

FEDERAL RESERVE SYSTEM

Citigroup Inc.
New York, New York

Order Approving the Acquisition of a Bank

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 section 3 of the BHC Act¹ to acquire First American Bank, SSB (“FAB”), Bryan, Texas. Citigroup would acquire FAB immediately after its conversion to a national bank.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (69 Federal Register 58,173 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Citigroup, with total consolidated assets of approximately \$1.48 trillion, is the largest depository organization in the United States.³ Citigroup’s subsidiary depository institutions control deposits of approximately

¹ 12 U.S.C. § 1842.

² FAB would relocate the bank’s main office to Dallas and change its name to Citibank Texas, National Association (“Citibank Texas”) before the proposed acquisition by Citigroup. FAB’s application to convert to a national charter was approved by the Office of the Comptroller of the Currency (“OCC”) on February 15, 2005. The Board consulted with the OCC and the Federal Deposit Insurance Corporation (“FDIC”), the primary supervisor of FAB, regarding their reviews of the proposal.

³ Asset data and nationwide ranking data for Citigroup are as of December 31, 2004.

\$192.5 billion, which represent approximately 3 percent of the total deposits of insured depository institutions in the United States.⁴ Citigroup operates insured depository institutions in fourteen states, the District of Columbia, Puerto Rico, and two U.S. territories.⁵ Citigroup currently operates one retail depository institution branch in Texas, primarily for employees at a sales and service center in San Antonio, and several nonbanking companies in Texas. Citigroup has no other retail depository institution offices in the state.

FAB, with total consolidated assets of approximately \$3.5 billion, is the 18th largest insured depository institution in Texas, controlling deposits of approximately \$2.7 billion. Currently, FAB is an indirect subsidiary of The Adam Corporation/Group (“TACG”), a Texas corporation that is subject to the supervision and regulation of the Office of Thrift Supervision (“OTS”).⁶

⁴ Deposit data are as of June 30, 2004, and reflect the unadjusted total of deposits reported by each organization’s insured depository institutions in the Summary of Deposits. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁵ Citigroup’s subsidiary insured depository institutions include Citibank, N.A., New York, New York (“Citibank”); Citibank (West), FSB, San Francisco, California; Citibank, Federal Savings Bank, Reston, Virginia; Citibank (South Dakota), National Association, Sioux Falls, South Dakota; California Commerce Bank, Century City, California; Citicorp Trust Bank, FSB, Newark, Delaware; Citibank (Nevada), National Association, Las Vegas, Nevada; Citibank USA, National Association., Sioux Falls, South Dakota; Citibank (Delaware), New Castle, Delaware; Associates Capital Bank, Inc., Salt Lake City, Utah; and Universal Financial Corp., Salt Lake City, Utah.

⁶ Citigroup proposes to acquire five of FAB’s twelve subsidiaries, including FAB Holdings GP, LLC; FAB Holdings LP, LLC; FAB Financial, LP; SALSCO Inc.; and SB Plano Corporation. Each is currently a subsidiary of FAB and will become a subsidiary of Citibank Texas. All activities conducted by these subsidiaries are permissible for subsidiaries of a national bank. All other FAB subsidiaries will be transferred to TACG before the acquisition.

On consummation of the proposal, Citigroup would become the 18th largest depository organization in Texas, controlling deposits of approximately \$2.7 billion, which represent less than 1 percent of the total amount of insured deposits in the state.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.⁷ For purposes of the BHC Act, the home state of Citigroup is New York. Depository institutions controlled by Citigroup operate in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Nevada, New Jersey, New York, South Dakota, Texas, Utah, Virginia, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands. Citigroup proposes to acquire a bank located in Texas.⁸

Based on a review of all the facts of record, including a review of relevant state statutes, the Board finds that all conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.⁹ In

⁷ See 12 U.S.C. § 1842(d). A bank holding company's home state is the state in which the total deposits of all subsidiary banks of the company were the largest on the later of July 1, 1966, or the date on which the company became a bank holding company. 12 U.S.C. § 1841(o)(4)(C).

⁸ For purposes of section 3(d), the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. §§ 1841(o)(4)-(7), 1842(d)(1)(A) & (B).

⁹ 12 U.S.C. §§ 1842(d)(1)(A) & (B), 1842(d)(2)(A) & (B). Citigroup is adequately capitalized and adequately managed, as defined by applicable law. FAB has been in existence and operated for the minimum period of time required by applicable law. On consummation of the proposal, Citigroup would control less than 10 percent of the total amount of deposits of insured depository institutions in

light of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁰

Citigroup and FAB do not compete directly in any relevant banking market. Based on all the facts of record, the Board has concluded that consummation of the proposed transaction would have no significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. In reviewing these factors, the Board has considered, among other things, confidential reports of examination and other supervisory information received from the

the United States and less than 30 percent of the total amount of deposits of insured depository institutions in Texas. All other requirements under section 3(d) of the BHC Act also would be met on consummation of the proposal.

¹⁰ See 12 U.S.C. § 1842(c)(1).

primary federal supervisors of the organizations involved, including the Federal Reserve System's confidential supervisory information. In addition, the Board has consulted with the relevant supervisory agencies, including the OCC, OTS, FDIC, Securities and Exchange Commission ("SEC"), and Texas Savings and Loan Department. 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 public comments received by the Board about the financial and managerial resources of Citigroup.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of areas, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the effect of the transaction on the financial condition of the applicant and the target, including their capital positions, asset quality, and earnings prospects and the impact of the proposed funding of the transaction.

The Board has reviewed these factors carefully in this case and believes financial factors are consistent with approval of this application. The Board notes that Citigroup and its subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal. The Board also finds that Citigroup has sufficient financial resources to effect the proposal. The proposed transaction is structured as a cash purchase of the outstanding shares of FAB, and Citigroup would not directly incur any debt to finance the proposed transaction.

In addition, the Board has considered the managerial resources of Citigroup and FAB, particularly the supervisory experience and assessments of management by the various bank supervisory agencies and the organizations' records of compliance with applicable banking laws.¹¹ In reviewing this proposal, the Board has assembled and considered a broad and detailed record, including substantial confidential and public information about Citigroup. The Board has carefully reviewed the examination records of Citigroup, FAB, and their subsidiaries, including assessments of their risk-management systems. The Board also considered information from ongoing examinations, the publicly disclosed investigations that are underway, and consultations with other federal and state banking authorities, foreign financial supervisory authorities, the SEC, and other

¹¹ A commenter asserted that management of Citigroup is inadequate because it indirectly supports allegedly abusive lending practices through warehouse lending and securitization activities of its subsidiary, Citigroup Global Markets, Inc. ("CGMI"), that support unaffiliated third parties engaged in subprime lending, check cashing, auto-title lending, and operating pawnshops. The commenter also contended that FAB has relationships with these nontraditional providers of financial services that allegedly harm consumers. Citigroup indicated that CGMI 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 CGMI does not control the origination of subprime loans made by unaffiliated mortgage banking customers or participate in the credit decisions of these customers. Citigroup also stated that CGMI reviews each lender's policies and procedures and sets eligibility criteria for the loans it will finance through its warehouse lending and securitization arrangements. CGMI, or an outside firm hired and supervised by CGMI, 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. With regard to its business relationships with unaffiliated subprime lenders and nontraditional providers of financial services, Citigroup plays no role in the credit review or other lending or service practices of these entities. The nontraditional providers of financial services are licensed by the states where they operate and are subject to applicable state law.

relevant regulators. The Board also reviewed confidential supervisory information on the policies, procedures, and practices of Citigroup to comply with the Bank Secrecy Act and other anti-money-laundering laws and consulted with the OCC, the appropriate federal financial supervisory agency of Citibank, concerning its record of compliance with anti-money-laundering laws.¹²

In evaluating the managerial resources of a banking organization in an expansion proposal, the Board considers assessments of an organization's risk management—the ability of the organization's board of directors and senior management to identify, measure, monitor, and control risk—to be especially important.¹³ In evaluating Citigroup's and other banking organizations' risk management, the Board considers a variety of areas, including the following matters: (1) board and senior management oversight of the organization's inherent risks, as well as the general capabilities of management; (2) the adequacy of the organization's policies, procedures, and limits, including the organization's accounting and risk-disclosure policies and procedures; (3) the risk-monitoring and management-information systems used by an organization to measure risk, and the consistency of these tools with the level of complexity of the organization's activities; and (4) the adequacy of the organization's internal controls and audit procedures, including the accuracy of financial reporting and disclosure, the independence of control areas from management, and the consistency of the scope

¹² A commenter criticized the managerial resources of Citigroup and its subsidiaries based on press reports alleging that Citibank and other subsidiaries of Citigroup held accounts for certain international leaders the commenter believed were associated with terrorism. The commenter asserted, based only on information in press reports, that Citigroup lacks sufficient policies and procedures and other resources to prevent money laundering.

¹³ See Revisions to Bank Holding Company Rating System, 69 Federal Register 70,444 (2004).

of coverage of the internal audit team with the complexity of the organization.¹⁴ The Board has also taken into account that an organization as large and varied as Citigroup has a particular need to adopt risk-management practices that can appropriately address the scope, complexity, and geographic diversity of its operations.

In assessing these matters, the Board has also taken into account recent publicly disclosed deficiencies and investigations involving Citigroup's activities in Japan, in Europe, and in its mutual fund relationships in the United States. The Board continues to monitor the investigations of Citigroup's securities-related activities that are being conducted by its functional regulators, including the SEC, and is consulting with these authorities. In addition, the Board continues to monitor the investigations regarding Citigroup's bond trades in Europe and its private banking and other activities in Japan. The Board is consulting with the relevant foreign authorities on these matters. The Federal Reserve Bank of New York and the OCC also have conducted targeted examinations of Citigroup's Japanese operations.¹⁵

¹⁴ Id. at 70,447.

¹⁵ As a matter of practice and policy, the Board generally has not tied consideration of an application or notice to the scheduling or completion of an examination or investigation if the applicant has an overall satisfactory record of performance and the issues being reviewed may be resolved in the examination and supervisory process. See 62 Federal Register 9290 (1997) (Preamble to the Board's Regulation Y). As the Board has indicated previously, it has broad supervisory authority under the banking laws to address matters that are found in the examination and supervisory process. Moreover, many issues are more appropriately and adequately addressed in the supervisory process, where particular matters and violations of law may be identified and addressed specifically, rather than in the application process, which requires a weighing of the overall record of the companies involved.

Citigroup has acknowledged that it has some deficiencies in its compliance and internal controls in these areas and has developed plans that it has already begun to implement to address the weaknesses. The Board has given careful attention to the measures that Citigroup and its subsidiaries have taken to address these matters and the steps it is continuing to take to resolve these matters and strengthen the company's compliance risk-management structure and practices.¹⁶ Importantly, Citigroup has demonstrated a willingness and ability to take actions to address concerns raised in these investigations and in the examination process. The Board notes that Citigroup recently has significantly increased its funding of compliance risk-management programs and technology, and is in the process of implementing various initiatives designed to strengthen compliance risk management, increase ethics awareness and encourage compliance, and enhance the oversight of its international operations.

As part of Citigroup's plan to enhance its existing compliance risk management and to address compliance issues, Citigroup has strengthened the independence of its compliance structure. The reporting relationship between compliance personnel and business-line management has been changed so that all compliance personnel now have a direct reporting line to the independent compliance function. In addition, Citigroup is in the process of implementing

¹⁶ The commenter also asserted that Citigroup's management had not implemented effective policies and programs to address alleged abusive sales and lending practices of Citigroup's subsidiaries, including those engaged in subprime lending and related insurance activities, and that the Board's enforcement action against Citigroup and its subsidiary subprime lender, CitiFinancial Credit Company ("CitiFinancial"), Baltimore, Maryland, indicated that Citigroup's managerial resources are inadequate. See Enforcement Actions, 90 Federal Reserve Bulletin 348-349 (2004) ("Consent Order"). The Board has taken into account the Consent Order and the progress that Citigroup and CitiFinancial currently are making to comply with the Consent Order.

enhanced compliance policies and procedures; management information and reporting systems; monitoring and surveillance programs; and firm-wide and business-specific compliance training for its employees and compliance personnel. Finally, Citigroup is in the process of expanding its audit coverage of the compliance function.

Citigroup has also reviewed and standardized its performance appraisal process to incorporate increased incentives for compliance. It has introduced an enhanced corporate-wide ethics awareness program with an expanded orientation program and annual training sessions. Top corporate officials are taking an active role in this ethics program by spearheading regional meetings, conference calls, and site visits.

To ensure that the shortcomings associated with its oversight and the management structure of its Japanese operations are not prevalent in its international operations, Citigroup conducted reviews of its franchise in key global markets and met with regulators to identify any concerns that may exist with regard to corporate governance and compliance. As a result of this review, Citigroup has taken steps designed to clarify accountability and responsibility and to enhance oversight of its international operations.

In addition, the Board has considered the nature of the proposal in this case. This transaction is small relative to Citigroup's U.S. retail banking operations. The Board has also considered the strength and success of Citigroup's managerial resources in operating its retail banking business in the U.S.

Based on these and all the facts of record, including a careful review of public comments, Citigroup's management record, its risk-management programs, the actions taken by Citigroup to address compliance concerns, and the nature of the transaction at hand, the Board concludes that considerations relating to the managerial resources of Citigroup, FAB, and their subsidiaries are consistent

with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.¹⁷ The Board expects Citigroup management to continue its efforts to implement fully the improvements it has developed to enhance all aspects of its oversight of the organization's operations. The Board will continue to monitor closely Citigroup's implementation of its plan for enhancing its compliance programs and its progress in meeting the schedule it has set out for implementing that plan.

Given the size, scope, and complexity of Citigroup's global operations, successfully addressing the deficiencies in compliance risk management that have given rise to a series of adverse compliance events in recent years will require significant attention over a period of time by Citigroup's senior management and board of directors. The Board expects that management at all levels will devote the necessary attention to implementing its plan fully and effectively and will not undertake significant expansion during the implementation period. The Board believes it important that management's attention not be diverted from these efforts by the demands that mergers and acquisitions place on management resources. In this application, the Board has determined that demands on managerial resources from this proposal would not be so significant as to divert management from implementing its improvement programs.

¹⁷ The commenter expressed concern that Citigroup has helped to finance various activities and projects worldwide that might damage the environment or cause other social harm. These contentions contain no allegations of illegality or action that would affect the safety and soundness of the institutions involved in the proposal and are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

Based on all the facts of record, the Board has concluded that the financial and managerial resources and future prospects of the organizations and the other supervisory factors involved are consistent with approval of the proposal.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institution under the Community Reinvestment Act (“CRA”).¹⁸ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution’s record of meeting the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations 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 application process because it represents a detailed, on-site evaluation of the institution’s overall record of performance under the CRA by its appropriate federal supervisor.¹⁹

¹⁸ 12 U.S.C. § 2901 et seq.

¹⁹ See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

Citigroup's subsidiary depository institutions received either "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations.²⁰ Citibank, the lead subsidiary depository institution of Citigroup, received an "outstanding" rating from the OCC, as of June 9, 2003 ("2003 Evaluation"). FAB received a "satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of June 3, 2002. Citigroup has indicated that it would continue its CRA-related loan, investment, grant, and service programs and fair lending policies at the combined entity after consummation.

B. CRA Performance of Citibank

Citibank received an "outstanding" rating under the lending, investment, and service tests in the 2003 Evaluation.²¹ The examination stated that Citibank had good lending activity in its primary assessment areas, good geographic distribution of loans, and excellent distribution of loans by borrower income. Examiners commended Citibank's use of innovative and flexible mortgage loan products. Citibank, in connection with Fannie Mae, state banking agencies, and nonprofit organizations, such as ACORN, developed several programs for first-time homebuyers and LMI borrowers. Many of these programs, including CRA Portfolio Sub-Allocation and the Enhanced Fannie Neighbors with Community Homebuyers Program, allow for more flexible underwriting standards and reduced down payments. The examiners commended Citibank's small business lending and noted that Citibank was the leading small business lender in

²⁰ The CRA ratings of all Citigroup's subsidiary depository institutions are provided in the Appendix.

²¹ The evaluation period was from October 18, 2000, to June 9, 2003.

the New York City assessment area, with 23 percent of the market share of small business loans.²²

In addition, the examiners reported that Citibank's community development lending in the New York City assessment area was excellent. They found that Citibank originated a high number and dollar amount of community development loans and that these loans exhibited complexity and innovativeness. Examiners noted that Citibank offered a wide range of financing alternatives to nonprofit and for-profit entities that supported community development initiatives, including the acquisition and rehabilitation of affordable housing units.

Additionally, examiners found that Citibank had an excellent level of community development investments during the evaluation period. For example, in the New York City assessment area, Citibank made or purchased approximately \$165 million in qualified investments during the evaluation period. These investments supported affordable housing initiatives for LMI individuals and families, projects that benefited specific LMI populations, and projects that improved deteriorating or mismanaged occupied buildings. Further, the examiners stated that Citibank was a leader in providing community development services that were responsive to the needs of the bank's assessment areas.

C. HMDA and Fair Lending Record

The Board has carefully considered the lending record of Citigroup in light of public comment received on the proposal. A commenter alleged that Citigroup engages in discriminatory lending by directing minority customers to

²² The small business lending performance reviewed by examiners included data from the following affiliates of Citibank: Citibank, Federal Savings Bank; Citibank (South Dakota), National Association; Associates Capital Bank, Inc.; Citibank (Nevada), National Association.; Citibank USA, National Association; and Universal Financial Corp. For purposes of this analysis, small business loans included business loans with an original amount of \$1 million or less.

CitiFinancial or other Citigroup subsidiaries that originate subprime loans, rather than to Citigroup's subsidiary banks and other prime lending channels.²³ The commenter also alleged, based on a review of 2003 HMDA data, that the denial disparity ratios of some of the Citigroup Prime Lenders in certain markets indicated that these lenders disproportionately denied African-American or Hispanic applicants for home mortgage loans.²⁴ Citigroup stated that it does not direct customers to any specific subsidiary based on race or ethnicity criteria and that it provides subprime loans through certain subsidiaries as part of a group of products designed to meet a broad range of credit needs.

²³ Specifically, the commenter's allegations were based on 2003 data reported pursuant to the Home Mortgage Disclosure Act, 12 U.S.C. § 2801 *et seq.* ("HMDA"), by certain Citigroup subsidiaries engaged in conventional mortgage lending in the New York, New York; Nassau/Suffolk, New York; Chicago, Illinois; Los Angeles, California; Washington, D.C., and Newark, New Jersey Metropolitan Statistical Areas ("MSAs"). In addition, the commenter criticized Citigroup's lending record in the Houston and Dallas MSAs, where Citigroup's subsidiary depository institutions have no branches. The commenter also asserted, without analysis, that CitiFinancial originated a higher volume and larger percentage of its HMDA-reportable loans to African-American or Hispanic borrowers than Citigroup's conventional mortgage lending subsidiaries originated in the MSAs noted by the commenter. For purposes of this application, the Board analyzed 2002 and 2003 HMDA data in Citigroup's CRA assessment areas in these MSAs, the San Francisco-San Mateo-Redwood City, California MSA, and the State of New York that was reported by Citibank; CitiMortgage, Inc., St. Louis, Missouri; Citibank, Federal Savings Bank; and Citibank (West), FSB (collectively, "Citigroup Prime Lenders"). Citibank (West), FSB is the successor to California Federal Bank, San Francisco, California. For purposes of this review, information relating to Citibank (West), FSB included California Federal Bank's data. The Board also reviewed 2003 HMDA data reported by CitiFinancial; Citicorp Trust Bank, FSB; and CitiFinancial Mortgage Company, Inc., Irving, Texas (collectively, "Citigroup Subprime Lenders").

²⁴ The denial disparity ratio equals the denial rate for a particular racial category (*e.g.*, African-American) divided by the denial rate for whites.

The Board reviewed HMDA data reported by the Citigroup Prime Lenders and the Citigroup Subprime Lenders in the primary assessment areas of the Citigroup Prime Lenders and in the other MSAs identified by the commenter.²⁵ An analysis of 2003 HMDA data does not support the contention that the Citigroup Prime Lenders have disproportionately denied applications of minority or LMI customers, or directed minority or LMI borrowers to its subprime lenders. The HMDA data for the Citigroup Prime Lenders indicate that their denial disparity ratios for African-American and Hispanic applicants were generally higher than the ratios for the aggregate of all lenders (“aggregate lenders”) in the MSAs reviewed.²⁶ However, the origination rates for total HMDA-reportable loans to African-American and Hispanic borrowers by the Citigroup Prime Lenders in all but one of the MSAs reviewed were comparable to or higher than the rates for the aggregate lenders.²⁷ The 2003 HMDA data also show that the Citigroup Prime Lenders extended more total HMDA-reportable loans to African-American and Hispanic borrowers than the Citigroup Subprime Lenders in most of the MSAs reviewed.

Although the HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups in certain local areas, the HMDA data do not demonstrate that the Citigroup

²⁵ In the MSAs reviewed, the Board compared the 2003 HMDA data reported by the Citigroup Prime Lenders with the HMDA data reported by the Citigroup Subprime Lenders.

²⁶ The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a particular area.

²⁷ The origination rate equals the total number of loans originated to applicants of a particular racial category divided by the total number of applications received from members of that racial category.

Prime Lenders are excluding any racial group on a prohibited basis. The Board is concerned when HMDA data for an institution indicate 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. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.²⁸ 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. Moreover, HMDA data indicating that one affiliate is lending to minorities more than another affiliate do not, without more information, indicate that either affiliate has engaged in illegal discriminatory lending activities.

Because of the limitations of HMDA data, the Board has considered these data carefully and taken into account other information, including examination reports that provide an on-site evaluation of compliance by Citigroup and its subsidiaries with fair lending laws. Importantly, examiners noted no fair lending issues or concerns in the performance evaluations of Citigroup's subsidiary depository institutions or FAB.

²⁸ The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

The record also indicates that Citigroup has taken steps to help ensure compliance with fair lending laws and other consumer protection laws. Citigroup has implemented corporate-wide fair lending policies, procedures, and training programs, and it regularly conducts internal reviews for compliance with policies and procedures, including reviews of individual loans and reviews of its subsidiary lenders' overall lending data. 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 an LMI or minority census tract.

In addition, Citigroup has taken actions to address deficiencies in CitiFinancial's management of its compliance with consumer protection laws and currently is making progress in complying with the Consent Order.²⁹ Citigroup is in the process of implementing the restitution plan and changes to its compliance

²⁹ As the Board previously has noted, subprime lending is a permissible activity that provides needed credit to consumers who have difficulty meeting conventional underwriting criteria. The Board continues to expect all bank holding companies and their affiliates to conduct their subprime lending operations without any abusive lending practices. See, e.g., Royal Bank of Canada, 88 Federal Reserve Bulletin 385, 388 n.18 (2002). The commenter reiterated concerns raised in previous Citigroup applications and asserted that CitiFinancial engaged in various lending practices that the commenter argued were abusive, unfair, or deceptive. The commenter also contended that the Board should deny this application or impose conditions requested by the commenter in light of the Consent Order entered into by Citigroup in May 2004.

risk-management systems, including audit and training functions, in accordance with the Consent Order's terms. The Board is continuing to monitor Citigroup's compliance with the Consent Order and enhancements to its various real estate lending initiatives to help ensure compliance with consumer protection laws and prevent abusive lending practices by CitiFinancial ("Initiatives"). Citigroup has enhanced these Initiatives by, among other things, implementing new insurance sales practices and introducing mortgage loan products at CitiFinancial that provide qualifying applicants with access to lower-cost mortgage loans. These new loan products offer interest rates that are close to the rates on the conventional mortgage loan products offered by the Citigroup Prime Lenders.

The Board also has considered the HMDA data in light of other information, including the programs described above and the overall performance records of Citigroup's subsidiary depository institutions under the CRA. These established efforts demonstrate that the institutions are active in helping to meet the credit needs of their entire communities.

Conclusion on Convenience and Needs and CRA Performance

The Board has carefully considered all the facts of record, including reports of examination of the CRA performance records of the institutions involved, information provided by Citigroup, comments on the proposal, and confidential supervisory information. The Board notes that the proposal would provide the combined entity's customers with access to a broader array of products and services in an expanded service area, including access to an expanded branch and ATM network. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.³⁰ 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.³¹ The Board's approval is specifically conditioned on compliance by

³⁰ The commenter requested that the Board hold a public meeting or hearing on the proposal. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities. Under its regulations, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit its views and has submitted written comments that have been considered carefully by the Board in acting on the proposal. The commenter's requests fail to demonstrate why written comments do not present its evidence adequately and fail to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. 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 request for a public meeting or hearing on the proposal is denied.

³¹ The commenter also requested that the Board delay action or extend the comment period on the proposal. As previously noted, the Board has accumulated a significant record in this case, including reports of examination, confidential supervisory information, public reports and information, and considerable public comment. In the Board's view, for the reasons discussed above, the commenter has had ample opportunity to submit its views and, in fact, has provided substantial written submissions that the Board has considered carefully in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this

Citigroup with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of FAB shall not be consummated before the fifteenth calendar day after the effective date of this order or 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,³² effective March 16, 2005.

Robert deV. Frierson (signed)

Robert deV. Frierson
Deputy Secretary of the Board

case is sufficient to warrant action at this time, and that further delay in considering the proposal, extension of the comment period, or denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

³² Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, Bernanke, and Kohn. Absent and not voting: Governor Gramlich.

Appendix

CRA Performance Evaluations of Citigroup

Subsidiary Depository Institution	CRA Rating	Date of Evaluation	Agency
Citibank, N.A., New York, New York	Outstanding	June 9, 2003	OCC
Citibank (West), FSB, San Francisco, California ³³	Outstanding	July 30, 2001	OTS
Citibank, Federal Savings Bank, Reston, Virginia	Outstanding	September 8, 2003	OTS
Citibank (South Dakota), National Association, Sioux Falls, South Dakota	Outstanding	May 5, 2003	OCC
California Commerce Bank, Century City, California	Outstanding	October 1, 2002	FDIC
Citicorp Trust Bank, FSB, Newark, Delaware	Outstanding	February 5, 2001	OTS
Citibank (Nevada), National Association, Las Vegas, Nevada	Outstanding	March 31, 2003	OCC
Citibank USA, National Association, Sioux Falls, South Dakota	Satisfactory	May 5, 2003	OCC
Citibank (Delaware), New Castle, Delaware	Outstanding	December 1, 2003	FDIC
Associates Capital Bank, Inc., Salt Lake City, Utah	Outstanding	March 1, 2000	FDIC
Universal Financial Corp., Salt Lake City, Utah	Outstanding	November 1, 2002	FDIC

³³ As noted above, Citibank (West), FSB is the successor to California Federal Bank. The rating shown was received by California Federal Bank.