as CitiFinancial customers to evaluate branch compliance practices) by providing advance notice of the tests to certain CitiFinancial districts and branches. Although Citigroup noted that some CitiFinancial offices were notified of the approximate dates of the initial "mystery shopper" test to encourage compliance efforts, it stated that CitiFinancial offices were not notified of the subsequent tests.

[71] Some commenters expressed concern that, in California and North Carolina, Citigroup disproportionately located offices of its subprime lending subsidiaries in minority areas. The Board's review of the locations of CitiFinancial's branch offices does not support these allegations.

The Board has carefully considered all the comments submitted on these matters, many of which concerned the effectiveness of the Initiatives or their implementation. The Board has considered Citigroup's implementation of the Initiatives in light of the entire record. These matters are the subject of the ongoing examination, and the Board believes that effective implementation of these Initiatives and the related comments can best be addressed through the examination of CitiFinancial and CitiFinancial Mortgage. The Board will review the information made available by commenters in its examination as relevant and appropriate.

Based on the reports and information gathered to date in the examination process, the Board believes that, although the Initiatives have not yet fully achieved the goals expected, Citigroup has made substantial progress in implementing the Initiatives and continues its efforts to implement them. Importantly, Citigroup has also begun implementing a variety of changes designed to improve the effectiveness of the Initiatives. For example, Citigroup has committed to revise the Initiatives, particularly the Referral Programs, because experience in implementing the Initiatives has indicated weaknesses in the original plan.[72] In addition, Citigroup has committed to make comprehensive changes in its insurance sales practices (the "Enhancements") to address concerns regarding the

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[72] For example, Citigroup has implemented and will continue to implement certain changes and adjustments to the Referral Programs. Citigroup has hired full-time program managers and assigned specialized Citibank staff to administer and process the Referral Programs. In addition, Citigroup has expanded its customer service efforts to reach Referral Programs candidates by extending loan application hours and increasing the number of times CitiFinancial employees call those candidates to inform them about the program. Citigroup also has changed certain criteria for the Referral Programs to better match criteria used at Citigroup's prime lenders.

completeness of its disclosures and the potential for coercive sales practices.[73] Under the Enhancements, CitiFinancial will inform its customers that the purchase of insurance and related products is entirely optional, and that the purchase of such products has no bearing on the approval, amount, or terms of the loan requested. CitiFinancial also will provide further oral and written disclosures to purchasers of insurance and related products about the cost, coverage, terms, and cancellation policies of the insurance products offered.[74] Moreover, as part of the Enhancements, Citigroup also is reviewing and will make revisions to the compensation system of CitiFinancial, as necessary to help ensure the effective implementation of these changes to the insurance sales practices and the Initiatives.

The Board will thoroughly examine and monitor the implementation by Citigroup of its proposed revisions to the Initiatives and all aspects of the Enhancements. In addition, the Board will carefully review CitiFinancial's compliance system, including changes to the system, as part of the

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[73] Some commenters expressed concerns about the adequacy of the Enhancements.

[74] After a customer has been approved for a loan, CitiFinancial will initially present the costs and terms of the requested loan without any optional insurance or similar products. CitiFinancial will then provide the customer with written materials on insurance and optional products and review such products with the customer. CitiFinancial also will prepare and review with a customer pre-closing documents that inform the customer of the price and terms of the loan and monthly payments both without and with the purchase of insurance and optional products. Under the Enhancements, CitiFinancial will not prepare or present final loan documents and insurance or optional products documents until the customer affirmatively states a desire to purchase or decline the insurance and optional products. After the loan has been closed, CitiFinancial will provide customers with additional materials instructing them on how to cancel their purchase of the insurance and other optional products. Citigroup has committed to implement the Enhancements by the end of 2003.

compliance portion of the Board's ongoing examinations of Citigroup. The Board also will take any necessary supervisory action, including requiring Citigroup to take appropriate additional steps, if the Initiatives and Enhancements are not implemented effectively or the compliance systems are not adequate.

Other commenters criticized specific practices that were not addressed directly by the Initiatives, such as certain aspects of the insurance sales practices. Although these comments expressed strong concerns, they generally provided little direct information or provided anecdotal information concerning isolated situations among the numerous transactions conducted by Citigroup. Some of the comments require additional investigation. The application process is not well suited for this type of investigation, and the provisions of the BHC Act do not anticipate this type of investigation in the applications process. Instead, the examination process and the related supervisory authority conferred on the Board provide the most effective and appropriate methods for investigating and resolving these issues. As noted above, the Board has determined to expand the examination process to review in particular the insurance sales practices of CitiFinancial.

A number of comments also urged that the Board delay action until the completion of the examination. The Board believes that a completed examination is a particularly important consideration because it represents a detailed evaluation of an institution's actual performance. As a matter of practice and policy, the Board has not, however, tied consideration of an application or notice to the scheduling or completion of an examination if the applicant has an overall satisfactory record of performance and the issues being examined may be resolved in the examination and supervisory process.[75] Importantly, this policy

[75] As the Board has previously noted, "the application/notice process should focus on an analysis of the effects of the specific proposal and should not become a vehicle for comprehensively evaluating and addressing supervisory and

maintains the integrity of the examination process by allowing examiners to complete their examination without regard to the statutory and regulatory time limits imposed on the application process. To be effective and useful, an examination that is underway during the application process must be allowed to proceed at the pace required to complete an informed review of all issues encountered in the process. In addition, the scheduling, conduct, and completion of an examination is determined by the availability of resources of the banking agencies and is not related to the timing of acquisition proposals.

As the Board has indicated previously, it has broad supervisory authority under the banking laws to address matters that are found in the examination process, including authority to enforce compliance with the fair lending and other applicable laws. Moreover, many issues are more appropriately and adequately addressed in the examination process, where particular matters and violations of law may be identified and addressed specifically, than in the application process, which requires a weighing of the overall record of the companies involved.

In reviewing this proposal, the Board has assembled and considered a broad and detailed record. The record includes substantial confidential and public information provided by Citigroup and the commenters. It also includes the results of completed examinations of the institutions involved; information from the current examinations underway; consultations with other federal and state banking authorities; and consultations with the FTC, DOJ, HUD, and other relevant regulators. Based on a careful review of this record, the Board believes that Citigroup has, on balance, a satisfactory overall record of compliance.

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compliance issues that can more effectively be addressed in the supervisory process." See 62 Federal Register 9290 (1997) (Preamble to the Board's Regulation Y).

The Board notes the recent settlement agreement between Citigroup and the FTC in connection with the lawsuit filed by the FTC against Associates and Citigroup as the successor owner of Associates.[76] The Board also has taken into account that Citigroup has shown a willingness to address issues regarding its subprime lending activities. For example, Citigroup has committed to make comprehensive enhancements to its insurance sales practices, as noted above.

In addition, the Board has considered the nature of the proposal in relation to Citigroup's subprime lending activities. In particular, the Board has taken into account the fact that the current proposed acquisition of Golden State and its subsidiaries, including Cal Fed, would not result in a significant expansion of Citigroup's subprime lending activities.[77]

For all the foregoing reasons, the Board does not believe that the Board's examination of the subprime lending activities of Citigroup warrants further delay or denial of this proposal. The Board continues to believe that the effective implementation of the Initiatives, the Enhancements, and other consumer

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[76] The consumer protection claims in the FTC's lawsuit alleged that Associates, before its acquisition by Citigroup, engaged in abusive lending and insurance sales practices and lending law violations. Under the terms of the settlement, Citigroup will provide $215 million to consumers who bought credit insurance in connection with loans made by Associates between December 1995 and November 2000. In a related matter, Citigroup has agreed to proved an additional $25 million to settle claims of certain refinance customers of Associates brought in a separate class action suit. There has been no adjudication of wrongdoing or injunctive action taken against Citigroup or any of its affiliates in connection with the FTC settlement or the class action settlement. Some commenters expressed concerns about these settlements. The Board has forwarded these comments to the FTC.

[77] Several commenters expressed concern that consummation of this proposal would expand Citigroup's subprime lending activities in LMI and minority communities in California. Cal Fed does not engage in subprime lending other than a limited amount of subprime auto lending.

protection measures proposed or adopted by Citigroup are particularly important for addressing subprime lending concerns. The Board expects Citigroup to continue enhancing its implementation of these measures, including those related to insurance sales practices and to providing creditworthy borrowers with access to prime rate loan products, as methods for helping to ensure the success of Citigroup's original Initiatives and protecting against abusive lending practices.

As noted in this order, the Board will continue to examine the activities of CitiFinancial and CitiFinancial Mortgage and Citigroup's implementation of the Initiatives and Enhancements, including CitiFinancial's compensation and compliance systems. To assist the Board in monitoring and reviewing these matters, Citigroup must submit to the Board quarterly reports on the status and effectiveness of its efforts to successfully complete implementation of the Initiatives and Enhancements. Beginning January 1, 2003, Citigroup must submit these quarterly reports for two years, or such longer time period as the Board, in its discretion, determines is necessary. The Board will take appropriate supervisory action, if any, that is necessary to address deficiencies identified in the examinations and reports, including requiring additional revisions to the Initiatives and Enhancements if warranted.

Financial, Managerial, and Other Supervisory Factors

In connection with its review of the public interest factors under section 4 of the BHC Act, the Board has carefully considered the financial and managerial resources of Citigroup and Golden State and their respective subsidiaries. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record.[78]

[78] See 12 C.F.R. 225.26.

In reviewing these factors, the Board has considered, among other things, confidential reports of examination and other supervisory information received from the primary federal supervisors of the organizations involved and the Federal Reserve System's confidential supervisory information. In addition, the Board has consulted with the relevant supervisory agencies, including the OCC, OTS, FDIC, FTC, and SEC. The Board also has considered publicly available financial and other information on the organizations and their subsidiaries, all the information submitted on the financial and managerial aspects of the proposal by Citigroup, and information provided by commenters about the financial and managerial resources of Citigroup.[79]

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 a partial cash purchase and partial stock exchange of Golden State's common stock. Citigroup would not directly or indirectly incur any debt to finance the proposed transaction. The Board notes that Citigroup and its subsidiary depository institutions and Cal Fed are well capitalized and would remain well capitalized on consummation of the proposal.[80]

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[79] The Board received a comment criticizing the adequacy of Citigroup's management based on the manner in which its subsidiaries handled loan or financial service transactions in individual cases. The Board also has considered these comments in reviewing Citigroup's CRA performance record in this case.

[80] Several commenters alleged that Citigroup underreports delinquencies in its subprime loan portfolio and urged the Board to require an independent audit of Citigroup's subprime loan portfolio as a condition of approval of this transaction. The Board has reviewed Citigroup's policies and procedures on reporting delinquencies and losses in its subprime lending portfolios, Citigroup's related credit procedures, and data on these portfolios and will continue to review such data in connection with its supervisory examinations of Citigroup.

The Board also has considered the managerial resources of Citigroup and Golden State. In this regard, the Board has considered the supervisory experience and assessments of management by the various bank supervisory agencies and the organizations' records of compliance with applicable banking law. The Board has carefully reviewed the examination records of Citigroup and its subsidiary depository institutions, including assessments of their risk management systems and other policies. The Board also has considered Citigroup's plans to implement the proposed acquisition, including its available managerial resources, and Citigroup's record of successfully integrating recently acquired institutions into its existing operations.

The Board received several comments on the proposal criticizing the managerial resources of Citigroup and its subsidiaries.[81] Several commenters asserted that Citigroup's management has failed to implement effective policies and programs to address allegations of abusive sales and lending practices of Citigroup's subsidiaries, including those engaged in subprime lending and related insurance activities.[82] As previously discussed, the Board is conducting a thorough examination of Citigroup's subprime lending activities at CitiFinancial and

[81] Some commenters cited press reports about the structured financing transactions and other securities-related matters. The Board also received comments asserting that Citibank NA and other subsidiaries of Citigroup lack sufficient policies and procedures and other resources to protect against money laundering. The Board has reviewed confidential supervisory information on the policies, procedures, and practices of Citigroup to comply with the Bank Secrecy Act and has consulted with the OCC, the appropriate federal financial supervisory agency of Citibank NA.

[82] Some commenters asserted that adverse managerial resources considerations are evidenced by the pending FTC lawsuit against Associates and Citigroup, as its successor owner. As discussed above, Citigroup has entered into a settlement agreement with the FTC to resolve the FTC's lawsuit and announced important changes to CitiFinancial's insurance sales practices.

CitiFinancial Mortgage. In addition, some commenters asserted that the Board should postpone consideration of the proposal in light of investigations by Congress, federal and state agencies, and self-regulatory organizations into certain investment banking, investment advisory, foreign asset control, currency trading, and corporate finance practices of Citigroup and its affiliates, and conduct its own inquiry into these matters.[83]

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[83] Commenters also expressed concern about the following matters: (1) allegations of gender discrimination at Citigroup's securities affiliates, (2) the number of minorities represented in Citigroup's senior management, (3) allegations of wrongful termination of CitiFinancial employees, (4) Citigroup's financing of various activities and projects worldwide that might damage the environment or cause other social harm, and (5) Citigroup's alleged opposition to legislation addressing credit card disclosures and predatory lending. These contentions and concerns are outside the limited statutory factors that the Board is authorized to consider when reviewing a notice under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973). The Board also notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether banking organizations like Citigroup are in compliance with federal equal employment opportunity statutes under the regulations of the Department of Labor. In addition, matters related to private employment are governed by state law. Moreover, the contentions about alleged environmental or social harm resulting from projects financed by Citigroup and Citigroup's opposition to new legislation contain no allegations of illegality or actions that would affect the safety and soundness of the institutions involved in the proposal.

A commenter also cited press reports that numerous financial institutions, including Citigroup, had settled claims alleging violations of consumer protection laws related to their arrangements with telemarketing organizations for marketing nonfinancial products to consumers, including a claim brought by the California Attorney General. Citigroup has settled the various lawsuits, and there has been no adjudication of any violation of law by Citigroup in connection with these consumer law claims. Moreover, Citigroup has discontinued or altered the marketing arrangements at issue and implemented various changes in its consumer banking practices.

In addition, the Board has reviewed carefully Citigroup's role in the development of allegedly deceptive structured finance facilities. The Board also has reviewed the alleged securities law violations stemming from potential conflicts of interests that could arise from the activities of Citigroup and its subsidiaries as investment banker, equity researcher, and investment advisor. Moreover, the Board has considered Citigroup's efforts to address these matters as they relate to the operation and management of the organization.

The Board is monitoring the various federal and state investigations of Citigroup's securities-related activities that are being conducted by agencies and other authorities with jurisdiction over these matters and is consulting with the SEC and other relevant authorities. The Board notes that Citigroup has demonstrated a willingness and ability to take actions to address concerns raised in these investigations, including increasing corporate governance capabilities, restructuring its investment banking operations, and providing more stringent disclosure requirements for structured finance clients.

The Board has broad supervisory authority under the banking laws to require Citigroup to take steps necessary to address deficiencies identified in these investigations and examinations of Citigroup's securities-related and other activities after these reviews have been completed.[84] Based on these and all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under section 4 of the BHC Act.

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[84] A commenter asserted that, in light of allegations about the subprime lending activities, securities-related activities, and other banking services, the Board should find that Citigroup is not in compliance with the BHC Act's requirements for financial holding companies. The Board notes that the requirements for financial holding company status are prescribed by statute and are met in this case. See 12 U.S.C. § 1843(*l*)(1)(B).

Other Considerations

As part of its evaluation of the public interest factors, the Board also has carefully reviewed the other public benefits and possible adverse effects of the proposal.[85] The record indicates that consummation of the proposal would result in benefits to consumers and businesses. The proposal would enable Citigroup to provide customers of Golden State with access to a broader array of products and services, including commercial and investment banking products, in an expanded service area. Among the Citigroup products that would become available to customers of Cal Fed are products specifically designed for small- and medium-sized businesses, trust and asset management services, and programs tailored to the Hispanic community, including additional international wire transfer and money remittance services. Customers of Cal Fed would have access to an expanded branch and global ATM network and internet banking services, including branches in numerous states where Cal Fed has no branches. Citigroup customers, in turn, would be able to take advantage of Cal Fed's extensive branch network in Southern California, where Citigroup has a limited number of branches. Based on all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects under the standard of section 4(j)(2) of the BHC Act.

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[85] A commenter claimed that, in light of allegations about Citigroup's financial and managerial resources and the CRA performance records of Citigroup's affiliates, the Board should deny Citigroup's proposal because the proposed transaction cannot reasonably be expected to produce public benefits that would outweigh any likely adverse effects.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice should be, and hereby is, approved.[86]

[86] Several commenters requested that the Board hold public meetings or hearings on the proposal. Section 4 of the BHC Act and the Board's rules thereunder provide for a hearing on a notice to acquire nonbanking companies if there are disputed issues of material fact that cannot be resolved in some other manner. 12 C.F.R. 225.25(a)(2). Under its rules, the Board also may, in its discretion, hold a public meeting or hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present the persons' views. The Board has considered carefully these commenters' requests in light of all the facts of record. As explained above, Board staff attended a formal meeting held by the OTS to clarify issues related to the notice and to provide the public an opportunity to testify. Fifteen commenters appeared and provided oral testimony at the formal meeting, including elected representatives, municipal agencies, and members of community groups from California, New York, and North Carolina. In addition, the public comment period provided more than 45 days for interested persons to submit written comments on the proposal, and the Board received and considered written comments from approximately 70 persons who did not testify at the formal meeting. 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 and testimony that the Board has considered carefully in acting on the proposal. Commenters requesting public meetings failed to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. In addition, commenters failed to demonstrate why their written comments did not adequately present their views, evidence, and allegations. They also have not shown why the formal meeting and 45-day public comment period did not provide an adequate opportunity for all interested parties to present their views and concerns. 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 public meetings or hearings on the proposal are denied.

In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.[87] The Board's approval is specifically conditioned on compliance by Citigroup with all the commitments made in connection with the notice and all the conditions in this order. The Board's determination also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of this action, the commitments and conditions relied on by the Board in reaching its decision 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.

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[87] A number of commenters requested that the Board delay action or extend the comment period on the proposal. Moreover, several commenters who participated at the meeting requested that the Board extend the public comment period on the proposal until after certain requested documents were publicly released. Several commenters also requested the Board to reconsider the decision by the Secretary of the Board, acting under delegated authority, not to extend the comment period.

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. As noted above, Board staff participated in a formal meeting on July 8 and extended the initial 30-day comment period to 45 days for participants at the meeting. During this comment period, a substantial number of commenters provided timely information and views to the Board. 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 their provisions within certain time periods. Based on a

The transaction shall 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, effective October 28, 2002.[88]

(signed)
Robert deV. Frierson
Deputy Secretary of the Board

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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, a further 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.

[88] Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

APPENDIX A

Banking Markets in which Citigroup Competes Directly with Golden State

A. <u>California Banking Markets</u>

Los Angeles	Los Angeles Ranally Metro Area ("RMA") and the towns of Acton, Rancho Santa Margarita, and Rosamond.
San Francisco-Oakland-San Jose	San Francisco-Oakland-San Jose RMA and the towns of Byron, Hollister, San Juan Bautista, Pescadero, and Point Reyes Station.

B. <u>Nevada Banking Markets</u>

Las Vegas	Las Vegas RMA.

APPENDIX B

Market Data

California

Los Angeles	Citigroup operates the tenth largest depository institution in the market, controlling deposits of approximately $3 billion, representing approximately 1.9 percent of market deposits. Golden State operates the eighth largest depository institution in the market, controlling deposits of approximately $9.7 billion, representing approximately 3 percent of market deposits. On consummation of the proposal, Citigroup would operate the fourth largest depository institution in the market, controlling deposits of $12.8 billion, representing approximately 7.6 percent of market deposits. One-hundred and forty-one depository institutions would remain in the market. The HHI would not increase.
San Francisco-Oakland -San Jose	Citigroup operates the sixth largest depository institution in the market, controlling deposits of approximately $4.7 billion, representing approximately 3.5 percent of market deposits. Golden State operates the twelfth largest depository institution in the market, controlling deposits of approximately $6.3 billion, representing approximately 2.3 percent of market deposits. On consummation, Citigroup would operate the third largest depository institution in the market, controlling deposits of $10.9 billion, representing approximately 7.9 percent of the market deposits. Ninety depository institutions would remain in the banking market. The HHI would not increase.

Nevada

Las Vegas	Citigroup operates the third largest depository institution in the market, controlling deposits of approximately $1.4 billion, representing approximately 9.8 percent of market deposits. Golden State operates the tenth largest

depository institution in the market, controlling deposits of approximately $504.6 million, representing approximately 1.8 percent of market deposits. On consummation of the proposal, Citigroup would continue to operate the third largest depository institution in the market, controlling deposits of approximately $1.9 billion, representing approximately 13.1 percent of market deposits. Thirty-four depository institutions would remain in market. The HHI would increase by 23 points to 1548.

APPENDIX C

CRA Performance Evaluations of Citigroup

Subsidiary Depository Institution	CRA Rating	Date	Agency
1. Citibank Federal Savings Bank, San Francisco, California	Outstanding	October 15, 2001	OTS
2. Citicorp Trust Bank, FSB (formerly Travelers Bank & Trust, FSB), Newark, Delaware	Outstanding	February 5, 2001	OTS
3. Citibank, N.A., New York, New York	Satisfactory	October 16, 2000	OCC
4. Citibank Delaware, New Castle, Delaware	Satisfactory	May 15, 2000	FDIC
5. Citibank (New York State), Pittsford, New York	Outstanding	March 6, 2000	FDIC
6. California Commerce Bank, Century City, California	Outstanding	May 15, 2002	FDIC

Subsidiary Depository Institution	CRA Rating	Date	Agency
7. Associates Capital Bank Inc., Salt Lake City, Utah	Outstanding	September 27, 1999	FDIC
8. Citibank (South Dakota), N.A., Sioux Falls, South Dakota	Outstanding	May 24, 1999	OCC
9. Citibank USA, N.A. (formerly Hurley State Bank), Sioux Falls, South Dakota	Satisfactory	April 19, 2002	FDIC
10. Universal Financial Corporation, Salt Lake City, Utah	Outstanding	July 2, 2002	FDIC
11. Citibank (Nevada), N.A., Las Vegas, Nevada	Outstanding	March 29, 1999	OCC