

Travelers' Application to Acquire Citicorp Assurance Co.

Teichman: We are on the record at this time. It's about 10:05 a.m., Thursday, June 4, 1998. We're here in regards to the application of Travelers to acquire control of Citicorp Insurance Company. My name is Mike Teichman. I am the Deputy Attorney General that represents the Department of Insurance. Our hearing officer for this matter is Tony Meisenheimer. And, with that, Mr. Hearing Officer, I'm going to turn it over to you. There are some folks that did enter the room. I'm going to say again, please sign your name on the pad that's going around.

Meisenheimer: Good morning, as Mr. Teichman said, I am Tony Meisenheimer, and I have been appointed by Commissioner Williams to act as the hearing officer in today's proceedings. As you know, the purpose of this hearing is to address pursuant to Section 5003 of the Insurance Code the application of Travelers to acquire indirect control of Citicorp Association. Citicorp Assurance Corporation. In order to focus on the issues raised and matters presented at today's hearing, I would like to review the standards the Department must apply in reviewing this application. Pursuant to Section 5003d, the Commissioner is instructed to approve proposed changes of control unless after a public hearing she finds 1) that the financial condition of any acquiring party is such that it might jeopardize the financial stability of the insurer or prejudice the interests of the policyholders, or 2) that as a result of the proposed changes of control, the insurer may be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is currently licensed, 3) the competence, experience and integrity of those persons who would control the operation of the insurer are such that the merger would not be in the interests of the policyholders and of the public, or 4) the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets, or consolidate or merge it with any person, or make material changes in its business or corporate structure or management, are unfair to policyholders or not in the public's interest; 5) there is any evidence that the proposed change of control may substantially lessen competition in the state or create any monopoly in the business of insurance in this state or elsewhere or the insurer has failed to file adequate information in compliance with Title 18, Delaware Code, Section 5003(a), or 6) the plan is likely to be hazardous or prejudicial to the insurance-buying public. Now, we're going to stick to these six (6) things today, I hope, in keeping this hearing on course. Before we begin evidence, does anybody want to make any motions?

Ed Welch: Your Honor, Ed Welch from Skadden Arps, if I could just take a moment, we represent Travelers. I'd like to introduce my partners here, Bob Sullivan from our New York office, and Jerry Hirsch. They're here with me today. And also from LeBeauf, Lamb, Don Henderson is here as well. Don's in the back over there. He's counsel for Citicorp. He's present as well. Your Honor already has our Form A, and I know that along with all the exhibits Mr. Henderson is going to be forming - handing out some biographical affidavits so Your Honor will have those as well. I suppose we ought to formally move the admission of the Form A just so that we've done that. Now, my colleague here will be handing out some other exhibits. Why don't you go ahead and do that.

Teichman: Mr. Welch, let me just interrupt you for one second. My understanding is that there was going to be some motions regarding the order of witnesses that you all wish to present?

Welch: Happy to do that, yes.

Teichman: Let's get to those kinds of issues before . . .

Welch: Fair enough. What we have in mind, Your Honor, in terms of presentation that we think would work this morning would be the following: 1) we'd like to call Mr. James Michener, who is the senior vice president and general counsel for Travelers Property & Casualty. At the conclusion of this testimony, we propose to call Mr. Charles Prince, the senior vice president and general counsel of the Travelers Group. At the conclusion of that witness, we'd like to call Ms.

Mulholland, general counsel, Citicorp Insurance Group. Our thought, Your Honor, was that it made sense, of course, to get our whole presentation on the table. Each of these witnesses will be addressing different components of the various standards that Your Honor made reference to. So our thought was if we could get our presentation on the table and then perhaps at that point open it up to cross-examination, we thought it might make a little bit more of an orderly proceeding. And that way, we have no intention, by the way, whatever, of trying to limit cross-examination of witnesses as appropriate, but we did think that if the whole presentation got out, it might make it easier for our colleagues who wish to examine them to do so in an effective and perhaps more efficient, timely basis. So I would make the motion at this time that we be permitted to put those witnesses on and to go forward and complete that testimony and have whatever cross Your Honor deems to be appropriate.

Meisenheimer: Are there any objections to this?

Lee: I think we'd prefer to cross-examine them. I don't know, I think there's a danger in . . . we'll take notes, but I think if we find it easier, given that the burden is actually on them to actually ask questions as the evidence comes in, we're not going to stop them as they make their presentation, but I think it would be easier for us to actually ask questions, rather than call them back up and go back to what they were saying. I don't see it that they have more than enough . . .

Meisenheimer: We do need to do this one way or the other, so . . .

Lee: I guess in one sense, the, your statement, the statement that there's no objection to cross-examination as appropriate. My fear is that all this evidence will go in and then as soon as we begin to ask questions, there will be some already prepared motion to limit cross-examination. If we know, in fact, it's going to be as fairly liberal based on the standards, we're more than willing to be accommodating on the order of the witnesses.

Welch: I don't think we have any . . . we certainly 1) we don't have any pre-prepared motion of any sort. If I did, I'd mention it at this time. I don't think we can make any motion to limit cross. If we do it after an orderly presentation of all three witnesses that we wouldn't make if we were doing it one by one. I just think it will make it easier for you all to hear the whole story and for the hearing examiner to hear the whole story as well. That's all. There's no, there's nothing more to it than that.

Teichman: Gentlemen, please direct your comments to the hearing officer.

Meisenheimer: If you would direct them to me. And what we're going to do is have each one of your people get up to three (3) and then you'll have an opportunity after their presentation, of each one, to do a cross-examine. Okay? I think that will keep it much more orderly.

Rangan: Can I also request copies of written testimony that are being read so we can follow it along while it is being read?

Meisenheimer: That's not a problem.

Teichman: Yes, if there are copies available, I have no idea whether ---

Welch: Actually, Your Honor, we did not prepare extra copies for testimony.

Meisenheimer: Okay, so we're not going to be able to do that.

Teichman: But that stuff will be made part of the record and it's available.

Meisenheimer: Right, it will be part of the record available to be reviewed.

Lee: Just, I guess I'm not sure if it's in the form of a motion as you obviously just brought that in myself. We both asked for discovery, this was denied by your Order. Obviously, we object to that. We think that that we're prejudiced in this hearing being limited to the Form A. I guess that's already in the written record.

Meisenheimer: Right, we've already addressed that.

Meisenheimer: It was just pointed out to me that we do need to address the issue probably of how long we're going to keep this hearing open to get additional information in, the record open. So what I'm going to rule on right now is that we will leave the record open for five (5) days which

will give you a chance to submit information which will give you a chance to review the affidavits and the biographical.

Teichman: Anything that's submitted to, as part of the record, anything that's introduced into evidence will be available for review.

Lee: I mean, and again, this is not, in thinking about it, I think that part of the order on denying discovery that it was hard to imagine the relevance of the questions that we were asking to the application. I think that if it's possible to at least, I understand that on a recent application that the five (5) days is sort of standard? We hope, I mean, again, if as things develop if we have not shown the relevance of the information that we were requesting, then I, we would have these five (5) days. But I think, you could say, I anticipate conceivably at the end of it, depending on how it develops, conceivably making, moving that that be reconsidered and that discovery, post-hearing discovery be allowed. I don't know, you know, the standard. You could then— but I think it remains to be seen.

Meisenheimer: I'll entertain any motion.

Lee: Okay. Great.

???: The one point I did want to make, Your Honor, was with respect to the biographicals, I understood Your Honor to have ruled on that and to have made clear that the biographicals would not be made part of the record. That's the state of Your Honor's rulings at this time. Not part of the public record, that is. Certainly, it's part of the record for Your Honor.

Meisenheimer: That's an issue of discovery. But it's not an issue of what is introduced here today. That will be public record available.

???: Let's go off the record for a minute.

Teichman: It's about 20 minutes after 10:00 a.m. and we're back on the record.

Welch: Your Honor, we do have some exhibits I'd like to hand up to Your Honor at this time.

Meisenheimer: Well, really, we're at a point. We're still doing the motions. Are there any other motions? Other than what you're proposing?

Teichman: They're ready to start with their case.

Lee: As you said, you're willing to entertain motions. This is not the last call on motions?

Meisenheimer: Right.

Welch: We're going to hand up to the Court right now and the record should reflect that we're doing so, two (2) copies of our exhibits as well as copies to Mr. Lee and Ms. Rangan. Your Honor, these exhibits outline our basic presentation to be used by each of our witnesses as a guideline essentially to their testimony. And as I say we would formally move their admission at this time.

Teichman: Let me interrupt you for a minute, Mr. Welch. This one, what I've got is one package here it's a booklet. Is this the only actual physical exhibit you wish to introduce into evidence?

Welch: At this time, that's correct. Subject to our comments earlier about having the Form A filed and submitted to the Commission, which in turn commenced this proceeding.

Teichman: Well, I'll mark it for identification as Travelers Exhibit #1. And Mr. Hearing Officer, is it your desire to –

Meisenheimer: Are there any objections? Then I move that it be marked as Exhibit #1.

Welch: Just to clarify, I understand the documents have been admitted as exhibits.

Lee: Yes. So in terms of the objections, obviously, what we're going to try to do is to ask them questions about this.

Teichman: The question the hearing officer asked is specifically is there an objection to moving this thing into evidence.

Lee: Right.

Teichman: There are none?

Lee: There are none given with the understanding, obviously, that we ask questions about it.

Meisenheimer: At the end of his presentation.

Lee: Sure.

Welch: Your Honor, if there's nothing further at this time, we call, propose to call Mr. James Michener, Senior Vice President and General Counsel of Travelers Property/Casualty Corporation as our first witness.

Teichman: Mr. Michener, sir, do you have any objections to taking an oath?

Michener: No.

Teichman: Sir, will you raise your right hand? Sir, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Michener: I do.

Teichman: Go ahead and state your full name and position for the record.

Michener: James M. Michener. I'm a senior vice president, general counsel, and secretary of Travelers Property/Casualty Corp.

Welch: Mr. Michener, what is your current occupation, sir?

Michener: As I said, I'm senior vice president, general counsel, and secretary of Travelers Property/Casualty Corp. which is a publicly traded insurance holding company approximately 83% of the company is owned by Travelers Group and its subsidiaries. And I have been authorized to speak on behalf of Travelers Group at this proceeding.

Welch: In what insurance businesses are the company and its subsidiaries engaged, Mr. Michener?

Michener: We are engaged in most forms of property/casualty insurance for individuals and commercial entities. We do business in all fifty (50) states, Guam, Virgin Islands, Puerto Rico, and Canada.

Welch: Now how long have you been working for the company and in what positions have you been working?

Michener: I've been with the company and its predecessors since 1977 and I've held a number of positions in the corporate legal department.

Welch: Okay. Could you describe for the hearing examiner your responsibilities at the company?

Michener: As the general counsel, I am responsible for overseeing and advising of the legal affairs of the company. My duties include regulatory compliance overseeing the preparation of company filings, government affairs, inner company and third party agreements, and the supervision of litigation.

Welch: All right. Now I'd like to turn for just a moment if we could to the Travelers Group's proposed merger with Citicorp. Mr. Michener, what has been your involvement with that transaction?

Michener: I am the individual with overall responsibility for the insurance-related matters of the transaction, including the regulatory approvals.

Welch: Okay. And could you also briefly describe for the examiner the structure of the Travelers Group's proposed merger?

Michener: I'd be happy to. This would be a good chance to refer to the exhibits. And I would refer the hearing officer to Exhibit #1. Exhibit #1 is a simple description of how the transaction will be accomplished. The first item, Travelers Group, will form a new subsidiary which we'll call Newco. And this will act as the acquisition subsidiary for the acquisition of Citicorp. In a second step, Citicorp will merge into Newco. In a third step, Newco will change its name to Citicorp. And as a final matter, Travelers Group will change its name to CitiGroup. As a

result of these steps, Citicorp will become a direct, wholly-owned subsidiary of Travelers Group and all of Citicorp's subsidiaries will become indirect subsidiaries of Travelers Group. Citicorp Assurance is one of those current Citicorp subsidiaries that will become an indirect subsidiary of CitiGroup after the merger. And then if we could go on in more detail, I would look at a number of other exhibits. Why don't we go to Exhibit #2.

Teichman: Let me interrupt you just for clarity with the record. You, what you're describing as Exhibit #2 is #2 within what has been marked as Exhibit #1. Is that right?

Michener: That is correct.

Teichman: Thank you, sir.

Welch: Just for the record, the lower right-hand corner of each page has the exhibit numbers that Mr. Michener will be referring to and I'd appreciate you pointing out that obviously, we had marked this as a single exhibit, and the references he'll be making will be to the lower right corner.

Teichman: Mr. Welch, I'm going to ask you to keep your voice up a little bit. The machine's having trouble. The farther you are from the microphone, the louder you have to be.

Welch: All right. Go ahead Mr. Michener. I think we're directing the attention of the hearing examiner to Exhibit #2.

Michener: Yes, Exhibit #2 is a description of Travelers Insurance Holding Company system prior to the acquisition of Citicorp and the second page of that Exhibit #2 provides more detail in the current structure of Travelers Holding Company system.

Welch: Okay. I'd like to then turn your attention to Exhibit #3.

Michener: This is a description of Citicorp's pre-merger insurance holding company system and you'll note that Citicorp Assurance, the company that we're discussing today, is shown in the bottom central part of that exhibit and it's ownership chain up to Citicorp is shown on the exhibit chart. For simplicity's sake we have eliminated some of the intermediate holding companies on the Citicorp side.

Welch: And then next I would like to bring the hearing examiner's attention to Exhibit #13.

Michener: And this is a description of the Travelers Group post-merger insurance holding company system and as you will see at the top of the chart, the Travelers Group will remain there. Its name will be changed to CitiGroup, and the Citicorp Companies will be added as an additional chain of companies and that's shown on the right-hand side of the chart. Citicorp Assurance is shown in the lower right-hand corner and as it was before the merger, it will continue to be a subsidiary of Citicorp Life Insurance Company.

Welch: So this is the post-merger structure of the organization? The prior exhibits were the pre-merger structure?

Michener: Yes, that is correct. And as these exhibits illustrate, the end result of the transaction is that Citicorp and all of its subsidiaries, including the insurance subsidiaries, will become an additional chain of companies held by Travelers Group.

Welch: Now Mr. Michener, what overall benefits does Travelers Group believe that it will derive by, from the merger with Citicorp?

Michener: Travelers Group believes that the financial services industry today, including the insurance industry, is being driven by three (3) forces. These are consolidation, globalization, and conversions. Indeed, it is hardly possible to pick up a newspaper over the last several years and not see some evidence of this in the financial services industry. In this environment, Travelers Group believes that it's crucial for the company to expand into new markets, establish a global presence, and to compete vigorously for new customers through a diversified product base. And the merger with Citicorp and Travelers Group will enable Travelers to do this. First, the merger will create the world's leading financial services company in terms of asset base and market

capitalization. Second, as a result of Citibank's global presence, the merger will provide Travelers Group with access to new markets worldwide. Finally, the merger will allow Travelers Group to provide a full range of consumer financial services, including banking investment services, insurance, and asset management.

Welch: All right, now Mr. Michener, I'd like to turn for just a moment to the Form A filing relating to the proposed acquisition of control of Citicorp Assurance. Are you familiar personally with that filing?

Michener: Yes, I am.

Welch: And once again, you've touched on this earlier, but are you familiar with where Citicorp Assurance stands within Citicorp's overall organization? Let's talk about that for a moment.

Michener: Yes I am familiar with that and I'd like to suggest to the hearing examiner that we look at Exhibit #3 again which we looked at before. This is a schematic of Citicorp's present pre-merger insurance holding company structure. And as you, as the chart shows, Citicorp Assurance Company is a subsidiary of Citicorp Life Insurance Company which is an Arizona insurance company. In turn, that company is a subsidiary of Citibank Delaware which is a Delaware banking corporation. That company is owned by Citicorp Holdings, Inc. which is a Delaware business corporation which is finally owned by Citicorp, which is the parent company which is publicly held.

Welch: All right, now what about Citicorp Assurance's insurance activities? Are you familiar with the scope of those activities?

Michener: Yes, I am.

Welch: And could you please describe for the hearing officer what type of business Citicorp Assurance is licensed to write?

Michener: It is licensed to write certain property/casualty lines in the state of Delaware and its business consists entirely of insuring or reinsuring certain risks of Citicorp and its affiliates.

Welch: Okay. Now to be specific about that, what types of business does Citicorp Assurance currently actually write?

Michener: First of all, Citicorp Assurance does not sell insurance to the general public. It only has corporate policyholders and only insures or reinsures the exposures of affiliated companies.

Welch: Okay.

Michener: And it writes only two (2) types of business. First, it provides contractual liability insurance to Citibank, N.A., a national bank subsidiary of Citicorp located in New York. Second, Citicorp Assurance provides reinsurance on coverages underwritten by unaffiliated companies, American Security Insurance Company and Standard Guaranty Insurance Company for Citibank South Dakota, N.A. which is another national bank subsidiary of Citicorp located in South Dakota. As a result, the company functions in essence like a captive insurer and does not market its products to the general public in Delaware or elsewhere.

Welch: Okay. Mr. Michener, let's take a moment and look at Exhibit #4. With that exhibit in mind, I'll ask you what is the percentage Citicorp Assurance writes of the property/casualty market in Delaware.

Michener: Well first, as the hearing examiner knows, the property/casualty market consists of a number of lines of insurance, and in most of those lines of insurance, Citicorp Assurance market share is -0-. The only line in which it writes is called "other liability" which is a miscellaneous liability line. And in that line it's market share is less than 1% as shown on the Exhibit #4.

Welch: All right. Now how competitive, Mr. Michener, is the market in Delaware of property/casualty insurance?

Michener: The insurance market in Delaware, as in the rest of the country, is highly competitive and divided among a number of companies. Citicorp Assurance's share of that market, as we discussed, is very small.

Welch: All right. With that in mind, let's go on to Exhibit #5 if we could, identified in the lower right-hand corner of the page. With that exhibit in mind, let me ask you, Mr. Michener, will the acquisition of control of Citicorp Assurance substantially lessen competition in Delaware or tend to create a monopoly?

Michener: Well the short answer is no with respect to the property/casualty business that is written by Citicorp Assurance, we have just discussed that, and as I mentioned, its market share is extremely small. Citicorp has other companies that are not the subject of the hearing today that are licensed in Delaware, and I believe the only one is Citicorp Life Insurance Company. Exhibit #5 shows the markets in which Citicorp Life Insurance Company and Travelers write the same lines of business in Delaware. And as you will see from the chart, both Travelers and Citicorp Life Insurance Company have very small market shares in the lines of business that they write, like annuity, accident & health, and deposit. And of course, when you add those two small market shares together, you wind up with also a small market share of the combined company after the merger. And just to go through them one by one, in the life insurance area the combined market share will be approximately 1%, the market share and annuity will be approximately 1/3 of 1%. . .

Welch: That's the second column on the page, is that right?

Michener: Yes. The life is in the first column, and I'm referring to the percentage shown in the bottom box under the life column. And then if we would move to the annuity column, also in the bottom box, the market share percentage is approximately 1/3 of 1%. The moving on to accident and health, the lower box showing the combined market share is approximately 1/2 of 1%, and similarly with deposit insurance which is a type of life insurance, the market share is approximately 1/2 of 1% on a combined basis.

Welch: Okay now, following completion of the merger, will Citicorp Assurance be able to satisfy the requirements for the issuance of a license to write the line or lines as the case may be for which they are presently licensed?

Michener: Yes, it will. I am not aware of any aspect of the transaction which would jeopardize Citicorp Assurance's continued ability to qualify for its present licenses.

Welch: Let me turn to another topic for a moment. Does Travelers Group have a regulatory compliance program?

Michener: Yes, we have an extensive one.

Welch: And has any license or permit of any Travelers Group Insurance subsidiary ever been revoked or suspended, Mr. Michener?

Michener: No.

Welch: And to conclude, if we could, what effect will the merger have on the ability of the state insurance departments, including the Delaware Department of Insurance, to regulate an insurance company doing business in their states?

Michener: I think the merger will have no adverse effect on that ability to regulate the insurance companies. The merger between Travelers Group and Citicorp will result in a holding company structure that will be regulated along functional regulation lines so that insurance banking securities activities will continue to be regulated by the same regulators that regulate them now. So in sum, I think it will have no adverse effect or really any effect on the ability of the Delaware Insurance Department or other insurance departments to regulate insurance activities.

Welch: All right, thank you very much. Mr. Examiner, we have no further questions of this witness at this time. Now, at the conclusion of the presentations of our witnesses, I think we would like to recall Mr. Michener and have him kind of sum up. But subject to that, we have no further questions at this time.

capitalization. Second, as a result of Citibank's global presence, the merger will provide Travelers Group with access to new markets worldwide. Finally, the merger will allow Travelers Group to provide a full range of consumer financial services, including banking investment services, insurance, and asset management.

Welch: All right, now Mr. Michener, I'd like to turn for just a moment to the Form A filing relating to the proposed acquisition of control of Citicorp Assurance. Are you familiar personally with that filing?

Michener: Yes, I am.

Welch: And once again, you've touched on this earlier, but are you familiar with where Citicorp Assurance stands within Citicorp's overall organization? Let's talk about that for a moment.

Michener: Yes I am familiar with that and I'd like to suggest to the hearing examiner that we look at Exhibit #3 again which we looked at before. This is a schematic of Citicorp's present pre-merger insurance holding company structure. And as you, as the chart shows, Citicorp Assurance Company is a subsidiary of Citicorp Life Insurance Company which is an Arizona insurance company. In turn, that company is a subsidiary of Citibank Delaware which is a Delaware banking corporation. That company is owned by Citicorp Holdings, Inc. which is a Delaware business corporation which is finally owned by Citicorp, which is the parent company which is publicly held.

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Welch: All right. Now how competitive, Mr. Michener, is the market in Delaware of property/casualty insurance?

Prince: Yes.

Welch: Let me turn for a moment if I could to the background on Travelers Group itself. Could you provide a brief background of Travelers Group?

Prince: Well, there is a great deal of public information about Travelers Group and its various subsidiaries because a number of our companies are public filers under the FCC system, so there are annual reports and so forth for a number of our companies a number of which are attached, I believe, to the Form A, that are widely available. If I can, I would try to direct the Hearing Examiner's attention to a couple of pages of Exhibit #1 that have already been referenced to try to point to a couple of significant points. The Travelers Group itself is a widely held, publicly traded, diversified financial services company. If I can start, please, with page 6 of Exhibit #1, you will see that at the end of last year at the end of 1997, Travelers Group had total assets of approximately \$386.5 billion dollars and a stockholders equity of about \$21 billion dollars. If I could ask you to turn now to Page 7 ---

Meisenheimer: Excuse me, would you refer to that as Exhibit #7 of Exhibit #1? Just for clarification.

Prince: All right -- one of these versions will be right. Exhibit #7 of Exhibit #1. You'll see that we're in four (4) primary businesses. The consumer finance business, the investment services business, property/casualty insurance, and life insurance.

Welch: All right now, Mr. Prince. The first one of those businesses you mentioned is consumer finance services, could you describe that for the Hearing Examiner, please?

Prince: Of course, if I could ask you to turn to Exhibit #8 of Exhibit #1. There you'll see that the consumer finance business is operated through a commercial credit company and its various subsidiaries and they provide consumer lending services, credit card services, and various credit-related insurance services among their other activities.

Welch: All right now the other, the next business that you mentioned is investment services, could you describe that for the Examiner, please?

Prince: That's on the next, exhibit, Exhibit #9 of Exhibit #1. You'll see that the investment services business is offered principally through Solomon & Smith Barney Holdings. It provides investment banking and trading, retail brokerage, mutual fund, and investment management services.

Welch: All right, now can you summarize the third business of Travelers Groups operations which I think you identified as property/casualty business?

Prince: Yes, that's on the next page. Exhibit #10 of Exhibit #1 and this is the Travelers Property/Casualty business that Mr. Michener described. As you can see, it's 83% owned by Travelers Group, the group of companies offer a wide array of commercial and personal lines of coverage principally in the U.S. They are licensed in all 50 states, the District of Columbia, and certain other jurisdictions. And the principal companies are rated at least A or Excellent by A.M. Best which means that they have excellent financial strength and a strong ability to meet their ongoing obligations to policyholders.

Welch: All right. The final business that you mentioned was life insurance services. Can you summarize that business for the Hearing Examiner?

Prince: On Exhibit #11 of Exhibit #1, we talk about our two (2) life insurance operations, the Travelers Insurance Company and its subsidiaries in the Primerica Financial Services group of companies. These life insurance companies are also licensed and operated in all 50 states and the District of Columbia, Guam, and certain other jurisdictions, and all of these companies are rated A or Excellent by A.M. Best.

Welch: All right, let me change topics on you for a moment, if I could. What, in terms of the merger itself, now what consideration will Citicorp shareholders receive in the merger?

Prince: In connection with the merger, each outstanding share of Citicorp common stock,

???: Actually, in hearing the flow, additionally we'd objected to having three in a row go, but I think it might be better having three go, subject to being able to recall which of the three that we want. As it turned out, you were correct.

Welch: Well, we get one right every now and then. Your Honor, at this time, we will call Mr. Charles O. Prince.

???: Just, before you begin, I guess I'm qualified at least as to that witness, we didn't see any reason to break the flow. That doesn't mean, we may after this witness, but—

???: Quite candidly, I don't think there is a problem, but why don't we just go forward.

Prince: I'll try to do as good a job.

[laughter]

Teichman: Sir, can I get you to raise your right hand? Sir, state your name please.

Prince: Charles Prince.

Teichman: Sir, do you swear to tell the truth, the whole truth and nothing but the truth so help you God?

Prince: I do.

Teichman: And go ahead and state your name for the record.

Prince: Charles Prince.

Teichman: We just did that, didn't we? And your title, too.

Prince: My title is executive vice president and general counsel of Travelers Group.

Welch: Mr. Prince, how long have you held the position that you have just identified for the hearing examiner?

Prince: I've been the general counsel with Travelers Group or its predecessors since early in 1983 and I also will serve as co-general counsel of CitiGroup after its formation.

Welch: And would you briefly describe for the examiner your duties and responsibilities in that capacity?

Prince: In my current position I have responsibility for several of the administrative functions of the combined company. The legal department, government relations, and corporate security.

Welch: Now in this capacity, one or more of those capacities, did you have occasion to become familiar with the details of the proposed transaction which is the subject of this hearing today?

Prince: Yes, I have.

Welch: And could you give us a brief description of your involvement and your role in that proposed transaction?

Prince: Well, I assisted in the performance of the due diligence effort leading up to the agreement. I also participated in the negotiation of the contract and so forth. Presently, I have overall responsibility for obtaining the necessary governmental and other approvals overall for the transaction.

Welch: Now, in connection with these responsibilities, have you also become familiar with the Travelers Form A which has been filed with the Delaware Department of Insurance and which is the subject of this proceeding?

Prince: Yes, I have. I participate in the drafting of the Form A, and of course, I executed it in behalf of Travelers Group.

Welch: Now, Mr. Prince, is the information contained in that filing accurate?

Prince: Yes, it is.

Welch: Okay. And were you present and listening to the testimony of Mr. Michener regarding the structure of the transaction and the merger?

Prince: Yes.

Welch: And do you agree with his description of the merger?

Welch: Now, have the parties designated individuals as executive officers, and if so, have their biographical affidavits been filed with the Department?

Prince: Yes, certain individuals have been designated, and the Form A application indicates the biographical affidavits of these individuals of Travelers Group and of Citicorp. And I believe those are being filed supplementally. I also believe that all of them have been or will be submitted except for one which should be submitted very shortly.

Welch: Let's talk for a moment about financial condition. Could you describe for the Hearing Examiner the financial condition of Travelers prior to the consummation of the merger?

Prince: Yes, I'll turn back to the exhibit booklet if I may and ask you to turn to Exhibit #6 of Exhibit #1.

[pause]

Welch: Mr. Prince, I think you were starting to tell me about the financial condition of Travelers Group prior to consummation of the merger.

Prince: Yes, I was just referring all of us back to Exhibit #6 of Exhibit #1 which we had looked at just a few moments earlier in my testimony where the financial condition of Travelers Group is identified as you can see the total assets at year-end were \$386 billion and stockholders equity was almost \$21 billion. As an integrated financial services company with diversified earning stream from various businesses, each of which are strongly capitalized, Solomon, Smith Barney, Commercial Credit, Travelers Property Casualty, Travelers Life, Primerica Financial Services, with all these different companies, Travelers enjoys strong earnings and strong cash flow.

Welch: Now, following the merger, what would the financial condition of the company be? Define the companies we're talking about.

Prince: Sure. If I could direct your attention to Exhibit #12 of Exhibit #1, this is a detail of the pro forma basis of the combined companies at year-end. This is the simple arithmetic of adding the two (2) companies together, Travelers Group and Citicorp. And as you can see on this pro forma basis, the financial strength and capitalization of the company would be exceptional.

Welch: Now let's change topics yet again if we could. I'm going to ask you to talk for a moment about the plans for Citicorp Assurance, which is the actual subject of this hearing, that is Citicorp Assurance, will the proposed merger jeopardize the financial stability of Citicorp Assurance. Will that prejudice the interest of any of its policyholders?

Prince: No, as I've indicated, the Travelers Group is very well capitalized, and I believe that the combined financial strength of the two (2) companies after the merger will enhance the financial stability of the subsidiaries of the company and will certainly not prejudice the interests of any policyholders.

Welch: This next question is a long one, but let me try it anyway, because I think it covers some ground that's important. Does Travelers Group have any present plans to either liquidate Citicorp Assurance, to sell its assets other than in the ordinary course of business, to merge Citicorp Assurance with other entities, or make any other material change with the insurers business or corporate structure or management, for that matter, that would be unfair and unreasonable to its policyholders or otherwise not in the public interest?

Prince: I'll give you a short answer to a long question, the answer is no to any of those matters.

Welch: Okay, then that's addressing the \_\_\_\_\_?

Prince: That's correct.

Welch: Does Travelers have any plans to replace current management for Citicorp Assurance or change its current business in any significant way?

Prince: Again, the answer is no, we have no plans to change the business or to replace or change the current management of Citicorp.

Welch: Now, will the operations of Citicorp Assurance be integrated with those of other

other than shares owned by the two (2) companies themselves, will be converted into the right to receive 2½ shares of Travelers Group common stock. Fractional shares will be paid for in cash. In addition, each issued an outstanding share of Citicorp preferred stock, again, other than shares owned by the two (2) companies directly, will be converted into the right to receive one (1) share of a corresponding series of Travelers Group preferred stock. As a result of these various conversions following the merger, the former Citicorp shareholders as a group, and the current Travelers Group shareholders will own approximately 50% of the outstanding shares of CitiGroup.

Welch: All right, let's talk for a minute about the value of the consideration. What's the value of the shares of Travelers Group common stock that Citicorp shareholders will obtain?

Prince: Because it's based on stock exchange, the value changes every day as the stock market changes. But just as a point of reference, the figure that's often used is that the value will be approximately \$70 billion dollars. This figure is based on the number of shares of Citicorp common stock outstanding at about the date of the announcement, which was \$451 million shares, and the price of a share of Travelers Group common stock on that date which was about \$61 a share.

Welch: Now is Travelers Group incurring any debt in connection with the merger?

Prince: No, we're not.

Welch: Let's turn to yet another topic, Mr. Prince?

???: Actually, could you maybe look at this one moment? I guess, in terms of a written copy of it, I'm not objecting to any question or anything, I'm just, I'm wondering really is that earlier you'd said there are no extra copies of it?

Welch: That is correct.

???: That really is correct?

Meisenheimer: Would you please wait according to what we agreed until he finishes his presentation.

???: Okay. Go on and proceed from here.

Prince: I don't have to start over again, do I?

Welch: All right, I think, we started to talk, Mr. Prince, about the question of shareholder approvals.

Prince: Yes sir.

Welch: A little bit of shifting topic, will the shareholders of both Travelers Group and Citicorp be given the opportunity to vote on the proposed transaction?

Prince: Yes, each of the shareholder groups will vote separately on the transaction.

Welch: And when will that vote take place?

Prince: Both of the shareholder votes have been scheduled, again separately, but both votes will be held on July 22, 1998.

Welch: Now I think the Form A submitted by Travelers Group under Item #11 indicates the Travelers Group will inform the Commissioner of Insurance of the identity of the proxy solicitors retained in connection with the meeting of shareholders that we were talking about a moment ago. Have proxy solicitors actually been retained by either party to the merger?

Prince: Yes, I believe they have. I believe the Travelers Group has retained Morrow & Company and Citicorp has retained Georgeson & Company.

Welch: All right, let's turn to yet another topic, if you could. And that's the Travelers Group directors and officers. Or directors for the moment. What will the makeup be of the Travelers Group Board following consummation of the transaction?

Prince: There will be a board of 24 people, 11 outside directors from each of the two (2) companies presently, so that's 22, and Mr. Sanford Wile and Mr. John Reed, respective chairmen of each of the two (2) companies will also be members of the board, and each of them will serve as chairmen and co-chief executive officers of the company.

Company Act, we will have a minimum of two (2) years from the consummation of the merger with the possibility of three (3) one-year extensions to conform our operations to the Bank Holding Company Act limitations.

Welch: Let's talk about other regulatory approvals for the moment. Have all other state and federal regulatory approvals been obtained?

Prince: Not yet, but they are all in process, and they're all grinding away. We have various regulatory approvals, both domestically and internationally.

Welch: Okay, can you describe those for the Hearing Examiner and their current status?

Prince: Well, both Travelers Group and Citicorp are required to file with various domestic and international regulatory agencies. These include, of course, the Federal Reserve Board under the Bank Holding Company Act that we talked about, certain other banking agencies, some state banking agencies, state insurance regulatory authorities, and the various foreign authorities.

Welch: Your Honor, we have no further questions of this witness at this time. Your Honor, as our next witness, we'd like to call Catherine S. Mulholland.

Meisenheimer: Just a second.

???: I'd actually like to ask if we could question Mr. Prince on what he just said. I don't know if I initially understood. After the first witness, they thought we were going to ask questions, and we waived.

[pause]

???: If I could just initially respond to Mr. Lee's request. The testimony of Ms. Mulholland is relatively short, and Mr. Prince is obviously going to be staying in the hearing room for the entire hearing and would be available at any time.

Meisenheimer: Okay. Are your questions just a few, or are they voluminous? I mean, how many questions do you have?

Lee: I guess it depends on how it develops.

Meisenheimer: To keep it moving, I move that I would like to go ahead and let Ms. Mulholland . . .

Lee: Sure.

Meisenheimer: Okay.

Teichman: Ms. Mulholland, will you raise your right hand? Ma'am, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Mulholland: I do.

Teichman: Then will you state your full name for the record?

Mulholland: Catherine S. Mulholland.

Teichman: And your position?

Mulholland: I am general counsel and senior vice president of Citicorp Insurance Group.

Teichman: Thank you. And, Ms. Mulholland, I'm going to ask you to keep your voice up so that we can get you on the tape.

Welch: In your answer, Ms. Mulholland, you made reference to your employment with Citicorp Insurance Group. Can you explain to the Hearing Examiner what exactly it is that Citicorp Insurance Group is comprised of?

Mulholland: Okay, again, if you would look at Exhibit #3 on Exhibit #1, you will note that on the right-hand side, Citicorp Assurance Company at the bottom is an affiliate of First Citicorp Life Insurance Company, a New York company, and both are wholly owned by Citicorp Life Insurance Company, an Arizona insurance company, with our direct parent being Citibank Delaware and ultimately our ultimate parent being Citicorp. On the left side of the chart, you will see Citicorp International Trade & Indemnity, Inc., a New Jersey insurance company, that is not considered part of Citicorp Insurance Group, but it is an insurance subsidiary of Citicorp.

Welch: All right, that's Citicorp Assurance way down there at the bottom of the chart, is

Travelers Insurance subsidiaries?

Prince: Again, the answer is no. I believe that Citicorp Assurance will continue its operations as they are now conducting.

Welch: All right. Let's focus on the Board of Directors of Citicorp Assurance. What will be the makeup of the Board of Directors of Citicorp Assurance after the merger?

Prince: There are no plans to change any members of the Board of Directors of Citicorp Assurance.

Welch: All right. What will the impact of the merger on jobs be in Delaware? How many employees are expected to be maintained?

Prince: Because all of the plans will remain the same, I believe there will be no effect on employment levels in Delaware as a result of this transaction.

Welch: Okay. Now will the competence, experience, and integrity of those persons who will control the operations of Citicorp Assurance be such that it would not be in the interest of policyholders and the public to permit the acquisition of control?

Prince: Well since Travelers has no plans to change the management or the Board or their corporate structure, then the same individuals who have been responsible for controlling the operations of Citicorp Assurance will continue in that capacity. In addition, since Citicorp Assurance really has only three (3) corporate policyholders, the insurance-buying public won't be affected by the acquisition of control in any way.

Welch: Now let's turn to some banking law issues if we could. Is Travelers Group currently authorized to conduct any banking activities?

Prince: Yes, Travelers Group currently has two (2) bank subsidiaries which are licensed to conduct business in Delaware. The first is Travelers Bank & Trust, FSB, or Federal Savings Bank, a federally chartered savings bank located in Newark, Delaware, and the Travelers Bank USA which is a Delaware state chartered bank.

Welch: All right, now what do these two (2) banks actually do?

Prince: Travelers Bank USA is engaged in the credit card business, and Travelers Bank & Trust, FSB is primarily makes home equity loans.

Welch: Now can you explain for the Hearing Examiner the impact of the Federal Bank Holding Company Act on the merger?

Prince: Yes, as a result of our merger with Citicorp, Travelers Group will become a bank holding company under the Federal Bank Holding Company Act. We have filed an application with the Federal Reserve to become a bank holding company, and once we receive that, we will face certain limitations on our insurance and banking operations under the Act.

Welch: All right, we're focusing on Citicorp Assurance for the moment, does that mean that following the merger there is a possibility that Travelers Group could be forced to sell Citicorp Assurance because of the Bank Holding Company Act?

Prince: No. Many people read in the press the reports that at some point in the future Travelers Group may have to divest or limit its insurance operations. Actually, the operations of Citicorp Assurance are permitted by the current version of federal law, and so we don't expect that there would be any requirement in the future, even if the law stays exactly as it is, for us to sell, dispose of, or in any way separate the operations of Citicorp Assurance following this merger.

Welch: All right, now assuming that the Federal Reserve Board approves the Travelers Group's application to become a Federal Bank Holding Company, will the Bank Holding Company Act impose any limitations on the insurance-related activities of the Travelers Group following the merger?

Prince: Yes, and I referred to some of these limitations just a moment ago. It's possible that at some point in the future, the company could be required to divest or separate some of its insurance operations, not including Citicorp Assurance. However, under the Bank Holding

America and American Security Insurance Company and Standard Guaranty Insurance Company.

Welch: With that in mind, is it accurate to say that Citicorp Assurance reinsures or insures only affiliates?

Mulholland: Yes, it is.

Welch: What's the A.M. Best rating of Citicorp Assurance?

Mulholland: It's A-, which is an Excellent rating.

Welch: And do you have any expectation that that will change as a result of the merger?

Mulholland: No.

Welch: What is Citicorp Assurance's policyholder surplus as of March 31<sup>st</sup>, 1998?

Mulholland: As of March 31<sup>st</sup> it's \$25 million.

Welch: Okay. And will that policyholder surplus change in any way as a result of the merger?

Mulholland: Not as a result of the merger.

Welch: Let's turn for a moment, Ms. Mulholland, to the statutory criteria, if we could. I'm going to ask you a series of questions about the statutory criteria. Following Traveler Groups acquisition for control of Citicorp Assurance, will Citicorp Assurance continue to satisfy the prerequisites to write the lines of insurance that it currently writes in Delaware?

Mulholland: Travelers Group has indicated that it has no present plan to change the operations of Citicorp Assurance following the merger. So I see no reason why Citicorp Assurance would not continue to qualify with those licenses after the merger.

Welch: Are you aware of any aspect of the proposed merger between Travelers Group and Citicorp that would affect Citicorp Assurance?

Mulholland: I am not aware of any aspect of the proposed merger that would in any way jeopardize Citicorp Assurance's license. As the person responsible for Citicorp Assurance's legal and regulatory affairs, I believe that Citicorp Assurance has complied with all Delaware licensing and other regulatory compliance requirements in the past and will continue to do so following the acquisition.

Welch: Ms. Mulholland, will the proposed acquisition of control substantially lessen the competition in Delaware?

Mulholland: No, I personally reviewed the exhibit regarding the combined market share of Citicorp and Travelers insurance subsidiaries licensed in Delaware. Mr. Michener was correct in stating that in every line of business, both in life and health, property and casualty, that Citicorp and Travelers subsidiaries have a very small market share. In addition, Citicorp Assurance only writes in the line of other liability, which is a hodgepodge of, you know, line 19 miscellaneous liability, and no other line of property/casualty insurance.

Welch: Ms. Mulholland, will the financial condition of Travelers Group jeopardize the financial condition of Citicorp Assurance or otherwise prejudice the interest of its policyholders?

Mulholland: No, Travelers Group is a well capitalized company whose insurance subsidiaries enjoy very high ratings. Furthermore, Travelers --

Teichman: Ms. Mulholland, let me ask you to stop for just a second. And we're going to go off the record for just a moment.

[pause to change tapes]

Teichman: And we're back on the record, it's about 6 minutes after 11:00 a.m.

Welch: All right, Ms. Mulholland, before we went off the record, I think I had asked you whether or not in your judgment the financial condition of Travelers Group would jeopardize the financial stability of Citicorp Assurance or prejudice the interests of its policyholders. Why don't you start that answer off again?

Mulholland: Okay. Well as I mentioned that Travelers Group is a well capitalized company whose insurance subsidiaries enjoy very high ratings. Furthermore, Travelers Group

that right?

Mulholland: Yes, that is correct.

Welch: All right. Now, do you also hold a position with Citicorp Assurance?

Mulholland: Yes, I'm vice president and general counsel for Citicorp Assurance.

Welch: And Ms. Mulholland, how long have you been working for Citicorp Insurance Group?

Mulholland: I have been working for Citicorp Insurance Group since July 1997.

Welch: Let's talk about your responsibilities in Citicorp Insurance Group. Could you describe those for the Hearing Examiner?

Mulholland: Yes, as general counsel, I'm responsible for overseeing and advising on the legal affairs of each of the three (3) Citicorp Insurance Group subsidiaries, including Citicorp Assurance Company. My duties include regulatory compliance, overseeing the preparation of company filings, corporate affairs, government relations, inner company and third-party agreements, and supervision and management of staff.

Welch: Let's turn for a moment to the structure of the merger. Some of the other witnesses talked about that, but we'd like to hear it from your standpoint. Have you reviewed a copy of the Form A statement and exhibits the Travelers Group filed with the Department in connection with the proposed merger?

Mulholland: Yes, I have.

Welch: Okay, in what capacity did you actually review that?

Mulholland: Well, I reviewed it and I helped prepare it.

Welch: In your judgment, does the Form A statement accurately characterize the merger and its impact on Citicorp Assurance?

Mulholland: Yes, it does.

Welch: And did you hear the testimony of the previous witnesses, Mr. Prince, Mr. Michener, regarding the impact of the merger on Citicorp Assurance?

Mulholland: Yes, I did.

Welch: And to your knowledge, was that testimony accurate?

Mulholland: Yes, it was.

Welch: Let's turn for a moment to, again, to some details on Citicorp Assurance. Describe Citicorp Assurance for the Hearing Examiner, if you would.

Mulholland: Okay, again, as shown on Exhibit #3, Citicorp Assurance is a stock property/casualty insurer whose ultimate parent is Citicorp which is also a Delaware corporation. Citicorp Assurance is domiciled and licensed in Delaware and only Delaware. As Mr. Michener explained, Citicorp Assurance currently has only two (2) types of business. First, it provides contractual liability insurance to Citibank North America, a national bank subsidiary of Citicorp that is located in New York. The policy insures Citibank New York against its contractual liability under a debt cancellation agreement that Citibank New York has with borrowers for certain types of loans made by Citibank New York.

Teichman: Ms. Mulholland, can I ask you to slow down a little bit so that I can --

Mulholland: So you can make notes?

Teichman: Thank you.

Mulholland: Secondly, Citicorp Assurance provides reinsurance on coverage underwritten by American Security Insurance Company and Standard Guaranty Insurance Company, both of which are Delaware domestic companies and that reinsurance is provided on behalf of Citicorp South Dakota, another national bank subsidiary of Citicorp.

Welch: Now, Ms. Mulholland, does Citicorp Assurance sell any products at all to the general public?

Mulholland: No, it doesn't. As I had mentioned, its customers are Citibank North

into evidence.

Meisenheimer: Okay. Let's mark these Exhibit #2, the Form A filing.

Teichman: Okay, what I've got here is two (2) binders, loose-leaf binders. These are just copies? One is the same as the other?

Welch: Yes sir.

Teichman: Mr. Hearing Officer, it's your desire to mark one of them as Travelers Exhibit #2?

Meisenheimer: Right.

Teichman: Okay, so we'll move it into evidence as Travelers Exhibit #2.

Meisenheimer: There's one other issue that I would like to see addressed at this hearing today, or it could be submitted within the next five (5) days. I would like to see a list of the officers and directors that will be involved with the new company with the merger and their qualifications. And their qualifications. Any information that can be released to the public.

Welch: I'd be happy to do that, Your Honor.

Meisenheimer: Okay, we can do that in one of two ways. You can submit something or you can introduce it today orally. If you know the officers that we're talking about here, the major officers and directors, you can give a brief bio orally. That way we can address those issues, too.

Welch: In order to be a little more orderly about it, why don't we submit that supplementally. We'll do that after the conclusion of the hearing today. Now, just to clarify, Your Honor, when you say officers and directors of the company, you mean of the parent company, not Citicorp Assurance itself? Because obviously they're not going to change.

Meisenheimer: Right, right.

Welch: I'd be happy to do that.

Lee: I guess whichever part is not confidential, obviously, we would like a copy of, and I think, well, I was going to ask whether these binders are the same binders that were given to Ms. Rangan on Friday.

Welch: The same thing was provided to Ms. Rangan on Friday afternoon.

Lee: To some degree, your suggestion of either oral presentation or some, we understand, certainly people's social security number or home address we have no interest in, but in terms of ---

Meisenheimer: Admission will be made with the next five (5) days. You'll have an opportunity to review it. It will be, a copy will be available to you.

Lee: Of those binders, or the supplemental things that are going to be submitted?

Meisenheimer: The binders and the supplemental submissions, both.

Welch: The binders have already been made available to the individuals.

Meisenheimer: I just wanted to point out, is five (5) days a fair time in order for you to do this?

Welch: That's fine, Your Honor. It's not a problem.

Meisenheimer: I mean, there's no set rule that it has to be five (5) days.

Welch: Five (5) days is fine.

Meisenheimer: If you can do it within five (5) days, then we'll have it done by.

Lee: It's just my understanding that in the prior proceeding that Ms. Rangan described to me, there was five (5) days sort of after the dust had settled, she had five (5) days to review things. So it's not, you know, there may be other reasons for extending it further. But obviously if we get whatever the supplemental submission is on Day 4 of the five (5) days we have to comment, it's not a very useful affair to us. You say five (5) days to submit, if you submit it tomorrow, then it's only six (6) days. We just want to make sure we have a chance to review.

Meisenheimer: Yes, that's a very valid point, and we'll hold it open five (5) days after we receive it for your response.

Lee: Sure.

capitalization and financial strength will be even greater following the merger. The interests of Citicorp Assurance's policyholders, therefore, will not be prejudiced by this proposed acquisition.

Welch: Okay. Are there any current plans which Travelers Group has for Citicorp Assurance which are unfair or unreasonable to Citicorp Assurance's policyholders or perhaps not in the public interest?

Mulholland: No, both Mr. Michener and Mr. Prince have testified that they plan no changes to the business, corporate affairs, or management of Citicorp Assurance.

Welch: Okay. Now considering the competence, experience, and integrity of Travelers Group, do you believe that the proposed acquisition of control is in the interest of Citicorp Assurance policyholders and the insurance buying public?

Mulholland: Yes, I do. The competence and experience of the management of Travelers Group is well-known in the insurance and financial services industries. Again, Citicorp Assurance only has three (3) policyholders. Its indirect parent, Citicorp -- Citibank North America, and Citibank South Dakota which it reinsures through contracts with American Security and Standard Guaranty.

Welch: All right, now is the proposed acquisition of Citicorp Assurance likely to be hazardous or prejudicial to the insurance-buying public in any respect?

Mulholland: No, I do not believe it will be. First of all, Travelers' financial strength is added to that of Citicorp's. The fact that the acquisition of control of Citicorp Assurance will have no impact on competition in Delaware and the fact that Citicorp Assurance does not market to the general public.

Welch: Thank you, Ms. Mulholland. Mr. Examiner, we have no further questions of this witness at this time.

Teichman: We're going to go off the record for a moment.

Welch: Your Honor, just in case there is any doubt, I think I formally moved our exhibits into evidence, but I want to be clear about that that we did formally move them into evidence. I think Your Honor's already ruled, but just in case I got it wrong . . .

Meisenheimer: We're talking about Exhibit #1, okay.

Teichman: We have been off the record for just a minute, and as soon as I hit the machine, Mr. Welch, you started to talk. But we are back on the record and nothing you said was cut off before I started the tape.

Welch: Thank you, sir.

Meisenheimer: There's a couple problems or not really problems, but issues that I would like to address that I think needs to be addressed here. Going back to our Form A filing just a minute. I would like to see the Form A introduced here as evidence as an exhibit to this hearing. The information, except that which is not public information on the biographicals, but all the other information I would like to see someone move it. And if not, we're going to move it as the agency.

Welch: I have no problem with that at all, Your Honor. So we'll formally move it at this time, if that's would you'd like us to do. We have a copy here I can hand up, and maybe that's just an extra copy here Your Honor doesn't need, because I know you already have it. That formally would move it into evidence subject to the questions that were addressed and discussed earlier in terms of the biographical information.

Teichman: Let me interrupt for a sec. If there are, obviously, it's up to you, whatever you wish to move into evidence, it's your case. I know you've had problems with the biographicals, if you want to redact just that part and then give us the rest of that, then we can mark it in, if that's your desire.

???: Yes, the Form A copies which we have here do not include the biographical affidavits or anything that would be filed supplementally, so ---

Welch: Okay, so we'll hand those up to the Examiner right now, and formally move them

Lee: Thanks. It, under the heading, yeah. Do you have a copy of it? Under the heading, "Benefits to Policyholders" on page 2. You stated to the Commissioner and the Department, "it is anticipated that the merger will offer the parties opportunities to sell their respective products to each other's customers." Umm, I guess, can you explain a little more what you mean by that?

Michener: Yes, we're hopeful that with the combination of the two companies that there will be opportunities to sell Travelers products to Citicorp customers and vice versa.

Lee: Would these include selling Travelers insurance products through Citibank branches? You know, through the banks of Citicorp?

Michener: I don't know.

Lee: Is it the intent of the company to do that or is it that you don't know whether that will be permitted?

Michener: I don't know whether that's the intent of the company.

Lee: I'd like the, we submitted as part of our, as one of our written submissions a letters from counsel to Travelers and Citicorp. I have like two copies, I think though, that it's my understanding that they're part of the record. They're written.

Meisenheimer: Sure, we would like to have them marked in as exhibits.

Michener: Do we have them?

Lee: It's actually two (2) letters. You might want to mark them. If you don't mind, in the same, I have like three (3) copies. You got them.

Michener: Does that mean you don't get to ask me any questions?

Lee: What? No, no. You already had a copy. I faxed it when you called and asked me to fax it. You know, but I mean, you may not have it with you.

Teichman: Please direct your comments to the Hearing Officer.

Teichman: What I have here is two (2) documents -

Lee: Hang on a minute. Exactly two (2) documents. One is dated March 30<sup>th</sup> and one is dated March 31.

Teichman: Okay, this is a document that is, I guess, for lack of a better term we'll call this Lee Exhibit #1, and it looks like a 5-page letter dated March 30<sup>th</sup>. Mr. Hearing Officer, is it your desire to move this Lee's Exhibit #1 into the record?

Meisenheimer: So move it.

Teichman: The next item is, we'll mark it as Lee Exhibit #2. And this is a 2-page letter dated March 31. Mr. Hearing is it your desire to move this thing into evidence?

Meisenheimer: So moved.

Teichman: Okay. Lee Exhibit #2.

Lee: Okay. [pause]. You got one. I guess with Mr. Michener, in the spirit of trying to stick with one witness at a time, when you said it's, you don't, you're unclear as to Travelers or the proposed Citigroup's intent on cross marketing, on selling Travelers insurance products to Citicorp branches, umm, the two (2) documents that are there, I guess at this point, Mr. Prince, have you ever seen these before?

Prince: I don't believe so.

Lee: And you had said, when Mr. Welch was questioning you, that you were in charge of the, say again, I guess, he asked you what your role in the merger is?

Prince: I have been asked to coordinate the insurance components of the merger, including the regulatory approvals.

Lee: The approvals, but in terms of the plan going forward, actual business plan of the proposed CitiGroup?

Prince: What I am working on primarily is the insurance approvals to accomplish the merger. Obviously, the merger has not taken place, so the companies are operating independently at this point.

Meisenheimer: Now I have a question, would you state your name, please?

Epstein: Yes, Jonathan Epstein from the News Journal. I'd like for clarification on what is being left out of the public record as a member of the news media, I'm sure you can understand we'd protest anything being left out of the record.

Meisenheimer: Sure.

Epstein: Anything that is left out, we'd like that to be as narrow as possible.

Meisenheimer: I would just like to refer you to the public affairs officer after the hearing. I don't think that's something that we want to address at this point.

Epstein: Well, if you're ruling right now on what's being left in or out of the public record, then shouldn't it be addressed at this point and not after the fact?

Teichman: Mr. Epstein, the point the Hearing Officer is trying to make is that we're in the middle of a public hearing, and it's kind of like a trial. You wouldn't interrupt in the middle of a trial to ask questions of the judge. So the same thing, if you have questions of the Department, then it would be appropriate at the conclusion of the hearing to ask Department representatives at that time rather than in the middle of a hearing where we're taking evidence and dealing with motions and so forth.

Lee: As a participant, I mean, this may -- I'll keep it very brief, the idea was that everything that's not, that's exempt under FOYA can be withheld. I don't know if you've determined in advance under the State Freedom of Information law. I don't know if you've determined in advance what can be withheld or, if again, not as an attempt to, if they submit things and we submit a request, would you then rule on it, you know rule on it?

Meisenheimer: Absolutely.

Lee: And we'll do that quickly, it's not an attempt to, but I think that may address it as well, at least that there's some ruling and not just a --- that it be clear, not just a, what's being withheld and then it be actually entitled to exemption under the Delaware ---

Meisenheimer: Okay.

Welch: In response to your specific question, we'd be happy to submit the requested information and we'll do so promptly.

Meisenheimer: And then you'll have five (5) days to review it.

Lee: But I guess what I'm saying is are you going to review what they submit and actually determine whether its exempt under FOYA or not. Or is it just there and they submit it, and ---

Meisenheimer: We'll have to make that decision.

Lee: Well, we need some kind of request, if that's what triggers the review.

Meisenheimer: It's important to point out that if you're not happy with what you receive, then you need to, you can make an objection to us, and we need to make a ruling and if we need to extend the time frame, then we can do it at that point.

Lee: Okay. I guess what I'm saying is that it's not, literally, if we get it, then we may submit a request and you can rule on it. And we'll submit it quickly, you can rule on it quickly . . .

Meisenheimer: Okay? And I think we're at a point now for your cross-examination.

Lee: All right. Mr. Michener.

Teichman: Let me interrupt, just for continuity purposes. Try as best you can to, we're pretty informal here, but, just cross-examine one person at a time rather than jumping between. I realize one question might be better answered by another individual, but where possible, kind-of keep your cross to a single individual before you move on.

Lee: Okay. Oh, I see, but is that --- I'll try to do it that way, but if there's a need to go back, it won't be a -- Mr. Michener, if your cover letter to the Form A which I think now has been moved in, I'm assuming that the Form A and the cover letter to Commissioner Williams has been moved in ---

Meisenheimer: Exhibit #2.

captive insurer, as one of our witnesses put it, is dealing with. Three (3) policies, wholly owned, no plans to change the business, an entirely different issue than what he's going at. For that reason, I would make the objection. I think it's appropriate that if we keep this proceeding limited to the statutory criteria, we're going to be a whole lot better off. And I think it's far more consistent with the purpose of the statute and the purpose of the hearing, sir.

Lee: We think that the statute looks much more to the financial strength of the actual applicant, which in this instance is the Travelers Group. Therefore, their express plans here in the presentation, they've attempt to not --- it's been a presentation that's really at odds with the public presentation of the rationale of putting the two (2) companies together. We think this goes directly to the financial --- what's at issue is the integrity and competence, the integrity, experience, and competence of those who would control Citicorp Assurance and the financial strength of the proposed applicant, the Travelers Group. That's what we're --- by their logic, the fact that they say they have no plans to change Citicorp Assurance is not enough. You have to --- if a bearings, a failing securities company applied to Delaware to acquire an insurer, it wouldn't matter if the insurer was a captive insurer or anything else. The purpose is to look at the financial condition and strength of the applicant. And that's what, I think, after an hour and twenty minutes of read into the record testimony, I think to allow us to explore this question is not --- is by no means unreasonable. And I'd also refer you --- I'd prefer not to do it as an integrity matter, but there is a contradiction in documents that we've submitted today between --- that we wish to explore. That goes to, I guess even credibility of one of the three (3) witnesses. While I'd prefer not to say it that way. We think it's a legitimate --- when the deal of this was announced, a state insurance regulator that didn't say, "wait a minute, it sounds like that deal's not permissible under Federal law." What's the future financial strength of the applicant? It would seem that most state insurance --- that that's at the heart of the future financial strength of the applicant. And that's what we want to explore briefly and it would be unreasonable to not allow us to do it.

Welch: Your Honor, if I could make just one quick point. And it'll be real short. The point is, the fed issues are to be done with the fed. If you have problems with federal law and federal points you want to make, there's a forum there, you can make them. He's done that. However, if there's any issue at all about credibility of this management, we don't have any problem with these gentlemen and Ms. Mulholland addressing them. So I do think, Your Honor, respectfully, that this ought to be limited. But if it goes to credibility, I think our witnesses will be happy to answer it. And if Your Honor has a concern about that, that's no problem from our standpoint. I would suggest we keep it as brief ---

Meisenheimer: Okay, but I'm having some trouble right now with your relevance as far as the financial. How this is relevant to the financial condition.

Lee: Actually, if I can ---

Meisenheimer: I'm going to allow you to continue, but it's not going to be forever. We're just going to try and see where you're going.

Lee: I understand. The reason I began by asking, their own presentation at the Insurance Department said "we're gonna cross-sell" right under the heading, "Benefits for Policyholders". So it seems that that --- unless the showing they've put forward to the Department has a benefit of the proposed merger is the ability to cross-sell.

Meisenheimer: Before you going any farther, too, I need to know if you're going to have an objection as to this exhibit.

Welch: If I could just take ---

Meisenheimer: First of all, we'll need to mark this as Lee Exhibit #3.

Lee: It's testimony of Mr. Prince, so you might want to read ---

Prince: And others.

Lee: No, yours.

Lee: Sir, Mr. Prince, have you seen these two documents before?

Prince: I haven't.

Lee: I guess I'm directing your attention to the Exhibit of the March 30<sup>th</sup> letter. To page 4 of it, second paragraph from the bottom, I don't know if you want to read it out? I don't want to put the words in your mouth, I can read it out, however you want to do it.

Prince: Please feel free to read it out.

Welch: Your Honor, before that happens, let me just interpose an objection if I could. I think in Your Honor's earlier opinion you made the point that with matters involving the fed are pretty far afield. In fact, I think what Your Honor said was it strains credibility, it strains one's imagine to figure out what it is that those proceedings have to do with this proceeding. Now I would make the objection at this time on the relevant basis with respect to communications and discussions with fed, and all those issues involving the fed, this is not the fed. This is the Delaware Insurance Commission, and as Your Honor pointed out at the outset, we've got a series of these statutory criteria, and those are the things we've tried to focus on. Mr. Lee has appeared before the fed, we know that, he stated his position before the fed, and he's been quite vocal about that. That's a separate hearing, that's a separate proceeding, the fed can consider whatever Mr. Lee submits to them that they think is appropriate, the fed can consider whatever issues are appropriate under federal law. I would make the objection on the grounds of relevance here. If Your Honor rules against this, I would suggest that this line of questioning ought to be limited, it ought to be kept short.

[pause]

Meisenheimer: Would you mind explaining your ---

Lee: Absolutely. The, one of the statutory factors is obviously the strength of the existing Travelers Group and of the proposed merger. It's, we've, and again, I guess we can develop this. I was surprised by Mr. Michener's answer of not knowing, both Mr. Wheel and Mr. Reeve, the CEO's of the two (2) companies merging at the top level have said that the cross-selling of products is essential to the merger and is the financial rationale for the merger. These documents, we're not asking questions to know about the fed proceeding. These documents describe, I believe, in much more detail than was presented today, the actual business plan of the company. And what we're asking, we believe it goes to possible hazard and prejudice to the insurance-buying public and the financial strength of the proposed company because existing law would seem to preclude that they cross some of these products. There seem to have been discussions in which indications were given that this might be allowed. "That we'd like to explore them. We also have, and I mean, I didn't have the, under the integrity factor, competence, experience and integrity of the proposed -- those who would control the proposed company? One of the three (3) witnesses, we at least, we seek to explore a discrepancy between other testimony under oath to Congress and the contents of these letters which we think is something we absolutely have a right to gently explore in terms of they presented witnesses, they've sworn under oath. I'll introduce, I guess, Lee #3, which is a transcript of Congressional testimony of Mr. Prince on April 29<sup>th</sup> to Congress.

Teichman: Will you provide a copy to counsel?

Welch: Your Honor, if I could make one point, I think the issue here, Mr. Lee's argument missed the point. He wants to talk about cross-selling amongst various Travelers and Citicorp subsidiaries. The point that's been made here, and I think made very clearly by Ms. Mulholland and Mr. Prince and Mr. Michener is that what we're talking about is one (1) tiny Delaware insurance company at the bottom of the chain. It only has three (3) policyholders, and they made the point very clearly and very explicitly that they're not selling policies to the public, nothing's going to change. This is just one little subsidiary that only does a very limited amount of business. Now, Your Honor did make the point at the outset, let's stick to the statutory criteria. I only make the point that what Mr. Lee's going into is something that goes far beyond what this little, this

Lee: Umm hmm.

Prince: That's on page 3 of Lee Exhibit #3. If you go back to page 2 of Lee Exhibit #3, there is a series of questions that Congresswoman Waters asked of Mr. Rhodes, my counterpart at Citicorp. And I won't repeat them all, but the general tenor of them was, "Isn't it true that you sought an informal opinion? He gave you informal support? Isn't it true that he thought it was a good idea? And that I'll be with you all the way?" Questions of that sort. And Jack wrote, answered, "no." At that point, Congresswoman Waters turned to me and said, "All right. How about Travelers? Were you in the meeting with Mr. Greenspan?" I said, "no." And she said, "And you aren't privy to any information about his response to the idea about the merger?" Continuing the line of questioning, "Was there some kind of a secret or favorable pre-filing indication from Chairman Greenspan?" And I answered then and I stand by the answer, that I am not and was not.

Lee: No, I appreciate -- I mean, it certainly moves along this way. What I asked you earlier -- have you seen the Lee Exhibit #1 and #2? The letters between . . .

Prince: I have indeed.

Lee: And, I get the -- in paragraph one where it says we appreciate your advice --

Prince: I'm sorry, where's paragraph one?

Lee: Okay. Paragraph one of letter one.

Welch: It would be helpful if you could identify the date of that.

Lee: Sure. It is the March 30<sup>th</sup> letter. The -- in fact, I mean, again, it may not be the formal way -- would you be willing to give a similar narrative of your understanding of the letters and have you seen them before and when you were aware of them and --

Prince: Yes.

Lee: Well, that would be great. We'll be very, you know, as they said, informal. Go ahead. Launch into it.

Prince: I'll wait, if I may.

Lee: Sure. You'll see, it's moving -- I mean, we're not, rather than asking a series of pointed questions, we're more than willing to do the same type of narrative briefly on these two and?

Prince: Mr. Lee has asked me about Lee Exhibit #3, which is a March 30, 1998 letter to Virgil Maddingly, the general counsel of the Federal Reserve Board. The brief history of this document as I recall it is that as a result of a meeting between some of the legal representatives of the two (2) companies with Mr. Maddingly, this letter was sent to him to confirm many of the matters that were discussed in that meeting. Uh, I don't know if that puts it in a better context for you or not.

Lee: I guess, where the letter says, "we appreciate your advice." At the --

Prince: Can you show me--

Lee: Sure. March 30 letter paragraph one. "Thank you for your time and assistance and we appreciate your advice." Were you --

Prince: I'm sorry. Perhaps I have a different copy than you.

Lee: No, it's no problem.

Prince: Oh, well you skipped two (2) lines. I'm sorry.

Welch: Well let's -- if we're going to have that read into the record, it ought to be accurate, that's all.

Lee: Okay. "Thank you very much for your time and assistance in the conversations we had last week. Our objective was to obtain your views on questions important to the proposed merger of red and blue," [which is Travelers and Citicorp] "including the use of cross-marketing, and we appreciate your advice." Umm, at the time that Travelers' counsel, Mr. Sweet, wrote the letter to Mr. Maddingly, you were aware that he was writing a letter? This was conveyed?

Teichman: All right. This is a 2-page document, or strike that, a 3-page document that at this point is merely marked for identification purposes only as Lee Exhibit #3.

Lee: Okay. Mr. Prince.

Welch: Your Honor, no objection for purposes of the, the articulated purpose for the exhibit is to question Mr. Prince on integrity matters, so as I said, we don't have any objection to that. Again, the same objection with respect to the fed matters. I think it's far afield, but on that limited issue for limited testimony, we're not going to object.

Meisenheimer: Okay. Proceed.

Teichman: This is moved then, into evidence?

Meisenheimer: Yes, it's moved.

Lee: Maybe, the relevance of the copy that you have. Since I don't want to put anyone else's words in your mouth, but I guess, as to this one, from question – uh, Ms. Waters, from where Congressman Waters asked you whether you were privy to advice from – she said, the term of the report. I don't know if you want to – actually, I no longer have my copy –

Prince: I'm sorry, is there a question?

Lee: There is a question.

Prince: Okay. What is it, please?

Lee: The question is, is it true that in Congress on April 29, 1998, in response to a question whether you were privy to advice prior to announcing a merger from Chairman Greenspan on the Federal Reserve Board that you said "no."

Prince: I'm going to ask you to restate that question. I'm trying to understand.

Lee: Sure. Is it true that in response to a question from Congresswoman Waters whether you were privy to advice given by the chairman of the Federal Reserve Board as to the permissibility of the merger, that you answered "no."

Prince: Are you asking me to restate or recharacterize what you've introduced as Lee Exhibit #3?

Welch: Your Honor, let me object for a moment. I have a little trouble following the question. I think it's a little confusing.

Lee: I would have been happy to read it out. You know, I can read it out.

Welch: To the extent, Mr. Hearing Examiner, that there's some testimony that he wants to identify, the gentleman wants to identify, and ask Mr. Prince if he stands behind it, I have no problem with that. My suggestion would be to identify the question and simply ask him what his position is on that testimony. If he could be just a little clearer. I don't follow --

Meisenheimer: We're having trouble understanding. If you could, you know, redirect?

Lee: Sure. Have you had a chance to review Lee Exhibit #3?

Prince: I have.

Lee: And, and the statement transcribed is yours? You stand behind?

Prince: They are correct.

Lee: Okay. In Lee Exhibit #1, umm, and you object? The statements basically say that you were not privy to advice from Chairman Greenspan of the Federal Reserve Board.

Prince: Since you've asked it four (4) times, should I simply give you a sense of what happened at the hearing?

Lee: Sure, go ahead.

Prince: I'm glad you were there.

Lee: What?

Prince: You're focusing on a question which is on page 3 of what you've handed me. And the question is, Representative Waters and you aren't privy to any information about his [referring to Mr. Greenspan] response to the idea about the merger between you and Citicorp. And my answer to that question was, "I am not." That's the question you are referring to, I believe.

analysis. So I would say in that sense, he did not provide us any advice.

Lee: Now this will get more into financial. The same paragraph, the same paragraph where it says – second up from the bottom on page 4 of the March 30 letter where it states, “in light of the advice we have provided to our clients” [meaning Travelers and Citicorp] “they are comfortable proceeding with the transaction, provided you are not uncomfortable with the type of practices outlined above.” Is it your – okay. Would it be fair to say that unless the practices outlined in the letter of cross-selling were not viewed unfavorably by the Board that the merger would not have been announced and would not take place?

Prince: I think there are about 12 “nots” in that. I can’t follow it. I’m sorry.

Lee: Okay.

Welch: The witness has made the objection for me, I guess. I would also note that the question made some assumptions extemporaneously about what was intended in the letter. He jumped from a quote into an interpretation of the quote. But in any event, if we could have –

Lee: Sure, no problem. What practice – when, when. What practices – described in this letter that you say that you’ve seen, would need to be done in order for Travelers and Citicorp to even have announced the combination, as the letter says?

Welch: Respectfully, Your Honor, same objection with the question.

Lee: What is the lett – What is the statement, what does the statement mean when it says, “the merger will only be announced if certain practices are not viewed unfavorably by the Board”?

Prince: Let me –

Lee: This goes directly to the financial, because the merger *was* announced, and yet the letter implies that if certain cross-selling were not permissible, the merger would not have been announced. And now it’s being presented that those practices are actually up in the air and may not be permissible at all. In which case the rationale of the merger falls apart and the strength of the applicant is not there. By their own admi – by the own admission of the letter. This goes back to why I’m pursuing this.

Welch: Your Honor, I guess I would only say that that sounds like a piece of the question and a good bit of argument. I had objected when that argument was made. My only suggestion would be that if we’re going to have questions, let’s have questions. If we’re going to have argument, we’ll do that, too. But, if we could just have a clear question, we’d be fine with that. Travelers has no problem with that.

Lee: You testified that you were involved in the negotiation of the contract.

Prince: Yes.

Lee: In light of this letter, if during the two-year waiver period, no cross-selling could occur, no sharing of data could occur between Travelers and Citicorp, would the combination have nonetheless been done?

Prince: I’m not sure I understand the line of your questions, but perhaps I could just respond for a moment and see if we –

Lee: Sure, I have no objection.

Prince: I think that it is not correct, your presumption that the possibilities of cross-marketing are in danger or in question. I don’t understand that to be the case at all. Cross-marketing is extremely important to us and it’s an important part of this transaction. I would point out, if I may, that Citicorp Assurance won’t be involved in cross-marketing at all. There is no marketing to the public now, there will be no marketing to the public in the future. Now, I don’t know if that moves the ball along or not. Is there a question that I didn’t answer that’s in there somewhere?

Lee: Sure. Yes. If this letter which you say you’re aware of – I guess we’ll go back, we’ll go back –

Prince: I’m still aware of the letter.

Prince: I was aware that he was writing a letter. That is correct.

Lee: The meeting referred to with Mr. Maddingly, did you attend it?

Prince: I did.

Lee: Presumably, Chairman Greenspan did not attend the meeting.

Prince: That's a good presumption.

Lee: In the meeting, in the meeting that Mr. Rhodes did attend with Citicorp, is it your understanding that in the meeting that Mr. Rhodes did attend with Chairman Greenspan, that an indication was given to meet with Mr. Maddingly to, in fact, receive this advice prior to announcing the merger?

Prince: I am not aware of that.

Lee: Is, is, is, on page 4 of the March 30 letter -

Prince: Yes?

Lee: Paragraph, second paragraph up from the bottom - "In light of the advice we have provided our client, they are comfortable with proceeding with the transaction, provided you are not uncomfortable with the type of practices outlined above. While we do not ask for a written response or presentation to the Board or that the Board address this issue in its order, acting upon the application, we ask that you advise us if you disagree with the approach analysis taken above. We will call you Tuesday evening." How -

Welch: Actually, that's inaccurate, it says -

Lee: Okay. I'm sorry, I jumped over two (2) words.

Welch: I think you did. "We ask that you advise us if you disagree with the approach and analysis we have outlined in this letter."

Lee: "This is a very important issue for our client in order to maintain the proposed schedule. We propose to call you Tuesday evening." How do you - I guess, how do - is it your position that the testimony to Congress, because Congresswoman Waters stated - asked whether advice had been received from Chairman Greenspan and a response "no" without qualifying that, that Chairman Greenspan's lawyer had in fact provided advice was an accurate and forthright response?

Welch: I think I'll enter an objection to the question --

Lee: Go ahead. Sure.

Welch: -- as being virtually incomprehensible.

Lee: Okay.

Welch: Subject to that objection, if the witness understands it.

Prince: I'm sorry, I do not understand it.

Lee: Sure, okay.

Meisenheimer: Mr. Lee, I'm failing to see where this is going. Would you try to wrap it up and get to the point as soon as possible?

Lee: Sure.

Meisenheimer: I mean, I'm having a problem following you myself.

Lee: Okay.

Meisenheimer: Okay? So if you would continue and try to wrap it up, and then we'll go to some other questions. We have two other people we'll do.

Lee: Sure. Is, is, is it - would you characterize the March 30 - March 31 letter as, as involving advice received from the general counsel of the Federal Reserve Board?

Prince: I don't think so. I think that the - what we went in to see, uh, Mr. Maddingly about, was to present our proposed transaction and to describe various aspects of it and to describe the legal analysis that we had and that our outside attorneys had given us about the transaction. He said he could not approve the transaction. He's obviously not a member of the Board of Governors. And he didn't express any approval or disapproval of our transaction or the legal

Lee: And no indication was given?

Prince: Not that I recall.

Lee: The first letter says, "we want to know what you think" and the second letters says, "thank you for the assistance." But nothing was said as to what the person thought?

Welch: Your Honor, I'll object to that as an inaccurate characterization of those letters. The letters obviously say what they say, and I don't think the examiner can summarize them in one or two statements and then use that as a predicate for the witness's – to come up with an answer. Subject to that, if the witness understands the question subject to my objection, as far as I'm concerned, he can answer, Your Honor.

Prince: Well again, I'm not sure I understand the question, but let me try to see if we can move the ball forward. As I said before, the meeting of the communication to Mr. Maddingly was to present the transaction and to present our legal analysis. That is, in the course of that discussion, including these letters, Mr. Maddingly neither approved nor disapproved of the legal analysis that we brought to the transaction. I think that we were comforted in our own minds by the fact that we had not received either an approval or a disapproval of our legal analysis. We went into the transaction believing that we understood correctly the legal issues involved. We received good advice. We came out of these discussions believing that. We had exactly the same view of the world before and after.

Lee: Are these type of contacts with regulatory agencies something that you would do now that an application is pending?

Welch: Your Honor, that's one I think I do have to object to on the same grounds. Now we go *beyond* the fed, now we're getting into other regulatory agencies. This has nothing to do with Delaware and this little insurance subsidiary that sits down in the far corner of this chart which only has three (3) policyholders which only insures affiliates and which doesn't sell to the public and whose policies and plans are not going to change. I think we are way beyond – now he's getting into other things even beyond the fed. I think we are too far afield, sir.

Lee: I object. In a way, we're trying to develop what will be on the record and then the Commissioner can make her decision. But we would ask the question and you'll answer it. You'll see whether a company that takes the position that a question about communications with the Federal Reserve Board chairman can be said "no" when the chairman's lawyer giving the advice from our perspective. And that's what we're trying to put in. Umm, that that that when there's a series of letters and clearly communications between the two (2) that will say, all the person said is "thank you for the letter". We don't think it's credible. We don't think that that's – and it's, it's – that that that, to focus on the size of what the – on the size of the company to be bought, and not the, the ongoing credibility and integrity of the applicants. We think it goes in there. And the Commissioner can make her decision on the tape of how she thinks. Then the documents are in there and they can be compared. Again, I mean, that's what I'm say – that's why we're getting it into the record. She can then make – she can then make her decision on it. Also, there are other questions.

Meisenheimer: Well, I'm going to allow you seven (7) more minutes to continue this questioning on this, and then we're going to another area because I'm having problems following you. I'm sorry, but I am.

Lee: Okay.

Meisenheimer: Okay?

Lee: No, no, no. But I also, I mean, I'm doing it as it is – okay. Seven (7) minutes. The – to your knowledge, were there communications with the fed – with uh, the Federal Reserve Board or its senior staff prior to March 30<sup>th</sup>?

Prince: Well, the March 30 letter I believe came out of our meeting with Mr. Maddingly, so I would have to say yes.

Lee: Sure. Yes.

Prince: Every time you ask it, I'm still aware of the letter.

Lee: Between the proposal to share data between Travelers Insurance Underwriting and the banks, were that – what would be the financial impact on the proposed CitiGroup if that were in fact not permitted.

Prince: I don't know.

Lee: Given that the letter implies that the deal would not – that the proposed merger would not have even been announced unless these things were permissible. You don't – you have no idea what the impact of that would be?

Welch: Your Honor, I'll object to that, to the –

Lee: What – he doesn't know? I mean. Okay. Go ahead.

Welch: If I could give my objection that might be helpful. Your Honor, I'll just object to the question as argumentative and as including an improper premise in the sense that it purports to be predicated on some invitation that Mr. Lee sees as being involved with the letter. I think you can ask him about what the letter says, he could ask him about what the letter doesn't say, but I don't think he can predicate his question. Again, we're talking about letters to the fed, now, that's pretty far afield. But I don't think he can predicate his question on his assumption about what it means, that's all. I object to the question on that basis and request that it be rephrased. I would also comment that again, without being tedious, Your Honor, I don't mean to be, but the fact is we are pretty far afield.

Meisenheimer: If we don't get moving along here with direct questions, and then if there's going to be an argument or summation, I'd like for you to do it at the end of this question.

Lee: Yes, sir.

Meisenheimer: You still have the right to object to the questions, but if we get into argumentative statements, then we're going to be here all day. So I'd like you to keep your questions as direct as you could, rather than speculative.

Lee: Sure.

Meisenheimer: Okay?

Lee: Sure. The – turning to the second letter, March 31. The second letter, the second letter references – says – the first letter says we will call you Tuesday evening. The second letter is dated a Tuesday and says, "Thank you for your assistance." Were you a party to the tel – to the telephone conversation referenced in the letter?

Prince: I was not.

Lee: Was the, was the substance of the conversation rela – relayed to you?

Prince: It was.

Lee: What was relayed to you? By whom?

Prince: By counsel.

Lee: What was relayed to you?

Welch: Your Honor, I'll object to the attorney/client advice that that question might raise and conceivably does. Subject to that, the witness can answer.

Lee: Not what advice were you given, but what – to the degree that you seem to have been willing to address these communications with – communications with the Federal Reserve Board, going to the likelihood of the approval of these practices, what would – what communication of Mr. Maddingly was conveyed to you?

Prince: I'm not sure I understand to the extent I'm willing to address these as part of your question. My recollection these many months later of the brief telephone call I received was that Mr. Maddingly had received the letter and had thanked us for sending it in.

Teichman: Sir, I need to interrupt for a minute. Can you keep your voice up so that – you're starting to fade. Just keep your voice up.



Lee: Do you remember the date of that meeting?

Prince: I do not.

Lee: Other than that then, what then – the one meeting with Mr. Maddingly referenced in the letter – are you aware of other contacts between Travelers and the Federal Reserve Board in connection with this?

Prince: Are we talking about the meeting with Mr. Greenspan that I did not attend? I don't recall the date of that, so I don't know whether it was before or after this one. Those are the only two (2) meetings that I know about.

Lee: Are you aware – will you be surprised if, under the Freedom of Information Act, we have, we had received a fax from Skadden Arps outside counsel to Travelers to the fed dated March 24?

Prince: The question is would I be surprised at that?

Lee: Yes.

Prince: No.

Lee: Would you – do you have any idea what that communication involved?

Prince: No.

Lee: Are you aware of any communica – any further communications between Travelers or Citicorp to the degree you're aware of them, and the Federal Reserve Board or its senior staff from March 30<sup>th</sup> – between March 31<sup>st</sup> – from March 31<sup>st</sup> forward?

Prince: After the date of these two letters?

Lee: Yes.

Prince: I'm not aware of any. That doesn't mean that they didn't happen. I wasn't directly involved in that process, but I'm not aware of any.

Lee: Can you describe the process between the March 31<sup>st</sup> confidence that your legal analysis, as you say, your legal analysis was not, wasn't unfavorable to the fed, and the actual announcement of the proposal? Of the proposed merger?

Welch: Your Honor, could we have that question read back? Or I'm sorry, I guess we can't because there's no reporter. But if that could be rephrased – two pieces didn't seem to fit together.

Meisenheimer: Would you rephrase your question?

Lee: Sure. Is it your – I'll change the question. Better yet. Is it your understanding that the March – subsequent to March 31 and prior to April 5<sup>th</sup> when the merger agreement was signed, there were no further communications with the Federal Reserve Board?

Prince: Well I think I've just answered that question.

Lee: Okay.

Prince: Do you want me to restate the answer?

Lee: No, no. No, no. It's your understanding that you're not aware of them?

Prince: That's correct.

Lee: Are you aware – since the applicat – since an application has been filed with the Federal Reserve Board, are you aware of, other than written submissions sent to the parties, communications with the Federal Reserve Board?

Prince: I – there have been a couple of meetings with a large group of staff of the Federal Reserve Board to go over a variety of matters that I have attended. I can recall two (2) of those. I believe those have both been summarized in notes. But other than those two, I'm not aware of any.

Teichman: Mr. Prince, please keep your voice up.

Prince: I said I'm aware of two (2) meetings with a large group of staff with the Federal Reserve Board to go over a variety of matters. I believe that those two (2) meetings have been summarized in minutes. I'm not aware of other communications. That doesn't mean there haven't been any. I'm not directly involved in that process. But I'm not aware of any.

Prince: I am. And I'm also aware of our strong, unequivocal denial of the facts in that allegation.

Lee: And is it your understanding that the facts in that allegation involve not only discrimination in mortgage interest rates, but also insurance issues? Credit insurance?

Welch: It strikes me, Your Honor, that the question is objectionable on the grounds that the examiner referred to the *facts* in that case. Mr. Prince has pointed out that the allegations in that case are something which Travelers denies. I'll object to that characterization to the extent that he wants to ask him about what he thinks the facts are, which he's already done. The allegations have been denied, where the thing stands. He can ask about that. The question was improper.

Lee: No, we're asking actually about his awareness. I mean, we don't object to putting it in that they disagree.

Prince: Thank you.

Lee: Mr. Michener, as -- in your position as Travelers Insurance -- Travelers Property & Casualty, both the National Fair Housing Alliance filing with HUD and the Harris filing with HUD, are you aware of both of them or one or the other?

Michener: I am not aware of the Harris filing, I am aware of the National Fair Housing filing, and I agree with Mr. Prince's comment on it. And the only other thing I would add is that the same time and the same day or two, filings were made against a number of other insurers, so I don't believe that the filing -- the alleged, the allegations in those complaints are really directed at Travelers, they're directed at the insurance industry.

Lee: Actually, I don't want to -- Rashmi?

Rangan: Yeah. Actually, in this matter that is here today --

Teichman: Ms. Rangan, just go ahead for the record and state who you are.

Rangan: Okay, my name is Rashmi Rangan. And Ms. Mary Harris, who I worked with last year to help her file her complaint with HUD, is here today and later on, time permitting, she will testify. Back to some line of questioning that Mr. Lee was conducting, I think my personal biggest concerns and fears are the -- goes back down --

Meisenheimer: Excuse me, but you're making the statement, and we're asking questions.

Rangan: Okay. I will ask questions. On 29<sup>th</sup> of March, you stated that you did not receive or to the effect that you did not receive counsel from Greenspan or anybody else in his office. On May 30<sup>th</sup> -- March 30<sup>th</sup>, you requested categorically stating that unless cross-marketing opportunities were permitted, the merger would not move forward because it is not beneficial to the clients. You asked in that question -- letter, clearly that if we do not hear from you, we will assume that our presumption is clear. Is that correct?

Welch: I'll object to that, Your Honor, on the grounds that I think it isn't a question, it's a series of perhaps four (4) or five (5) questions beyond which it also includes, I think, the examiner's perhaps argumentative point of view with respect to what she thinks the letters mean and the letters say or what was done. It might be better if we had one (1) question at a time asking about specific events, specific situations, so the witnesses can answer it and we can move on. A long diatribe like that followed with a question, "Is that right?" that's a tough one for any witness to handle, and so I object to that.

Meisenheimer: Excuse me. We're going to recess at this point and we'll be back.

Teichman: I'm sorry. We're back on the record. I apologize for that.

Welch: Your Honor, I would simply make the point that number one, our witness doesn't have any problem with testifying about anything that's relevant to these Form A standards. It's not a problem in any respect. However, if you look at this article, Matthew Lee, Executive Director of the --

Lee: That's not what --

Lee: I'm actually going to – I am going to – excuse me, Your Honor. Go ahead.  
[pause]  
Lee: I'm going to turn – Ms. Rangan said that of the 7 minutes, 3 minutes remain.  
Teichman: We're going to go off the record for just a minute.  
Teichman: We're back on.  
Lee: Reserving those 3 minutes, moving to another area. You had testified under Mr. – in response to Mr. Welch's question about the two (2) banks owned by Travelers.  
Prince: Yes.  
Lee: Travelers Bank & Trust FSB, Travelers Bank USA.  
Prince: Still those two (2).  
Lee: In terms of the, the, the uh compliance which was raised on, on, on direct, umm, do you recall in 1997 a finding by the New York Banking Department that commercial credit and subsidiaries were not complying with the Home Owners Disclosure Act in New York state?  
Prince: I don't remember a finding by the New York Banking Department. I remember you raising the issue. And I don't believe Citicorp has anything to do with those two (2) companies. So it may be that the New York Banking Department found something, I don't recall it. I remember the issue coming up.  
Lee: Do you –  
Meisenheimer: Mr. Lee, would you tell me –  
Lee: What the relevancy is? Compliance. They raised on their – they, they, they put into the record that that, that the applicant, Travelers Group, has a compliance program and a compliance culture, has never had a license removed, so I have a series of a few – it's a few, it's a few questions that we think are inconsistent with that.  
Sullivan: That was the testimony –  
Teichman: Sir, let me interrupt you. You made a couple comments – who are you, sir?  
Sullivan: My name is Bob Sullivan, from Skadden Arps representing Travelers.  
Teichman: Thanks.  
Sullivan: I think the hearing testimony of Mr. Michener reflects that the question asked by Mr. Welch was, "Has any Travelers Insurance subsidiary license been suspended or revoked?" Not as Mr. Lee has just characterized as any license by Travelers Group or its subsidiaries.  
Lee: That wasn't the question. There was a question, I think, to Mr. Prince about the banking subsidiaries of Travelers. I guess, identify – we have to presume that what you asked, that what you put in you believed was relevant. So we ask questions about it.  
Sullivan: Yes, but the question went to –  
Lee: Right.  
Sullivan: -- Mr. Michener that you referred to was, "Did any license of any of the Travelers Insurance subsidiaries, have they ever been suspended or revoked?"  
Lee: Right.  
Sullivan: The answer is no.  
Lee: Right, no, no, I did remember that.  
Sullivan: Just for clarification.  
Lee: Mr. Prince, are you aware of a filing for insurance redlining by the National Fair Housing Alliance with HUD concerning Travelers Insurance?  
Prince: I am, and I'm aware of our strong, unequivocal denial of it.  
Lee: Are you aware of the status of it?  
Prince: I believe it's not moved since then. I believe it was filed, we answered it, and I don't believe HUD has taken any action on it since.  
Lee: Are you aware of a racial discrimination filing with HUD by Mary Harris concerning Commercial Credit in the State of Delaware?

Meisenheimer: Mr. Lee, that is an assumption. I want you to move on.

Teichman: And before you do that, Mr. Prince, can I ask you to move the seat closer to the microphone?

Prince: Sure.

Teichman: Your voice tends to trail off.

Lee: More substantively on that point, as it goes to whether or not the proposed CitiGroup will be – will, will, will in fact be allowed to cross-market during the two (2) year divestiture period or further, is it your understanding that the four (4) in – in Exhibit #1, the March 30 letter, the four (4) numbered points combining and bundling products between Citibank and – Citicorp and Travelers, doing relationship pricing, tying the pricing of insurance products to a banking relationship, sharing the databases of the insurance company, including health insurers and the banks, and finally providing a single consolidated bill between banks and insurance companies. Is it your understanding that the Federal Reserve Board – that, that general counsel Maddingly has stated that those practices are consistent with, with not having an unfair competitive advantage and being able to divest the business.

Welch: Let me object –

Lee: That's – it may be long, I don't think it's unclear.

Welch: Your Honor, a couple of points. Number one, it is extraordinarily long. Number two, more importantly, he's injected four (4) new issues relating to cross-selling by insurance subsidiaries and banking subsidiaries other than Citicorp Assurance. Again, the proceeding here is Citicorp Assurance. Citicorp Assurance doesn't sell to the public, it's only got four (4) – three (3) customers, rather, it doesn't intend to sell to the public. Nothing's going to change. He's talking about a whole series of different companies that have nothing to do with this transaction. With apologies, Your Honor, I feel compelled to point that out and to make that objection. Now, if the witness understands the question, and he can add something – as far as I'm concerned he may answer. But the line of testimony is just way far afield.

Meisenheimer: One question, go ahead. But you've got to get to the point.

Lee: I'll say this now, in, in the nature of it – given, and I don't know if, if we'd submitted this letter earlier, that's why I don't want to go on. The key quote from this letter, we find, is – and this is why it goes to the financial strengths of the proposed acquirer – is this. From page 4 of the March 30 letter, second to the last paragraph. "In light of the advice we have provided to our clients" [i.e. Travelers and Citicorp] "they are comfortable proceeding with the transaction provided that you are not uncomfortable with the type of practices outlined above." From that we infer that the CitiGroup combination, which will be the proposed acquirer and controller, Citicorp Assurance, is dependent on being able to do these practices. That's why they're relevant. It goes to the prospective financial strength of the acquirer. And that's why – the letter says it, the letter says we are comfortable combining the two (2) companies, which is what this application is all about, only if these practices will be permitted. And I named the four (4), that's why it was a lengthy question. The practices being the sharing of data between insurance companies and banks, the bundle – the tying of pricing between insurance companies and banks, -- the point is not whether or not Citicorp Assurance is going to tie its practices, although it could. It may only be a captive insured now, but it's chartered to do a full line of P & C and can at any time. And there's no representation in the record that they will not immediately after, after – if there were an approval, being doing so. So it seems a fair thing to explore at this time. But I – I honestly – I believe that in light of the sentence which is not – you know, it's not – it's from senior outside counsel to the Travelers Group stating to the Federal Reserve Board they are comfortable proceeding with the transaction, i.e. merging Citicorp and Travelers. This letter is written before the deal was even announced. If you, the Federal Reserve Board, are not uncomfortable with four (4) sets of things. And so we're exploring whether in fact they've been given any assurance of

Welch: If I could finish my objection if it's all right, sir. Is using every means possible to derail the Citicorp Travelers Group merger. Mr. Lee asked the Federal Reserve Board to fill out the application. Uh, if the fed refuses, Mr. Lee has asked several other regulators to recuse themselves. It's thematic that Mr. Lee's opposition to this transaction and perhaps a whole lot of other merger transactions, I don't know. Our witness will answer any questions Your Honor thinks are appropriate, but I don't see that this is substantive evidence of anything. I don't think it'll come in as substantive evidence. Subject to that, we don't have any problem with the witness answering any questions.

Meisenheimer: Mr. Lee, would you explain?

Lee: Sure. I mean, I guess it almost goes directly to – in the earlier testimony, I asked Mr. Prince what was his understanding was said in the telephone conversation between Mr. Maddingly and Travelers counsel between the March 30<sup>th</sup> and March 31<sup>st</sup> letter. As I recollected, Mr. Prince said all that was said was, “thank you.” He thanked them for the letter. And this article reported by a respected banking trade paper on page 3, full paragraph 3, says, “during that call, Mr. Maddingly said, he told the lawyers the cross-selling plans should not interfere with the divestiture requirements or give the company an unfair competitive advantage.” Which is quite different than “Thank you for the letter.” And that's what Mr. Maddingly said. Unless there's some idea that Barbara Reem, 12-year banking reporter, made up the quote from Mr. Maddingly, either Mr. Prince – they're inconsistent. Does Mr. Prince stand by

Meisenheimer: I'll mark that as an exhibit and then I'll let you start with your questions.

Lee: Okay. In fact I've even asked the question. And now I'll ask it again. Mr. Prince, if I recollect this morning before the break when I asked what was said in the telephone conversation between the March 30 and March 31<sup>st</sup> letter, Exhibits 1 and 2, you said that what was said was, “thank you for the letter.” In Exhibit #4 just introduced, full paragraph 3 on the third page, it is an article by Barbara Reem of the American Banker, it states during that call, Mr. Maddingly said he told the lawyers that cross-selling plans should not interfere with the divestiture requirements or give the company and unfair competitive advantage. Is it still your position that what was said in the call was, “thank you for the letter”?

Prince: What I testified to this morning was what the lawyers told me. And I stand by that testimony. What you're pointing to is a comment that supposedly Mr. Maddingly told the lawyers. You're missing the middle part of that. You're missing the middle part of that. Now, I have heard our lawyers tell us that it's very important, coming to your point on Maddingly's comment there, that our cross-marketing plans ought not – we must make sure they *do not* interfere with the ability to divest the insurance companies. If that quote is accurate, then that may be where that came from.

Lee: But it remains your testimony that you're aware of both letters and that what was conveyed to you after the communication that followed the March 30 letter, all that was conveyed to you was, “thank you for the letter.” And on that basis, the merger went forward.

Prince: I'm not sure how to answer that question. I stand by my testimony this morning. Is there a different question that I've missed?

Lee: You stand by – you also stand by the testimony that that was the last communication you are aware of with the fed and following that, the merger was announced?

Prince: If I can, make sure you recall I said I wasn't personally aware of any other communications. There may have been some. You remember I said that? But I'm not personally aware of any others.

Lee: You also testified that you were involved in negotiating the agreement presumably in reaching the final agreement.

Prince: Indeed I was.

Lee: So it would be reasonable to assume that if there were –

that, that – that this is central in any way. The Form A is informationally incomplete. Provides a superficial analysis and is incorrect. We dispute whether they would be able to hold it for five (5) years and we think that goes to the financial strength of the company. We were hoping to receive – the problem is that we received answers – this is why we asked for discovery – we received answers that have been, I never knew we were going to cross-marketing from the head of insurance. We've received answers where we didn't – I don't know – I'm not saying you're not, I mean –

Meisenheimer: Mr. Lee, what you're doing is making an argument here. You're going to have a time to give your testimony, and that's what I would like to move on towards.

Lee: I guess that I was noting that we object that it would have been more useful to us to have the actual – as you noticed in our first question after the break, what was said by –

Teichman: I think, Mr. Lee, the Hearing Officer has made a ruling with respect to your –

Lee: Okay – we thoroughly object that neither of –

Teichman: Mr. Lee – there will be ample opportunity – Mr. Lee --

Lee: -- that neither author of the two (2) letters, Swede and Sabel, were here, because no one else can answer what was said, apparently.

Teichman: Mr. Lee. Everybody will have an ample opportunity to make arguments to the Hearing Officer when the testimony is complete, when all the evidence is received. Once the Hearing Officer makes a ruling, and he tells you that he wants to move on, that means that he needs to move on.

Rangan: I have a few questions and anyone can actually answer. But to begin with, how many of you are here today?

Meisenheimer: What's the relevance of that?

Rangan: How many of your legal counsel is here to defend against two (2) community activists? It's a question that I'm quite interested in knowing what are we pitted against, how long is the \_\_\_\_\_. If you don't wish to answer, that's fine.

Welch: The only person speaking on that today, Your Honor, as far as I'm concerned, is me. I've made the objections that I think are appropriate, and by and large, I think we've had the witnesses answer questions, and I fail to see the relevance of doing a head count on whose in the room.

Meisenheimer: We have the register of attendees here, which you're perfectly welcome to have a copy of.

Lee: Great.

Rangan: Also another question. Was Citibank Assurance Corporation chartered to and is empowered to other property and casualty insurance, including to the general public in Delaware?

Prince: I'm sorry, I didn't hear the first part of your question.

Rangan. Okay. Was Citibank Assurance chartered to and is it empowered to other property and casualty insurance, including to the general public in Delaware?

Prince: I don't know the answer to that. I assume it's a matter of public record.

???: I would suggest that Ms. Mulholland answer that question.

Mulholland: Yes, and the answer to the question is yes.

Rangan: Thank you. It has also been stated time and time again that Citicorp Assurance Company basically does only captive insurance. Exhibit #4 of Exhibit #1 states "Citicorp Assurance Company has directly written 901,000 policies and has .898% of the market share." I just need some clarification and explanation.

Mulholland: Perhaps I can clarify that. That is –

Teichman: Ms. Mulholland, could I get you to come around so that we can get you on tape?

Mulholland: In answer to your question, the 901 is dollars and the – that is the contractual

being able to do the four (4) things. Because in fact if they haven't, the financial strength of the proposed acquirer is in question and needs to be further examined. If they admit it sure, that's then – well it's inconsistent with the prior testimony but at least it'll show something.

Welch: Your Honor, it's a lot of argument. It's a lot of rhetoric. I think what it really does is highlight the first sentence of this letter that Mr. Lee puts in. Matthew Lee, this will make an argument, Executive Director of Inner City Press, is using every means possible to derail the Citicorp merger. This stuff has nothing to do with this Delaware proceeding. Now you've got a company like Travelers, multi multi-billion dollar situation, assets, the whole thing. It's as strong of a financial vehicle as you can imagine. Sure, cross-selling, it's got some – there's some opportunities to it. The fed can do what the fed is going to do. Nevertheless, the theme here, the key theme is Matthew Lee is going to use every means possible as his exhibit points out to try to derail this thing. Subject to that objection, I do find no objection as far as I'm concerned and the witness can answer.

Lee: We don't dispute that we object. The facts that we are opposing in other forums have – doesn't make the question less relevant or not. It goes directly – their own letter to the fed, unless the letter to the fed wasn't true. It says they feel comfortable going forward provided you are not uncomfortable with those practices. It is a totally fair inference to say if you're not allowed to do the four (4) things, they are not *comfortable* with the transaction and they wouldn't *do* the transaction.

Meisenheimer: Do you have any other questions?

Lee: No, I, the question – I, it's still – it remains up in the air. He said you don't object to him answering – I can rephrase it, I can ask it –

Prince: We don't.

Lee: Okay.

Welch: As far as, Your Honor –

Meisenheimer: Let's wrap this up.

Prince: I thought I heard four (4) questions in there. First, I would disagree with your characterization of the four (4) points, but they are what they are in the letter. You asked whether or not *not* being able to do cross-marketing would somehow implicate the financial strength of the company. I think that was the basis of your question. I think as we've gone through and looking at some of the exhibits of the financial size and strength of the company, cross-marketing is an ability for the company to do more. But the notion that if we were not permitted to do cross-marketing, that somehow the financial strength of our company would be called into question, is I think with respect, silly. Just silly. Another question you asked was whether or not, when we said in the letter we were comfortable proceeding, provided you, and you said, meaning the Federal Reserve Board." That's wrong. This is not addressed to the Federal Reserve Board, it's addressed to Virgil Maddingly. The fourth question I heard in there was had we received any assurance on the cross-marketing? And the answer to that is no. I don't know if there are any other questions in there, but those are the four (4) I heard.

Lee: I guess what I – what – given what the letter says, that the two (2) companies are only comfortable proceeding with the transaction of the proposed merger if the general counsel of the Federal Reserve Board, chief legal officer that advises the Board on the permissibility of activities, is not uncomfortable with it, it doesn't – we believe that the application – do you – you were involved in preparing the Form A, as you said earlier.

Meisenheimer: Mr. Lee, I want you to wrap this up. I just – please wrap it up. Because you've read that paragraph about six (6) times now. And I think it's time to make your point. You ask your question, you get your answer, and we move on to something else.

Lee: I guess, you know – if you want to know what the point is, the point is this is not in the app with the Form A. The Form A describes the overall merger without stating that this is –

Michener: My testimony, and I think the testimony of others is that we have no current plans to change the operations of the company.

Lee: But there is, there is also no – the company could do it. There is no commitment being made in the record to the Department that that will not take place.

Michener: I can't testify to what could happen. I can only tell you what the facts are. The facts are that we have no current plans to change the operations of the company.

Lee: Exactly. I'm asking not what the plan is, but whether any representations are made. Number two, is – and is, is, are you representing that, that, there – that, is Travelers committing into the record that if it were allowed to acquire Citicorp Assurance that Citicorp Assurance would not be merged into a Travelers insurance company for any committed-to length of time? Two (2), five (5), or is it simply, are you – is that a commitment that is being made or is it simply a statement that there is no plan at this time?

Welch: That's about four (4) questions –

Meisenheimer: Stop.

Welch: Sorry, Your Honor, but subject to that, if the witness understands and wants to answer the question, I have no objection.

Michener: We have no plans to merge the company in with any other companies if – I just know from my general experience in the insurance business if plans such as that were developed, we would have to go through a process similar to this in the future. It would require regulatory approval and would have to go through that process.

Lee: Does that apply to the, to the first question about writing property/casualty directly to the public? Would you have to apply for, for, regulatory approval or would you just do it?

Michener: I don't believe we'd have to apply for regulatory approval to do that.

Lee: And then the third question is, is financial in nature. And it involves either by, either by projected earnings or by percentage of projected earnings, what impact does Travelers believe it would have to not be allowed to engage in the four (4) practices described in, in Exhibit #1 during the two (2) year waiver period.

Welch: Objection – clarity?

Meisenheimer: Could you clarify it, please?

Lee: Sure. That, that, that given – it was described that there was a due diligence made, it's been described that the deal is well thought-out. What, for the record, what would be the financial implication of – since there's no assurance that these things – that, that, that – these practices that were described as being important can be done, whether there is any way whether Travelers in its due diligence in thought about the merger calculated in any way the result on earnings or financial strength as you define it of not being able to do – not being able to cross-market, and in fact, divesting insurance underwriting in two (2) years.

Meisenheimer: Do you understand that question? Because I don't. I'm sorry.

Lee: Okay, I'm assuming –

Meisenheimer: Would you rephrase it one more time, please?

Lee: Okay. Okay. I'll rephrase it, you're right. Let me not . . . A representation has been made that the company is strong and will be a benefit to the policyholders. What provi – what estimate has Travelers reached as to financial strength if it is in fact required to divest its insurance underwriting business two (2) years after a prospective Federal Reserve approval?

Michener: The question of the impact, the financial impact on the combined company with divestiture is one that has not been calculated. I think that analysts have looked at those figures and have made rough calculations based upon published figures. The company has not done that because the company doesn't know what form the divestiture would take. The published reports that I have seen have suggested it might impact 10% of our combined earnings. But again, those are a third party's, those are not ours. We have not made that calculation.

liability insurance that we sold directly to Citibank North, N.A., the New York bank.

Rangan: Does any other insurance company offer the same protection to the same subsidiaries of Citicorp? I don't understand the market share of .898%. Where is that derived from?

Mulholland: Okay, that other liability is a line on the annual statement. The NAIC adds up all the lines and gets a total premium written for each line of insurance sold in the property and casualty field. That's the miscellaneous line that includes anything that doesn't fall into vehicle insurance or such things. Under other liability, our debt cancella – our contractual liability for the debt cancellation is reported at \$901,000. The annual premium.

Rangan: And the percentages are percentage breakdown of all of your loans, is that is?

Mulholland: No, not at all. It has nothing to do with loans. The \$901,000 is less than 1% of that total line of insurance as reported to the NAIC.

Prince: By all insurance companies in the state.

Rangan: Okay.

Mulholland: No, I think in the country.

Lee: Why is this – why is this listed under Citicorp Insurance? Are these policies written by Citibank, N.A.?

Welch: Your Honor, I have no objection to the question, but I think we're getting into a free-for-all here where we've got person shooting questions and another person jumping in. The indication was that we'd follow standard trial procedures, and I'll object on that basis.

Meisenheimer: Sustained.

Rangan: I still need – I'm sorry, but I cannot understand, umm, the percentage breakdown.

Michener: Why don't I take a shot at answering this question? I think I testified to it earlier. These are the numbers that are indicated on Exhibit #4 of Exhibit #1 are dollars and they're in thousands of dollars. So if we start at the top – well, let me start even further. The source of this data is shown on the bottom of the page and is based on data from a company called One Source. And they collect, they are one of the organizations that collect data on premiums written by insurance companies countrywide. So in Delaware, for 1997, I believe, the entire industry, if you add up all the insurance companies in Delaware under this particular line of insurance, it will be \$100,300,000. That's the top line. The next line is if you take all of the current Travelers Group subsidiaries that write this line of insurance in Delaware and add up their premiums for 1997, you'll get \$4,240,000 and that works out to be 4.227% of the entire industry. And to keep going, Citicorp Assurance, their premiums were \$901,000, their total – their percent of the total was .898%, so less than one percent. So finally, you add, just adding up those numbers and those percentages after the merger in this one particular line of insurance, I keep pointing that out, the total will be \$5 million – or would have been in 1997, \$5,141,000 with a market share of 5.125%.

Rangan: I think I understand it, thank you very much.

Meisenheimer: Do you have any rebuttal to the question?

Welch: No, Your Honor, we don't at this time.

Meisenheimer: I think at this point, then, I think we're ready for your testimony, Mr. Lee.

Lee: We have a witness who's been waiting.

Teichman: Let's just go off the record for a minute.

[pause]

Teichman: Okay, we're back on the record. It's about quarter to 2 in the afternoon.

Lee: Mr. Michener, is Travelers representing that Citi – that if it were to acquire Citicorp Assurance that it would remain a captive insurance company and not write property/casualty insurance to the public in Delaware or elsewhere?



Lee: Well, you said it depends on the form the divestiture takes?

Michener: Is this the fourth question?

Lee: It's a -- well, I find it hard to believe --

Meisenheimer: One last follow-up question. This is the last question.

Lee: Sure. So, well, I guess it's your testimony that Travelers does not know what the financial impact would be if legislation is not passed allowing you to keep insurance underwritings?

Michener: I think that's the same question, and I would stand by my answer.

Teichman: Before the witnesses are excused.

[pause]

Meisenheimer: There's just a couple things that we would like to clear up for the record. Number one, Citicorp Life is not a Delaware company as far as, you know, the hearing today. It may have been a little bit confusing for the record, so we just wanted to clear that fact up. And number two, we wonder if going down the road, if HRT does not pass in the next few years, will the company have to divest itself of its insurance? Have you thought about that?

Teichman: Again, that might be information that's sort of up to you, if you want to -- if all of you want to address that more, that's more of a legal argument as to why -- there was a statement made earlier that Citicorp Assurance -- even if the federal banking regulators required down the road that this deal be unraveled that Citicorp Assurance would not be an entity that had to be divested from CitiGroup. Umm, that's probably more a legal argument that you might want to address in closing, or however you wish to do it. . .

Welch: Well, that's fine. Mr. Prince's testimony did anticipate that, so umm, why don't we direct that question to Mr. Prince and let him respond to it?

Prince: I frankly don't have anything to add to what I just said. The federal banking laws draw distinction between various kinds of insurance, and I understand that the kind of insurance that is written by Citicorp Assurance is not prohibited and that we would not be, of course, under any circumstances to divest Citicorp Assurance. So I don't have anything to add to that, if you wanted a further analysis of it we'd have to do that supplementally.

Meisenheimer: That'll be fine. Okay, we're ready for your testimony.

Rangan: May I present a witness? This witness is a Delaware resident, has experiences with one of Travelers subsidiaries, and we want to bring to light that issue of competence, experience, integrity, of the acquirer and both Matthew Lee and myself are very familiar with this case and we want to help our witness along so that she can present her case to the hearing today.

Meisenheimer: Look, I'm trying to see the relevance of this. Where do you think it's -- ?

Rangan: Uh, Ms. Harris had experience with, uh, Commercial Credit, a mortgage loan through them for placed insurance, very high credit insurance. A complaint had been filed with her, we still do not know the outcomes of it, but we are addressing basically, uh, the issue of competence, experience, integrity of the acquirer to show that Delaware residents *have* been impacted, uh, there is a, umm, this merger is hazardous and, uh, prejudicial to the Delaware public.

Meisenheimer: I will allow this for a short time. We'll see where it goes. If I don't see where it's going anywhere like some things that we've done the first part of this morning, then I'm going to just --

Rangan: Basically, this is not a question and answer, we are just helping Ms. Harris, who has never had an experience to present in this kind of setting, along with her story.

Welch: Your Honor, may I speak to that for a moment?

Meisenheimer: Sure.

Welch: We understand Your Honor's ruled about Ms. Harris speaking; however, Your Honor has also ruled that Ms. Rangan and Mr. Lee are not entitled to appear here as counsel. They are not Delaware lawyers and they ought not serve in the capacity as Delaware lawyers.

Welch: And the fact that HUD has not responded already we think is significant. So we would object on a substantive basis to that just to preserve the objection. And we understand Your Honor's ruling.

Rangan: Uh, if I understand correctly, I just introduce her, she is able to testify. She does not come prepared with a written testimony, but if there are points that are critical and she misses them, can I mention them or no?

Meisenheimer: No. It's her testimony.

Rangan: Okay. Ms. Mary Harris.

Teichman: Ma'am., do you have any objection to taking an oath?

Harris: No.

Teichman: Ma'am, will you raise your right hand? Ma'am do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Harris: I do.

Teichman: And please state your full name for the record.

Harris: My name is Mary Ellen Harris.

Teichman: Thank you.

Meisenheimer: You may proceed.

Harris: I want to thank you for this afternoon and for giving me this opportunity to speak my heart concerning a problem I had with Commercial Credit. I had received – in 19 – between 1996 and '97 I had received a flier in the mail, and um, that flier represented Commercial Credit, and as many of us receive fliers today, it's a type of advertising, advertising Commercial Credit, what they can do for the customer, for their customers, or, you know, their business. How they can help you if you're in trouble with a financial loan or anything. And during the time when I went, I only went for like a small amount of money, and umm, I was coaxed into a, a large sum of money, uh, plus a home equity loan. And uh, which I didn't understand a whole lot about it then. And when we, we took out the loan, uh, they charged us \$8,000 for life insurance. And it wasn't even the whole term of the loan. And uh, I was beginning to find out some things about Commercial Credit further on when we took the loan out further on in the course of paying them, because when I went to pay a bill, it seemed like, uh, when I went to pay a bill it seemed like for about six (6) or seven (7) months into the loan that, umm, none of the monies that we were paying in was even going on the loan. And I had a question on that which they became snappish and they kinda avoided me with their answers. You know, I want to know that we didn't see our money being put into the loan, and uh, you know why wasn't there some subtraction. All right? We also decided to look into some of the paperwork. It was some things that we had a problem with that uh, some places was blank on the paperwork, and they were not filled in until after, after we had, ummm, came to pick up, uh, you know, the money for the, uh, loan. And umm, also, umm, they charged us \$1,800 on top of this \$8,000, \$1,800 for one year's life insurance when I, we decided to, umm, we decided to uh, let Commercial Credit go and go, you know, go and get help from another loan company, because we just wasn't satisfied with what was going on there. We wasn't happy with what was going on there. And umm, we thought that was a awful lot of money. You know, when you figure it out, about \$9,000 some dollars and we're just low-income people, and umm, they never deducted that. They didn't want to deduct that monies from the payoff balance when we went to another loan company. They still kept the, kept the, kept that, uh, total amount of money on the uh, the payoff figure. And umm, you know, we trusted, we trusted them. And those bills that we had was just like small, were small bills, and when they got done, I mean, they added so many things on that it made a large group of money and which, which was hard for us to pay it. Because, umm, uh, you know, like I said before, we're a low-income family and uh, you know, we pay our bills, and I work every day. My husband does, too. And umm, during the time I was taking care of my parents. My father's a cancer patient and my mother had her legs amputated,

They are not authorized to practice law in Delaware, and one thing is for sure, and that is that putting a witness on and doing a Q & A, even an informal one as she's chosen to characterize it, that's practice of law in Delaware. And that's not something they ought to be permitted to do. Now, we don't object, since Your Honor has ruled on the question, we understand that ruling has happened with Ms. Harris making that statement as a member of the public, that's fine. However, we do, and beyond that, we obviously we would want to put it into perspective at a later time, perhaps after this statement's been made. But we do object to them acting as lawyers here in Delaware where they're not qualified to practice. Secondly, by the way, Your Honor, it's a little bit off the topic, but Mr. Prince and Ms. Mulholland have completed their testimony. Mr. Prince has an appointment down in Washington, D.C. If it's acceptable, Your Honor, we'd like to allow him to be excused at this time.

Meisenheimer: Is there any objection.

Lee: For the record, we do object. Because I can imagine -- we only stopped -- we stopped questioning because you ordered us to stop questioning. But we didn't agree -- our questions weren't finished. We don't think that the issue of the financial impact on the acquirer of the passage or non-passage of HR 10 has been answered. He answered it as to we wouldn't have to divest Citicorp Assurance Group, but the, the, we think that that should be explored more. I think, I think the question that you asked wasn't only about would you have to divest Citicorp Assurance, would Travelers Group have to divest all of its insurance underwriting if HR 10 doesn't pass? And that goes right to the financial question that wasn't answered. So we have more questions for Mr. Prince. I -- we don't want to tie him up, if we can keep asking him now, we'll finish this as quickly as we can. But we have more questions.

Meisenheimer: It goes noticed that you object. And he can be excused.

Welch: Your Honor, we appreciate that. And back to the other point which is where we started discussing, we, if Your Honor is going to allow Ms. Harris to speak, she ought to make her statement and we respect her right to do that, but we don't think these individuals here ought to be serving as lawyers in Delaware where they're not admitted to practice law. So subject to that, --

Meisenheimer: That was part of the ruling that we handed out, so . . .

Lee: Her participation pro se means that she could only -- if she testifies, --

Teichman: Let's go off the record for just a minute on this.

[pause]

Teichman: And we're back on the record, it's 2:00 p.m.

Meisenheimer: I will allow you to introduce her, but you will not be represent, or if we feel that at any point that you're coaching or representing then we're going to cut the testimony.

Welch: Your Honor, anticipating the testimony as well, I will make the following objection, and that is, and I think what we're going to hear about today is a personal grievance that Ms. Harris had with Commercial Credit with one (1) branch manager problem that she ran into which has been heard and is being presented to Housing Urban Development. And I think what they're asking Your Honor to do now as Hearing Examiner for the Department of Insurance is a lot like what they asked you to do this morning. This morning they said step into the shoes of the fed and resolve issues before the fed that we've been ventilating there. Now what they're saying to you is, we've got a personal grievance, it's one that is to a certain extent --

Lee: Is that an objection or an argument?

Welch: That's an objection.

Lee: Well, it's kind of a long one.

Welch: It's an objection. The point is that this is exactly what we saw this morning in terms of them asking Your Honor now to step into the shoes of HUD and to, and to resolve a personal grievance that's before HUD --

Lee: What is the objection?

making our voice known. You know, things that we were disagreeable with. And uh, so that, you know, we had to go to another loan company and that meant, you know, extra this and extra that to, to get away from Commercial Credit, you know. To get away from them and uh, and the problems that they, uh put on us. So uh, and this didn't help us any, either. You know, we just had to go through another loan company and, and the like. And the paperwork was shoddy. The paperwork that they did was shoddy uh, to Commercial Credit. Because it was, uh, and like I said on the loan, it was uh, some of the things we did not even see on there and we didn't see until we come back to pick up the loan papers itself. The blank spaces was on there and I bought cars or got cars and things before and they handled it a whole lot different than that. And, you know, like I said, if it wasn't right, believe me, I wouldn't be here.

Meisenheimer: But you do have a formal complaint into HUD which has not been decided as yet?

Harris. Yes.

Meisenheimer: Thank you very much.

Harris. Thank you.

Meisenheimer: Would you like to mark that as –

Rangan: It would be my exhibit. I would be happy to –

Meisenheimer: Are there any objections?

Welch: Uh, no, Your Honor. Subject to the ones we've already made, I have the same objections, but that'll be it.

Teichman: We'll identify it as Rangan Exhibit #1 for lack of any better method of identifying it. It's a 2-page, appears to be a 2-page letter, apparently written by Ms. Harris who just testified. Mr. Hearing Officer, I take it it's your wish to move this into the record?

Meisenheimer: Yes, it is. So moved.

[pause]

Meisenheimer: Would you like this to be an exhibit?

Rangan: That's fine.

Meisenheimer: Please mark this as Rangan Exhibit #2.

Teichman: It's marked as Rangan Exhibit #2. It appears to be a 1, 2, 3, 4, 5-page, uh, written summary of uh, what I assume is Rangan's testimony.

Meisenheimer: Any objection?

Welch: Uh, Your Honor, I haven't been able to get through it, I can take –

Meisenheimer: Would you like to take a minute to do it?

Welch: Why don't I do that?

Teichman: Okay. Let's go off the record then.

[pause]

Teichman: Okay, we're back on the record and it's 2:20 p.m.

Welch: Your Honor, we do object to this. This is a – it looks like a kind of a mixed bag of legal argument. Of course, we pointed out already that Ms. Rangan is not in the position to practice law in Delaware or before this proceeding. Her views with respect to various policies of the law and the community in general as far as I can tell, beyond that rumination and speculation on her part about the intentions of the acquirer, beyond that the intentions of CitiGroup, how she can possible testify on a first-hand knowledge basis of any of that is absolutely baffling. And beyond that, I don't see any reference in here – maybe there *is* one, we've had to go through it fairly quickly, I don't see any reference in here whatsoever to Citicorp Assurance. I mean, Ms. Rangan made clear that she publicly opposes the Travelers/Citicorp merger. She opposes a lot of mergers – it's very clear from the public record. When a merger is proposed, they'll consider a challenge and not undertake one. But this seems to be nothing more than a reflection of that. I don't see anything in here that's relevant to the Citicorp Assurance transaction and the Form A

and umm, you know, we really couldn't afford a lawyer. And umm, you know, to look in, to help look into these things. So, uh, that was one of the reasons why, uh, I was told to contact this lady by the name of Rashmi. And umm, you know, to see if uh, you know, if they could help. And uh, we just didn't realize the overcharges and the, a lot of things that was added on to make a large bill when uh, in other words, we almost paid, we would have been paying almost three (3) times as much back, rather than for uh, we would have almost been paying about three (3) times as much back for one particular bill that should have been, uh, half that much. And umm, you know, in other words, I'm saying the balance was greater than really what it should have been. You know, we knew at that point that it wasn't very fair. And to me it was like a target against, I mean, toward black people, because most time when I went down to pay bills, it was about all you saw was minorities there. And uh, you know, it just makes you wonder, you know, who the people that were figuring up these things, were they really figuring them up right? You know, the bills and things up right. And uh, were they right in the things they were doing dealing with insurances and uh, adding on a lot of extra things on the umm, on the loan itself when they were making them out. Umm, years, a lot of years was added on to that loan because of that. And a lot of years was put on my husband and I because, it was, you know, it was really hard. Because we went to them for help, and it was like they, they did a lot of things unfair to us. And it, you know, it's really made it hard, you know on us. And like I said, I couldn't afford to hire, you know, some big time lawyer or something because, you know, working every day and I was trying to take care of my parents and the like, we have children, four (4) children and it wasn't that easy. You know. And my husband doesn't make a great deal and I don't, don't either. But umm, this is part of my story that I just want to let you know, because if they were doing something that was not right, I think somebody needs to look into it because it probably didn't just affect me, but other people, a lot of other people might have been affected through this, uh, through this company, Commercial Credit. And maybe they were, you know, ripped off, you might say, or whatever. Maybe – maybe not some of you, but uh, maybe if you kind of take a look around and maybe look into the records or whatever, then maybe you might come up with some information, uh, some questions on how they do their business downtown Commercial Credit. And I'm just, uh, ordinary person from Delaware and I just want my voice to be heard because I don't want nobody to go through what I went through, cause I, I've just been a nervous wreck. You know, my husband and I was, you know, trying to pay bills and, and that sort of thing because of the load they put on. I mean, say if you went to borrow \$20,000 and before you got out of there, I mean, you come out with a \$80 or \$90,000 loan, uh, I'm not a mathematician, but something will tell you that something's not right. Or if they're not putting – applying the proper monies to uh, to that bill like it's supposed to, and uh, then something is not right. I mean, they – we were coaxed into that, we were coaxed into that. And that to me was like, you know, the more, the more they could put on there was, you know, the more money we would have to pay. The more things that were put on there. The more we would have to pay. And that's not right. I just, I, you know, it was not right. It's not fair.

Meisenheimer: Thank you very much. Do you have any questions.

Welch: Uh, no Your Honor, we don't. The only comment I would make is that I understand that the matter is pending before HUD, that Ms. Rangan and Ms. Harris have made their views – have made their views clear to HUD. And that it's being looked at. That the company has denied the allegations, obviously there is no suggestion here for a moment that this is any kind of pervasive practice, or even if it were true, which we deny that it was, but one situation involving one branch and one individual and it's all before HUD. And again, subject to that, I have no questions.

Harris: Your Honor, I'd like to just say one more thing. Because of that, we had to, when we closed the loan out with them, uh, they was still beginning to want to try to add things on for us to pay because it was like they were angry with us for cutting off, you know, cutting off and

procedural matters? How is the public interest served when no budget, mission-driven, non-profit advocacy organizations who are most ably represented by their directors and boards must retain legal counsel? How *is* the public interest served when the non-profit organization does have pro bono out-of-state legal counsel but remains unqualified to participate because of further restrictions imposed on the organization to retain a Delaware lawyer? How is the public interest *served* when the individual, and in this case I am talking about myself, who represents an 11-year old, locally, regionally, and nationally recognized organization at the forefront of bank mergers challenging these mergers, testifying before the banking regulators, driven by its mission to ensure equal access to credit and capital for the underserved populations and communities throughout Delaware is found to have a minimal interest in these proceedings? I present that my personal interest in these proceedings and my organization's interest in these proceedings is far from minimal, and I submit into evidence Rangan Exhibit A which summarizes my credentials, and I apologize, it's a copy from a grant application I had made.

Teichman: Let me interrupt you for a moment. This is actually going to be Rangan Exhibit #3, it's at least identified as such. Is there going to be an objection to this?

Welch: If I could just have a moment.

Teichman: Okay, we're going to go off the record.

[pause]

Teichman: And we're back on the record.

Welch: Your Honor, we do object to this. This is, uh, I don't know how to characterize it. It's a – appears to be a list of things that Ms. Rangan thinks that she has achieved personally and on behalf of her organization. I can't imagine that this would be admitted in any court or administrative agency in the state. It's just, it's pure utter hearsay. It's a, although it's quite complimentary to her, and I can understand her interest in having before the – in the record, it is *not* evidence. And I object to it on the grounds of relevance, on the grounds of hearsay. I don't think it should be admitted for the truth of the matter asserted in any respect. I don't think it's substantive evidence. So we object to it on that basis, Your Honor.

Meisenheimer: Would you like to answer?

Rangan: Yes. I object to your objection. I am here representing myself and I myself have the right to present my credentials and unlike your clients, I am not even requesting that my resume be kept confidential. It is public record. Everyone in this room can have a copy of my resume. I'm very, very *proud* of what I do for my organization.

Meisenheimer: The rules, I'd like to remind you, the rules of this does not apply to what we're doing here. But we can, you know, mark this, and I agree, it doesn't have any relevance.

Teichman: Just for the record, the objection is sustained.

Meisenheimer: Sustained.

Lee: Fine, I'll say something and you can object. If she seeks review of it, on standing, she has a right to get stuff into the records.

Teichman: Right now, she's testifying.

Rangan: I do need to understand what does that mean, what he just stated? So is my Exhibit A part of the record or not part of the record.

Meisenheimer: We're going to make it part of the record.

Welch: Your Honor, I understand, I understand the objections.

Teichman: So the objection is overruled then?

Meisenheimer: Right.

Teichman: So then Rangan, what has previously been marked for identification purposes as Rangan Exhibit #3 is moved into evidence.

Meisenheimer: So moved.

Rangan: And since my credentials really *are* of the organization that I lead, I submit again

that's before Your Honor. So we would object on that basis.

Meisenheimer: Objection is noted, and I will allow you to speak.

Teichman: Ms. Rangan, will you go ahead and raise your right hand? Ma'am, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Rangan: I do.

Teichman: Okay. Then go ahead and state your full name for the record.

Rangan: My name is Rashmi Rangan. And well, it's afternoon now. My testimony reads good morning. My name is Rashmi Rangan on behalf of the Delaware Community Reinvestment Action Counsel of which I *am* executive director of Inner City Press Community of which I am a member and in my personal capacity as a Delaware consumer, I am here to testify *against* the proposed acquisition of Citicorp Assurance Company by Travelers Group. I *will* address my concerns with the Department's handling of this public hearing first. Next I will offer my arguments opposing the application. I strongly and strenuously object to Ms. Donna Lee Williams', Commissioner of the Delaware Department of Insurance, refusal to recuse herself from these proceedings, saying, and I quote, "I will not recuse myself from making the final decision in this case" even when we have established that Ms. Williams has received campaign contributions from the regulated community. The fact that the independent hearing officer used here is appointed by the Commissioner and the fact that the final decision relative to the outcome of the application rests with the Commissioner and the *fact* that the Commissioner received contributions from Travelers taints today's hearing process. Ms. Williams also stated, "I am elected by the people of Delaware. I will make my decision based on what is in the" – Yes?

Meisenheimer: Excuse me, could I ask you to highlight your objections and your points rather than –

Rangan: These *are* my objections, these *are* my points relative to this particular hearing process relative to the Department's handling of the pro se representing myself of me representing the organization which in the larger community I am recognized in the Delaware community as representing the Delaware community's concerns when it comes to access to credit and capital for them. And that *includes* access to insurance as well because high-cost insurance is a growing concern in the community. And although I am not an attorney, I challenge *any* of your attorneys here to be able to speak on behalf of *any* of the consumers like people like Ms. Harris to bring their concerns to this body.

Welch: Your Honor, let me just make one point, and that is that I understand Your Honor's ruling, pre-hearing ruling addressed the point of Ms. Rangan's right to represent other people here. She can represent herself, but Your Honor already said she can't represent other people. We have no reason to believe she represents anybody else other than herself here. Admittedly, she says she does, but Your Honor has ruled on the fact that she can't do that. So we understand Your Honor has *also* ruled she may testify, and we're not objecting further to that, but I don't believe she can testify on behalf of others.

Meisenheimer: Continue.

Rangan: Thank you. Umm, I cannot in all honesty believe that Ms. Williams' position will be in the best interests of the public. One, how is the public interest served when the interested citizens of the state must bear the financial burden and invest travel time to be able to review the public portion of the application filed? How is the public interest served when the insurance-buying public entitled to conduct discovery proceedings in the same manner as presently allowed in the Superior Court of the state under Title 18, Delaware Chapter 5003(d)(2) can be overruled because an individual's interest in these proceedings is, I quote, "minimal." How is the public interest served if the counsel for the Department refuses to provide the individual with direction regarding proper procedures to *fully* and *fairly* participate in these hearings. How is the public interest served when the same counsel does provide the corporate legal counsel advice on

there is question, concerns, grumblings about what is happening. And there is enough pressure on the Federal Reserve Board to do the right thing such that it does not walk over the Congressional, there is a law created by the Congress that is not overwritten. We remain gravely concerned over the regulatory oversight of the various aspects of businesses that the proposed CitiGroup would conduct. Umm, we are concerned about just recently Nations Bank was slapped with a million dollar – 7, uh, 6.75 million dollar lawsuit for misrepresentation by its loan officers, again, taking elderly couple, picking out the elderly couple and misrepresenting to them that the investments, that the deposits into a trust fund were insured by the Federal Deposit Insurance Corporation. I agree that that does not pertain to insurance, but in insurance we have seen tons of violation, or fair disclosure laws as well. We have requested to the Federal Reserve Board and we are gaining momentum that the proposed CitiGroup must divest its non-permissible activities right away and not be granted that automatic extension of three (3) year plan. We are glad to note that Governor Meyer in his testimony before House Banking Committee agrees that these activities would have to be divested under government law. We know that CitiGroup does not have any intentions of doing so. Mr. Charles Prince in his testimony before the House Banking Committee says this year we hope to provide more kinds of financial products and services in more kinds of ways than any other company in the world. Basically want to gain strength and stability, uh, meet competitive challenges. And it's the competitive challenges that I will address first. There is perhaps an important Mr. Charles Prince at his public hearing, there is perhaps no other industry in the world as competitive as the financial services industry. Competition for the customer and his or her business is fierce. I disagree that the financial service industry is highly competitive. If there is one thing I have learned in my economics class and from my experience with the telecommunications industry, competition drives prices down. In the financial service sector, we have seen the reverse happening. Ergo, financial services industry is on the verge of monopoly. No way are we talking about competition here. New York Times has reported that basic checking fees continue to rise at many banks, ATM fees everybody has used them and knows how expensive they are, umm, bank fees actually account nationwide for 24% of revenues last year. I also want to address to another quote again attributed to Mr. Charles Prince. As companies become larger and more diverse, they are better able to serve as a source of strength and stability, not only for the affiliates, but more importantly for the customers. And herein lies the real public policy concerns of implied federal guaranty to all affiliates. A consumer walking in to a Citiwhatever, with a Citi name, assumes its a Citibank, therefore deposits are insured and is not – does not realize the impact of doing other businesses with that entity that could not necessarily be insured. The merger between Citicorp and Travelers Group is hazardous and prejudicial to the insurance-buying public. Both Dietrich and ICP, a consumer and community advocacy group, with members who purchase insurance products, our missions are to advocate for the interests of the consumers and under again the existing codes, the Department must consider whether the acquisition is likely to be hazardous or prejudicial to the insurance-buying public. And to consider whether the competence, experience, and integrity of those persons who would control the operations of the insurer are such that it would not be in the interests of policyholders and of the public to permit the merger of other acquisition of control. We speak for myself and on the insurance-buying public and the public, in fact, and on, in my capacity as an individual and as the director of the non-profit organization, we have charged Travelers Group to have insurance underwriting qualities that have a disparate and a discriminatory impact on the minority community seeking insurance policies. And I enter into exhibit basically a report by the greater – Fair Housing Council of Greater Washington v. Travelers Property & Casualty Corporation and to characterize it as a general anti-insurance industry study is absolutely wrong.

Teichman: Let me interrupt you for a minute, Ms. Rangan, do you – you wish obviously to have this thing marked for identification as an exhibit?

into evidence Exhibit #4, which is a summary mission purpose of the organization.

Teichman: This will be marked as Rangan Exhibit #4 and appears to be 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10-page document.

Welch: Your Honor, I think we make the same objection, although I understand Your Honor's prior ruling, but for the record we'll make the same objection. It has nothing to do with the criteria under Section 503.

Meisenheimer: So moved that it be moved into evidence.

Teichman: Okay. Rangan exhibit is moved into evidence as Exhibit #4.

Rangan: Underscoring this particular merger application is the gigantic merger plans announced by Travelers Group and Citicorp on April 6, 1998. And I will cite that 18 Delaware C. D18. After the change of control, the domestic insurer referred to in subsection A of this section would not be able to satisfy the requirements for the insurance of a license to write the line or lines of insurance for which it presently is licensed. Under the existing Glass-Steagall Act, securities and insurance cannot mix. And under the existing Bank Holding Company Act, banking and insurance cannot mix. This was a firewall built to prevent future economic catastrophes from lessons learned in the aftermath of the market crash. Therefore, the acquirer would not be able to satisfy the requirements for the insurance of a license to write the line or lines of insurance for which it is presently licensed. Although we *heard* testimony today that Citicorp Insurance would not be impacted, however, right now it is the impact of Citicorp and Travelers Group merger that we are gravely concerned about. This leads us to the next D1C. The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders. The financial stability of the acquirer, therefore, is an illusion. It is built upon an assumption that certain laws and legislation will be passed and therefore they will be able to cross-market and will be able to build their empire and will be able to grow financially to the extent that they will be able to continue doing what they want to do. The Glass-Steagall Act and Bank Holding Company Act permitted newly created bank holding companies up to two (2) years to divest its non-permissible activities. It is by no stretch in imagination an automatic divestiture time frame. In this case, the acquirer, Citi - Travelers Group, already conducts insurance business and does not want to get rid of its most profitable business which is insurance and does therefore, intends to use this time to lobby Congress to change the law so that they can continue moving forward which was the crux of our cross-examination this morning. So, we say this is a loophole that is willfully and knowingly being abused in the application that will create the proposed CitiGroup, leading us into the next D1E, the competence, experience and integrity, and I've bolded that deliberately. Of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control. It is with this regard to the integrity of the acquirer that both Dietrich and myself sought and were denied discovery and depositions. We continue to question the integrity of the acquirer. Like I said earlier, the acquirer has no intentions of divesting itself of insurance activities currently non-permissible and currently very profitable. Rather, it intends to invest these two (2) years and additional three (3) year waivers that the Federal Reserve may, again, may not automatically grant, to lobby Congress to repeal the Glass-Steagall Act and historically, it has registered demolition attempts since 1979. Most recently, a month ago, it again failed to pass and amend the Bank Holding Company Act so that the proposed CitiGroup can concentrate its economic resources, 7½ billion income and 50 billion in revenues, and financial services, insurance, consumer finance brokerage and investment, and banking. Citicorp employs full-time in-house lawyers, we've seen that today. Umm, outside legal and consulting firms, and has a multi-million dollar lobbying budget. These laws permitted the newly created bank holding company up to two (2) years to divest its permissible activities. This is not an automatic extension of divestiture granted to a new banking holding company, and groups like mine and other groups nationwide, including in the Congress,

filed apparently before the Office of Thrift Supervision on behalf of Ms. Harris or someone else, I'm not sure, but we'll make the objections.

Meisenheimer: You realize that you are representing her interests when you introduce this into evidence? When you introduce it to us? I mean, it looks like you're representing her, I mean, this looks just like something that would come from an attorney.

Rangan: In that case, I must amend. I don't know whether you want it for the record or off the record. In that case –

Meisenheimer: I'm telling you, you realize, to me this is what it looks like. You want to still introduce this into the record as an exhibit?

Rangan: It is also my communication in my capacity as the director of an organization that has constantly for the last three (3) years communicated with the Federal Reserve Board, with the Office of the Comptroller of the Currency, with the OTS, with the FDIC, with every regulatory body out there we have been in communication, so would it be your position to then say that every communication that we have had with other regulatory agency would be representing – because we are constantly representing other people's interests.

Meisenheimer: I'm really not here to answer this question. So you would like to still introduce this?

Rangan: As long as I am not violating any, uh, laws, yeah?

Meisenheimer: Well, I cannot rule on that, on your violating the attorney –

Welch: Your Honor, I'm wondering if Your Honor's inquiry to Ms. Rangan about that issue should be made a part of the record. I would submit that it should be.

Meisenheimer: Are we still off the record?

Teichman: No, we're on the record.

Meisenheimer: Okay, we're on the record, this is on –

Welch: Okay, then I apologize. I thought we had gone off the record. Thank you very much.

Meisenheimer: No, sir. This is on the record. Let it be marked.

Teichman: It's your wish to move it in as evidence?

Meisenheimer: Yes.

Teichman: It's moved in as Rangan Exhibit #6.

Lee: She's not seeking to represent –

Meisenheimer: You are speaking out of order. You're out of order.

Rangan: This is my communication to the Department, to actually the office of supervision that I would like to enter it into record as speaking more about the commercial credit group, Travelers Group Commercial Credit's violation of all fair lending and consumer disclosure laws. Again, to give you an insight of the Harris's case, again it is public record. It has been record into my columns that I have written into the news letter – into the News Journal on my own behalf that they went to Commercial Credit for a \$7,000 loan, ended up borrowing \$52,000 loan, \$11,000 of which were in closing costs against their home on which they initially owed less than \$13,000. They did not realize they paid 5 points and \$8,890 premium for credit life insurance of a \$50,000 loan for 10 years. We charge Travelers Groups Primerica Financial Services with targeting minority and low- and moderate-income families for expensive, predatory, self-serving lending, investing, and insurance sales practices. Primerica has targeted many leaders in the community including myself to be a financial representative for Travelers Group. The designation of them as personal – as financial planners or advisors is a misnomer in their own submission in Form A 10k clearly, not even 10k there, in a report to the investors, Travelers has clearly stated that Primerica Financial Service providers are actually selling all the products that it can possible sell. They will now have a few more wares to peddle to the unsuspected families who meet with the sales agent under the assumption that they will help them plan and invest their finances. I will

Rangan: What, I think we are on 4 or 5?

Teichman: I believe this is 4.

Meisenheimer: Exhibit #4?

Teichman: No, it's Exhibit #5. It's Rangan Exhibit #5 for identification – oops – purposes.

Meisenheimer: Is there an objection? Would you like to read it?

Welch: Your Honor, we – yeah. It's several pages long and we don't know what it is. Maybe it could be identified in the record?

Teichman: What I'm looking at is, uh, what is apparently identifies itself as Fair Housing Council of Greater Washington v. Travelers, some sort of a report, on apparently that, uh –

Rangan: They have submitted to HUD their results of their study that they conducted that they attest that we did mention earlier in – back and forth.

Teichman: Looks like a 6-page document. Let's go off the record for a moment and consider this.

[pause]

Teichman: Now we're back on the record. It's 2:45 in the afternoon.

Welch: Your Honor, we make the same objections to this document that we've made to all the others. This looks like a series of antidotes involving a whole host of different facts involving different tests and studies that were done. It's not clear what the context is. It *certainly* shouldn't be admitted for anything substantive. It has *nothing* whatsoever to do with the statutory criteria under Section 5003. It looks like another anti-insurance industry piece, uh, and uh, having nothing to do or not even mentioning Citicorp Assurance, we think it ought to be excluded and we would object to its entry as part of the record.

Meisenheimer: Your objection is noted, but it is moved that it be entered.

Teichman: Okay, Rangan Exhibit #5 is moved into the record.

Rangan: I would just elaborate a little about that report that has just been entered into the records. Oftentimes non-profit organizations receive complaints and just based on the complaints alone, we cannot go and stop legal proceedings or seek review of files. Therefore, many of the non-profit organizations also conduct scientifically \_\_\_\_\_, tested, paired tests where they *do* send identical folk, black and white, to determine the kinds of treatment that the white receives at the hands of the, uh, entity being tested, and the black that receives at the hands of the entity being tested. Since the Greater Fair Housing Council of Greater Washington did receive tons and tons and tons of complaints against Travelers, they did send their testers to find out what was happening. And in terms of property and casualty insurance, they found that if you were a minority, you were quoted higher priced lower coverage property insurance. If you live in poor neighborhoods, you were quoted the same thing. Higher priced lower coverage. And we are bringing it again back to the practices, experience, etc. etc. of the acquirer. And we have also charged Travelers Group's commercial credit with violating fair lending and consumer disclosure laws. We did forward the complaint to HUD, HUD has taken almost a year to review that complaint while they apparently haven't gotten back yet, I have had informal conversations, and they said that the complaint, Ms. Harris's complaint, is just the tip of the iceberg. And I will actually submit my initial read when I met with Ms. Harris a long, long time ago. When I looked at her loan to see what was happening and I will submit since she has already testified, my analysis of what happened to her into record as Exhibit #6.

Teichman: This document will be marked as Rangan Exhibit #6. Marked for identification purposes.

Welch: Well, Your Honor, we'll just incorporate the other objections we've made at this point. We make the same objections with respect to this. This one really looks like Ms. Rangan is practicing law. What she's trying to do here is let into this proceeding some piece that she has now



skip to some quotes, basically it goes on to talk about exactly what are the discussions that we have already gone into this morning about seeking prior approval prior to making an announcement of whether the two (2) groups can be merged, etc. etc. Umm, well, I will end it with it should be clear that we, as an organization, me as an individual, have greater than just passing, fleeting interest in this particular proposed merger to be granted right to discovery on all insurance-related questions that we still have and we also want to raise the issue under the integrity and all others in our written communication to the Department over the past several days. At this point, I also want to for the record again request that Miss Donna Lee Williams recuse herself from these proceedings, and I submit my request along with an article that goes into details about Delaware Commissioner's campaign funds scrutinized. And I would submit these as Exhibits #6 and #7.

Teichman: We're going to go off the record for just a moment.

[pause]

Teichman: And in fact we are back on the record at 3:00 in the afternoon.

Meisenheimer: As far as this issue is concerned, it's not one that I will make. I don't think that it's right, it's the time to be made or the appropriate place to be made. What you decide to do with it as far as submitting it directly to Commissioner Williams, that would be fine. I'm not trying to give you advice or anything. I don't think this is the place, this hearing, to do this, because in the legal term, right is the word that we want to use. Until we have received all of the evidence and given this to Commissioner Williams, and then at that point, it will be the time to do it. So I will refuse that motion.

Rangan: Okay. Thank you. Before I conclude and before I take any questions, I also wanted to formally for the record request copies of this particular taped recording primarily because we actually provided copies of everything that was admitted into these proceedings, including my testimony. We did not have the same privilege of the Travelers and Citicorp represented as to be able to see what they said. Uh, we also do not have the money to be able to pay for the copies of these, so we again formally request that these be forwarded to us free. Finally, I was informed that these tapes are not transcribed, and I fail to figure out how the Commissioner can rule on an application if they don't have access to transcribed records. And that brings me to yet a couple of questions that I don't know if I have – if I should ask now or if I will ask later. I will ask later. Thank you.

Welch: No questions, Your Honor. The only thing we would ask would be – a number of things have been put in from HUD and submissions that were filed in other, in the OTS in circumstances such as that. What we'd like to do is just reserve the right should we choose to do so prior to closing of the record in the five (5) day period that Your Honor spoke of at the outset, to put in anything supplemental that perhaps we filed in response to Ms. Rangan's or anyone else's submissions that have become part of the record here as a result of Your Honor's rulings. We'd just like to have the opportunity to put something in should we choose to do so.

Meisenheimer: Yes, we'll have five (5) days that we'll keep the records open, and after it comes in, you'll have five (5) days to make a response to it – both parties.

Welch: Thank you.

Teichman: Ms. Rangan, your testimony and so forth is complete?

Rangan: Umm hmm. Thank you.

Meisenheimer: Mr. Lee, do you have a testimony at this point?

Lee: I guess I want to understand a little further what when you said this distinguishing between testimony and argument, what opportunity to argue is going to be made. Well, to make motions – remember you said you'd entertain motions? So why don't I – I guess, what do you envision? If I don't testify, what's, what is the process? What happens next?

Teichman: Well, go ahead and answer.

Meisenheimer: You'll have a point at the very – at the very end to make your comments,

in insurance in this state. My findings show that the majority of Citi - Citicorp Assurance's business is derived from reinsurance assumed. Less than 1 million of Citicorp Assurance's total premiums collected to 1997 were from direct premiums as Cathy Mulholland already stated. Travelers Group has no specific plans to change the business of Citicorp Assurance, nor does Travelers Group have any plans or proposals to have Citicorp Assurance declare any extraordinary dividends, to liquidate Citicorp Assurance, or to sell any assets of Citicorp Assurance other than in the normal course of business. Travelers Groups does not have any present plans to merge Citicorp Assurance with any other person or persons or to make any other material change in Citicorp Assurance's business or corporate structure or management. There are no persons who currently hold or are anticipated to hold at the time of the merger 10% of or more of the voting securities of Travelers Group or Citicorp. And they're not expected to hold 10% afterwards. Umm, based on the submitted plans and requirements of Title 18, Section 503, I would recommend the merger be approved based on my review.

Meisenheimer: Well, from your review of Exhibit A and - not Exhibit A, but Form A -

Call: From the Form A.

Meisenheimer: --then there were no - nothing that would lead you to believe that, uh, there is -

Call: I didn't find anything -

Meisenheimer: violate the six (6) things that we went over in the very beginning?

Call: No, they comply with the statutes as I understood -- stand them.

Meisenheimer: Are there any questions?

Welch: No, sir.

Lee: Yes. In your review, in Form A there is a footnote about the - the possibility that in connection with the merger, Travelers will have to divest itself of all insurance underwriting activities. Right in Form A, it's in Form A.

Call: Yes.

Lee: Did, in your review, did you consider the financial impact of that divestiture - the odds of divestiture?

Call: I read the note, I considered it. From my perspective, the companies were profitable before a merger, and if they did have to divest, I would think that they would have profits after they divested.

Lee: But not to be - on what basis do you think that? Something in Form A?

Call: Based on their past history of profits. Their net income. They have positive net in - Travelers has positive net income for the last five (5) years that I looked back into. And I don't see a reason why they wouldn't be afterwards.

Lee: Even if they had to sell off the, the - all their insurance underwriting.

Call: Well, I - from all the different companies that Citicorp was profitable, Travelers was profitable, uh, Citicorp Assurance has positive net income, so they - to me, they stand alone on their profits. And if they did have to divest, you know, I would think that there would still be profits, even if they weren't able to cross-sell their products or whatever.

Lee: I mean, I guess - and this is all based on a review of Form A?

Call: No, I reviewed their financials. They submitted their annual statements for five (5) years for Travelers and two (2) years for Citicorp. Also I looked into the NAIC database and reviewed the information there.

Lee: Without again trying to - have you, have you - are you aware that, that the proposed merger has been called something of a bet, a bet on a change in legislation? Have you heard that idea?

Call: I've read, yes.

Lee: And - that, that a bet - it seems to me that you could lose a bet and be less than what

your final comments.

Teichman: Ms. Rangan sort of mixed argument with testimony about facts and circumstances. And that's okay. Umm, I would have preferred to keep argument regarding the propriety of this thing separate from the facts and circumstances type testimony.

Lee: I guess I just wondered about this idea of entertaining – you said you'd entertain motions later on, but then a motion was, like, not entertained.

Teichman: That particular motion for a particular reason. If you have another application to make to the Hearing Officer, you can *do* that. Go ahead.

Lee: No, no. I mean we've already said – we wish we – there are other individuals we would have liked to cross-examine and depose. We have more questions for Mr. Prince, but with that understanding, we can move to uh –

Teichman: I think the Hearing Officer's question was did you have some testimony that you would like to give –

Lee: I think more in the nature – the way I see your interpretation, it's more in the nature of arguments.

Teichman: So you wish to make argument after the evidence is in.

Lee: Yep.

Meisenheimer: Okay, we're ready for the Department now to, Mr. Call.

Teichman: Mr. Call, would you raise your right hand? And sir, do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Craw: I do.

Teichman: And please state your full name and your position with the Department for the record.

Call: My name is James Call. I am a financial analyst for Delaware Department of the Insurance.

Meisenheimer: Would you summarize your findings, and you can read from that report if you need to, regarding your review of this application and Form A filing?

Call: Okay. Umm, well, Travelers Group submitted a Form A to this Department, and the filing relates to the proposed acquisition of control of Citicorp Assurance Company, a Delaware-domiciled insurance company. The acquisition of control will result from the merger of Citicorp, to ultimate control and parent of Citicorp Assurance with and into the wholly owned subsidiary of Travelers Group. Newco, organized solely for the purpose of completing the mergers. I reviewed the merger and the structure of it. I reviewed the financials of Travelers Group and Citicorp and I won't go into that, because the other, the other ones have already gave the financials. Uh, I *will* say that umm, the operating results of Travelers Group for 1997 and 1996 showed net incomes of 3.1 billion dollars and 2.9 billion dollars respectively. Citicorp Assurance Company, the one that's merging, had surplus for 1997 was 38.8 million with a risk-based capital ratio of 6.31. 1996 results showed a surplus of 34.5 million dollars, a risk-based capital ratio 7.2, and the only state where Citicorp Assurance is currently licensed is Delaware. What I'm saying here is that, you know, these are very profitable companies. And they do have a lot of surplus. During the review of the Form A, the following items were noted, the restated certificate of incorporation of Travelers Group will be amended to change the name of Travelers Group to CitiGroup, Inc., that they increase the number of authorized common stock of Travelers, the by-laws of Travelers will be amended to reflect that Travelers will be managed by co-chairmen and co-chief executive officers who are initially expected to be the current chairman and chief executive officers of Travelers and the current chairman of Citicorp. Travelers and Citicorp will each designate 11 individuals to serve on the Board of Directors of Travelers following the merger. All members of the group of the Board of Directors of Travelers Group other than the co-chairmen will be outside directors. From the review of Form A, this acquisition will not lessen competition

and the testimony presented on behalf of Travelers and Citicorp Insurance demonstrate that the merger complies with the Commissioner's standards of review for Travelers Group's acquisition of control of Citicorp Assurance. We respectfully submit that the record as a whole does not provide a basis for any findings by the Commissioner that would approve disapproval – that would permit disapproval of the pending application. Indeed, we believe that the record affirmatively establishes the following: 1) After the proposed transaction, Citicorp Assurance will continue to satisfy the requirements for a certificate of authority to operate in Delaware. As our witnesses have testified, Citicorp Assurance currently satisfies the requirements for issuance of a certificate of authority in Delaware. Travelers Group has no present plans to change the business or operations of Citicorp Assurance following the merger. Except for becoming an indirect, wholly-owned subsidiary of Travelers Group, there will be no changes to Citicorp Assurance, its statutory financial statements, or its operations. Thus, Citicorp Assurance will continue to meet the requirements for a certificate of authority. 2) The proposed merger will not substantially lessen competition in Delaware or tend to create a monopoly in Delaware. Citicorp Assurance does not market insurance to the general public and for the great majority of its lines of insurance, Citicorp's insurance subsidiary do not write business in Delaware. In addition, for those relatively few lines of insurance which are both written by Citicorp, and I'm speaking of all of their insurance companies, and Travelers Group's insurance subsidiaries, the combined market share of these companies is approximately 5% or lower. The merger, therefore, will have no anti-competitive effect in Delaware. 3) The financial condition of Travelers Group will not jeopardize the financial stability of Citicorp Assurance or prejudice the interest of its policyholders. As Mr. Prince testified, as of year-end 1997, the Travelers Group had total assets of over 386 billion dollars and total stockholders equity of almost 21 billion dollars. Travelers Group, therefore, is a very well capitalized company. This is reflected in the fact that it has insurance subsidiaries licensed in every U.S. state and the fact that Travelers principal insurance companies have A.M. Best ratings of A or better. Furthermore, following the merger with Citicorp, Travelers Group will have the largest market capitalization, as well as the largest asset base of any financial services company in the world. All the capital of the insurance company subsidiaries and other subsidiaries of Travelers Group will necessarily remain separate within the holding company structure. The financial strength of Travelers Group and the opportunity to access the worldwide capital markets will provide increased security to policyholders and customers. 4) The post-merger plans of Travelers Group with Citicorp Assurance are fair and reasonable to Citicorp Assurance policyholders and are in the public interest. As a testimony from Travelers and Citicorp Assurance demonstrates, Travelers Group has no plans to change the current business operations or management of Citicorp Assurance. Nor does Travelers Group have any plans to liquidate Citicorp Assurance, to sell its assets, or consolidate or merge the company with any person. 5) The competence, experience, and integrity of the persons who will control the operations of Citicorp Assurance are such that the transaction will be in the interest of Citicorp Assurance policyholders and the insurance-buying public. Travelers Group is the ultimate controlling person of more than 40 insurance subsidiaries domiciled in 13 jurisdictions licensed in the United States. The knowledge and experience that Travelers Group has acquired in managing those companies will ensure continued security and protection for policyholders of Citicorp's insurance subsidiaries, including Citicorp Assurance. Finally, the proposed acquisition of control of Citicorp Assurance is not likely to be hazardous or prejudicial to the insurance-buying public. As Ms. Mulholland and Mr. Prince testified, the insurance-buying public is not impacted by Travelers Group's proposed acquisition of control of Citicorp Assurance. First, because Citicorp Assurance has no individual policyholders and does not market to the general public. And it only insures or reinsures the business of Citicorp and its subsidiaries. And as we've also explained, we believe the proposed transaction will enhance the security provided to policyholders of Citicorp Assurance. In conclusion, I would respectfully

you are now.

Call: Well even if – in my perspective, even if they did lose the bet, I couldn't see where they would lose money on it. I mean, they might not make as much money as they hoped to make, but I don't see how they can go from a profit-making organization to a money-losing organization based on not – or having to sell off certain, uh, parts of their business. If the businesses are making a profit, then they – if they even had to sell it, they would, you know, probably sell it at a profit. So, in my perspective.

Lee: And I guess, just to know, did you – in just that part of it, as I understand the review of the annuals, the annual reports and everything. In terms of the possible, the possible outcomes of having to divest or not, did you put any numbers on it? Did you –

Call: I asked for the consolidated balance sheets of both companies, as far as, uh, I didn't ask for the financials if they divested. But I guess at that point, you know, I read the note, but I don't see where they could lose the money. If all the entities were making money, I didn't see the point.

Lee: In, in, in your review, I'm assuming that you've reviewed other mergers for the Department. Would something like asking for a future, you know, future profitability, would that be a thing that you would usually do? Not existing, future, projected.

Call: I would uh, well, I did ask for the consolidated financials of the combined companies, and uh, and their projections into the quarterly statements and the annual statement. But I did not ask for the, uh, profitability if they had to divest.

Lee: So the statement were all – the statements that they gave you were based on not divested?

Call: Yes.

Lee: And as the Department, you didn't ask for statements if they had to divest?

Call: No.

Meisenheimer: Further questions?

Lee: No.

Meisenheimer: Okay. I think we're – no more questions?

Welch: Uh, no sir, Your Honor, not at this time.

Meisenheimer: Okay. Do you have a 10K?

Call: Yes.

Meisenheimer: Is that part of the Form A filing?

Call: Uh, yes.

Meisenheimer: So that should be part of it, then.

Call: As far as the annual reports?

Meisenheimer: No, not the annual reports. I mean, I know the Department gets the 10K, but have you reviewed the 10K?

Call: No.

Meisenheimer: Okay. All right. We're ready for our closing statements.

Welch: Your Honor, I think what we'd like to do as we indicated at the outset would be to call Jim Michener back and have him make our final statement.

Michener: In our list of exhibits was Exhibit #1, page 16 or Exhibit #16 summarizes the applicable standards for review by the Commissioner, and I thought that that might be helpful just to look at those as I try to summarize our presentation. At this time, I will describe how Travelers Group application satisfies the applicable standards of review for approval by the Delaware Department of Insurance for the change in control of Citicorp Assurance. I'll address each one of the statutory standards. In Delaware, the approval of Travelers Group's application to acquire control of Citicorp Assurance is governed by Title 18, Section 5003 of the Delaware Code. The evidence contained in Travelers Group Form A statement exhibits provided as part of that Form A

Department to consider that issue. Not just to say, well, the fed'll do what it'll do. Because that would involve being remiss in a, in a responsible consideration of the financial strength factor. I also, again, without – it wasn't our intent – we initially wanted to pursue the letters strictly as a financial matter, and that was the goal. It was then argued that that was irrelevant. So we argued under an integrity factor. But I'm struck! I believe that the tape of today's hearing and, and, and the written, the written things that have been put in, you know, I guess I can say at the least reveal a tru – a lack of candor or a sort of a pride in answers narrowly drawn. For example, I mean, the distinction between – we tried to point out the difference between exhibit – Lee Exhibit #1 and Lee Exhibit #3. Testimony to Congress, no advice from Allen Greenspan. A letter from the counsel saying thanks for your advice, Greenspan's counsel. And this was an opportunity, anyone can make a mistake, but it seemed to me that an applicant that sticks – that sticks by this type of narrow hairsplitting is, is – there are questions raised under the application – under an application, under, under factor E of the 503. There is also, I think directly – I mean, on the record, answering the question, there was a representation made about – and the reason these calls – these are not just Federal Reserve calls. These are the – these are the only way one could figure out what the odds of the future financial – of, of, of the financial strength are going to be. I really, you know, with all – it doesn't, it's not enough to say well, they're profitable going in. It's a seemingly controversial possible explosive combination that's going to require divestiture of 20 - 30% of their business. But we don't need to look at it because they're both strong companies. And then I think at today's hearing, that's why we tried to ask the question, what numbers has Travelers put on the various scenarios of how it could work out under legislation or of a fed order? I mean, in fact, as a financial matter, had they received assurance from the fed, that's why pursued this issue. And I think it's an issue that the Department itself should pursue. Because it goes directly to financial strength. If they – if in fact they *did* receive assurance, that's a positive financial factor from the Federal Reserve Board. Then again, it would be a negative integrity factor because they've claimed that they haven't. I think in examining the record – we, obviously, the Department is not going to rule on, on, on – we don't think it's just a fed issue. That's what I'd say. It's been por – it's been portrayed that just as a complaint is filed with HUD and do nothing about it. This is not a fed issue, this is an issue that, that is at the heart of a reasoned and responsible assessment of this applicant's financial strength, the ramifications of the proposed combination on the insured, reference – I couldn't figure it out. Earlier in the – there was a question asked, is Travelers representing that Citicorp Assurance will not write P & C in Delaware? They said no, we're not representing, we have no current plans. Then it was said, you know, in closing it was said we will not. I mean, I think that's something – I don't know if whether that's an aff – that's a post-hearing, the Department has to nail it down. It's in – it's in the participation order that since they can. So I think it doesn't – and it was certainly said that they could change that with no application whatsoever to the Department. But that's really the least of it. I think, I mean, at the, at the core and what doesn't – what was really not portrayed in the Form A at all, and I guess maybe there was a sense of it sort of coy, almost. It's an unprecedented merger. It's something that Chairman Volcur, the ex- -- the last chairman of the Federal Reserve Board, said it's something that the feds shouldn't touch with a 10-foot pole until the law changes! Even in terms of giving the 2-year waiver. So it's not – it was portrayed as there's some crazy groups that are protesting mergers or there's some individuals with their own axe to grind, but everything's really, you know, on the up and up. This is not an up and up issue, but it is – it would be unreasonable not to get to the bottom of the issue and we object to not having been allowed to get to the bottom of the issue and in fact we, you know, we asked – we asked that the order be reconsidered and that we be granted post-hearing discovery precisely on this issue. We will narrow it to this. But we think it's impossible. It could – including after today's, today's showing, to say that that issue is not relevant to the determinations under 503. It's – I know what that the order said – I strain to see

submit that Travelers Group application to acquire control of Citicorp Assurance meets all the regulatory requirements imposed by Section 5003 of the Delaware Insurance Code. As a result, we would respectfully request the Commissioner to approve Travelers Group's Form A application. And I would also add that we thank you for the hospitality in listening to our presentation today. Thank you.

Meisenheimer: Thank you. Mr. Lee?

Lee: As has been, as has been – in terms of objections, you said you would entertain them. So I guess even just formally, Ms. Rangan attempted to, to, you know, formally put into the record her basis for asking for recusal. I think it should at least be entertained. How it's ruled on or what it's ruled on or no. But it could – it doesn't seem to make any sense to wait until after the hearing is held and all the evidence is in for the Commissioner to decide whether appointing the Hearing Officer was correct. With all due respect, it's not in any way directed at you, it has to do with the affair – the appearance of fairness. In – I believe that the, the, the submission of Travelers Group to the Department in Form A was superficial and did not touch on any crucial aspect to the ongoing financial strength of the applicant, which is whether this combination with Citicorp in fact, it's a bet. It's a bet that could very well can be lost. And that is not – not only was it not forthrightly presented in the application in the record to the Department, but you know, with all dues respect, it does not appear that the Department itself looked into it. Then we arrive back at that as protestants or members of the public, we were denied discovery on exactly this point that we wish to develop. Umm, we think that the current record does not – that it would be unreasonable and arbitrary on the current record to declare – to, to, to approve a merger that's – here's another, another way to put it would be this. This is an unprecedented merger, this is not a normal, this is not British-American Tobacco buying Zurich or some, it's not an insurer to insurer deal. It is described as an absolutely unprecedented – a bold stroke that flies directly against existing law that is a bet on Congress changing the law. And the fact that the, the application under a standard that considers the financial strength of the applicant, did not – the fact that it was testified today that Travelers has made no estimate of what the financial implications would be if it does – if it has to divest. Either its not credible or there was no due diligence and its impossible for us to believe. If it's true, it supports the non-approval of the application. It doesn't – it is, it is, it would be irresponsible [laugh] to do a merger of that size without having calculated the ramifications of what is described by even supporters of the merger as a bet. Umm, this is why the objection to being denied discovery is exactly on this point. Because it's – we view it as – if the Department didn't look into it, one would try to avail themselves of public – the public seeking to testify, developing the record on that issue. We were deny – we were unable to, to depose the people in the best position to know what the odds are, that's what I was saying about odds, it sounds strange, but if, if there was, if the applicants were responsible business people they'd have put an odds on it, and it goes back to these letters. This is why I – I definitely appreciate it, I know you've allowed in more than, than you may have wanted to. We still felt constrained by the inability to get to the bottom of it. Because I think, viewed in the context of the perspective financial strength of the applicant, the letters are crucial because it's the only – and, and, it was imperative if they wouldn't answer our questions that the Department ask questions and get to the bottom of it. Because, you know, like, the, the – to say that if a company is prof – is profitable, even if it has to sell part, it's still profitable, you know, respectfully, we disagree. A company's very profitability is based on a synergy between the parts. If, if, if a company like a Microsoft, which is strong, is required to sell off certain parts of it, it could become an unprofitable company. At least theoretically, you can't – just the fact that it's profitable doesn't prove that. And if, in fact, that although it's portrayed that the Department should be get involved in Federal Reserve Board issues, for the Department to responsibly consider the perspective financial strength of the applicant in this instance because it is an unprecedented application, it absolutely requires the

anyone be an attorney to submit comments. They consider routinely comments from community groups in support of residents of their neighborhood. They've never ruled that an individual, particularly the executive director of a community group, can't speak for the group. I mean, that's something that was ruled here, but I think that, that, that it's something that certainly was objected to. There's a – the organizations – it would seem if consumer protection and consumer advocacy organizations in Delaware have no – are deemed by the Department to not be affected or interested in acquisition of Delaware insurance companies when by statute there is a public hearing, umm, then something is – something is drastically wrong with the process. And it goes back to this that the idea of – I don't want to say it's a test case that, that this is a major merger. There is a danger here. I mean, I'll – the point we want to make is this: the heart of the merger. What's actually going on in the merger and the way in which it clearly impacts the financial strength of the applicant, the future strength of the insured to be acquired, is something that the record is – the record – the burden was on the applicants and they didn't address a major question. And it doesn't appear to us, you know, with all due respect, that the Department inquired into it in any – in any responsible way. We renew our request to do discovery on that issue because we think that a decision made without that information in the record would be – certainly, when to deny we certainly have no objection to. But when to approve on this record would be, would be incomplete and arbitrary and the test – today's testimony that the company has not calculated the numbers if it had to divest – I'm wrapping up.

Meisenheimer: Are you making another application for discovery?

Lee: Yes, we are.

Meisenheimer: How is it different than the previous one?

Lee: The difference is that, that it – from the order that was issued on May 29<sup>th</sup>, it seems that the per – the, the – we believe that the purpose of the request was misapprehended. It is not – although, although the letters that some of it concerned are letters back and forth to the Federal Reserve Board, it's not an inquiry *about* the Federal Reserve Board. It's an inquiry about the major doubt and wildcard in the future financial stability of the applicant. Which is would the proposed CitiGroup have to sell off 20 to 30% of its business? And we – and the letters are relevant because the letters say on behalf of Travelers to the Federal Reserve Board that only if – not only – only if the businesses can be integrated. Only if the products underwritten by Travelers can be sold at Citibank branches, only if there is a single statement saying CitiGroup that's banking and insurance products, only if those things are permissible is the deal even worth doing. So I think you step back and you say, since they've now said that there are no assurances, no reason to believe that the Federal Reserve Board or anyone else will approve that, that an inquiry – too, again with all due respect, the answers given today that the company hasn't looked into the numbers. Mr. Prince, there was a missing witness here today. The letters are crucial because they involve – do they have a reas – is there a reasonable basis to believe that they can keep 30% of their business and that they can cross-sell? And that the wiggle room that was left is that, well, that's what Mr. Swede told Mr. Prince. All he said is Mr. Maddingly said thanks for the letter. That would seem, based on the first letter, a very thin reed to do the merger on. But Mr., but Mr. Swede wasn't here. We'd asked to depose Mr. Swede, and if we had, maybe we would have come here and said, you know, that was all that was said.

Teichman: Let me interrupt you, please, just a minute.

Lee: Sure.

Meisenheimer: Okay. I'm going to rule on that right now. I've listened to everything today, too. And I'm persuaded at this point that any additional things that we've heard today would have us do additional discovery. Now you're going to submit a list of the officers and directors?

Welch: yes.

the relevance of fed letters to the standard, but I think the standard – I, I would hope that, that that’s now shown. And we will request that either, you know, immediately or as soon as possible after the order there’s an oral motion that discovery be allowed on this issue, narrowed to that issue. But the record at present would not legitimately support approval as presented today. As presented with an applicant that says we have never even calculated numbers if we have to divest, which I think is what was said. We can – we’ll go back to the tape, with all due respect. The Department didn’t inquire into this. But I would lay more blame on the applicant, because it seems to me it’s something that’s supposed to be disclosed in the application. We requested the Form A. So that you know in terms of late participation – we requested the Form A from Travelers and Citicorp April 13<sup>th</sup> followed up by a letter to coun – to their counsel of April 27<sup>th</sup>. We finally only got it on April 28<sup>th</sup> – on May 28<sup>th</sup> is when we got the thing. So I think that there’s a sense that, oh the public, you know, they come in too late asking questions, that was the reality. I’m saying that to the record, that I think that there’s some, there’s some, you know, the, the – again, in the nature that this is an unprecedented application. It is. There is a sense that oh, we’re raising policy issues. It sort of – it *is* kind of a test case. It’s a test case for the, the credibility of State regulation of an enormous part of what would be the largest financial company in the world that there’s a – there’s, I think an argument was made that although it’s domiciled in Delaware, it doesn’t matter if they write insurance policies elsewhere. That the Commissioners – I think there was actually in the News Journal said that Commissioner Donna Lee – it said that her only duty is to citizens of Delaware. I don’t necessarily think it’s true. If, if in fact the entity that’s licensed here is insuring Citibank N.A. and Citibank South Dakota N.A. It seems quite – that not allowing an applicant to

Teichman: We’re going to go off the record for just a moment.

Lee: Okay.

[pause to change tapes]

Teichman: We’re back on the record. It’s about 3:45 in the afternoon.

Lee: We’ll try to, in the interest of time, I mean, obviously, we have these various objections, but, you know, we made them and then asked the Department to rule on them. Umm, the one thing to make clear, in, in putting in context the things that were presented, umm, Ms. Harris’s experience with – is with Commercial Credit, a – right in the booklet they presented of affiliates, a major affiliate of Travelers Group. She’s a Delaware citizen, member of the Delaware public. Her experience with Commercial Credit involved a quite questionable, uh, credit-related insurance by the Travelers Group that in fact is not the thing that’s in front of HUD but is something that the Delaware Insurance Department is particularly suited to look at in terms of its pendency at HUD being an excuse to not look at what she testified to and what the written things show, umm, HUD is generally required to rule on complaints made to it in ninety (90) days. It has in fact been nine (9) months on her complaint. Too, because she waived the ninety (90) days on the representation of HUD and turned it into a systemic inquiry and had gone to Commercial Credit’s headquarters in Baltimore to review files, not only her file and rule on it, but to review the entire – to review the marketing and pricing practice by race of Commercial Credit. So that’s something that it would seem that the Department, given that it’s in the record, it’s not something that to the degree that the argument is, that’s before another agency, don’t worry about it. It is in fact an insurance-related thing going to the very applicant on insurance and in Delaware. So it seems – it would seem extremely narrow not to, to – we would object to it being treated in the record as something that, because it’s in front of HUD, the Department doesn’t have to look at it at all. Umm, there is some – there seems – we viewed it as a public hearing in the sense that, that members of the public come and testify. It may be that for historical reasons it’s a very formal process, but the, the issues that arose as to Ms. Rangan, you know, somehow practicing law, in submitting comments which she submitted into the record to the OTS, the OTS doesn’t require that

Meisenheimer: We understand. And that will be available for you to review, and then after that you will be able to give your comment to that. So I'm going to clear up that issue right now and now allow additional discovery. Based on what I've heard today and based on the additional information that we've asked them to submit.

Lee: Then –

Meisenheimer: You can go on, you know, from here.

Lee: Umm hmm. I guess there's another request that the Department itself make some inquiry into that issue. It seems that what – I didn't understand that the Department itself would be, would be a witness. But the current records – the state of the current record is that there was no inquiry, from our point of view, into the future financial strength of the applicant. That the, the, the conclusion drawn about the future financial strength was that because both are profitable now, must be profitable in the future. And that is something that, I mean, actually, we have – hang on a moment. We've entered an exhibit. It's just because I've – I've mentioned it, I think it's im –

Welch: Your Honor, I'm going to object to that.

Lee: Go ahead.

Welch: I want to object to that, and the reason is, the record has been closed. What we have going is argument now, final argument. He's been supplementing that final argument with new facts he's been coming up with throughout it. But I don't think Your Honor ought to take any new exhibits at this point. The record is what the record is. We've done it, and this is not some new uh, we ought not re-open with some new procedure.

Meisenheimer: I'd like to point out that the record's going to be open anyway, so you can submit it within the five (5) day period.

Lee: And just to clarify this, it's five (5) days after *they* submit.

Meisenheimer: Yes, but we're not going to receive any more exhibits because you are summarizing right now and you will be able to submit that within the five (5) day period.

Lee: Given that you – I guess – here's a – you've ruled that no more discovery. Now I think it's an important point to make. When is or was the right point to make a request for recusal? We were told it wasn't – Miss Rangan asked Mr. Teichman who's been, you know, very well – again, it's with all due respect. She was told that he couldn't tell her when such a request would be made. That that would be legal advice, couldn't be told. I think it's a fair question. The issue – the issue has been raised. Ms. Rangan attempted to make a motion and it was not entertained. It was returned to her. Is that motion part of the record or not part of the record?

Meisenheimer: Well, once again, I'm not here to answer those questions. I'm here to rule on what I've heard, and that is my position at this point.

Teichman: I think the Hearing Officer made clear that it's his position that the – that the recusal matter is not ripe. It stands to reason, therefore, that if you wish to make an application regarding the recusal of the Commissioner, that gets made to the Commissioner after the Hearing Officer's proposed order and recommendations go to her for review and for her final decision.

Lee: Even if the request is not only to recuse the Commissioner, but the Hearing Officer appointed by the Commissioner?

Meisenheimer: That's correct.

Lee: And that's in the five (5) days period?

Teichman: That really – that's something that – recusal issue needs to be addressed after the hearing officer issues his proposed order and recommendations.

Lee: And is there a twenty (20) day period between – I'm just, I guess I'll just have to –

Teichman: Sure, I think we need – let's just finish with your argument. Ms. Rangan has some argument I think she wishes to make.

Lee: Yep, she sure does.

Teichman: And then we'll address procedural matters as far as the time that the record's

extent that there was going to be a change in policy – in plans of some sort, and, and Citicorp Insurance was going to start selling insurance to the public, they would be coming before you and making that clear. So to the extent that there was any lack of clarity on that, Ms. Mulholland has urged me to clarify that. They are captives, they don't sell to the public. There's no plans that that's going to change. This transaction is positive for Delaware. The fact of the matter is, it *is* a progressive transaction, it *is* a leading transaction, Delaware is a progressive state, and, and uh, it ought to be approved. Thank you so much for your time and attention again.

Meisenheimer: We have five (5) days that we're going to keep the records open. Which that will be until June the 9<sup>th</sup> and for you to submit whatever documents, additional documents for the Department's review. Now, after that five (5) days we're going to keep it open another five (5) days to give each party to have a chance to, uh, make their comments regarding that.

Teichman: Let's make clear that what you – just so everybody's clear, that – what you – you want to limit the second five (5) days to issues that are only raised in the submissions that occur in the first five (5) days.

Meisenheimer: Right. So we have ten (10) days from today. All right. We'd like to thank everybody for coming, for your patience, and for your uncut.

Teichman: Before we – actually, before we close out the record, I want to make sure that I have everybody's exhibits. For Travelers, I actually have two (2) exhibits. Is that your recollection? Okay. Mr. Lee, I believe I have four (4) exhibits from you, is that correct? And Ms. Rangan, let me check, I think I have five (5). Is that your recollection? No, strike that, six (6), I have six (6). And the time is 4:00 in the afternoon, Thursday, the 4<sup>th</sup> of June, and we are off the record.

going to be left open and so forth afterwards.

Lee: Okay.

Welch: Your Honor, if I could take – if I could just have two (2) minutes of argument, I promise it won't go beyond that, but if –

Meisenheimer: Well, I was going to give you a rebuttal, so go ahead, since you went first. But do you want to wait? That's fine.

Welch: Go ahead.

Rangan: I think based on the testimony we heard today, the questions and answers, I have more reason now to believe that this merger will *not* benefit the community in any way. Particularly the ramifications are tremendous with globalization. Have we so quickly forgotten just about two (2) months ago Asia burped and the stock market went roller coaster ride! We're concerned about particularly the insurance and the banking mergers as one thing. The concerns stem from again, the appearance of a, uh, federal subsidy. Again, with the safety and soundness. Say, for example, I was a banking customer of this proposed CitiGroup. I also had insurance from this proposed CitiGroup and proposed CitiGroup had also insured say thousands of home in California and God forbid, California got hit with an earthquake. What will I do? I'm going to pull out my banking deposit, my investments, etc. etc. to ensure that I don't go down, I don't go under. And I'm sure if nothing else, the consumers in America do watch the natural calamities they're their front-page news, they're there on the news, and with the, uh, greater coverage of the finance sector, again on an hourly basis on the news, I think the consumers are getting a little more aware of what is happening and with the greater awareness, I think these collaborations are going to put a greater financial burden on the consumer and on the acquirer as well in this case and goes back to the strength, stability financially of the acquirer. We have already talked about concerns with the integrity of the acquirer, and I will let it rest at that. Again, on the current record of the various subsidiaries of Travelers Group, this merger request should be denied. I think I've covered it all. Thank you.

Welch: Of all the exhibits that Mr. Lee and Ms. Rangan put in, the one that stands out most in my mind now that I get a chance to look at it is Lee Exhibit #4. Matthew Lee is using every means possible to derail the Citicorp merger. He attacked Donna Lee Williams, the Insurance Commissioner, he attacks Your Honor, he attacks the witnesses here, he attacks the fed, he attacks the Hearing Examiner's financial analyst, none of it holds up. Absolutely none of this holds up. The fact of the matter is that as Mr. Michener pointed out, the statutory criteria have been met hands down. As the financial analyst for the Department pointed out, the statutory criteria have been met *hands down*. It's un rebutted. Now what about this divestiture point? Well, your own financial analyst points out that his analysis is flawless. He points out that Travelers is very, very sound, very, very profitable before the transaction. Citicorp – very, very sound, very, very profitable before the transaction. You put them together and you've got something even strong and even better. *If* there has to be some divestiture, the profitability was there before, the profitability was there after. Now obviously, divestiture can happen in a whole lot of different ways. It's the kind of thing that's going to come before groups just like yours. You'll get the opportunity under some circumstances, other insurance departments will as well, if there's going to be something. The *fact* of the matter is, attacking the financial analyst makes no sense. He looked at the issues, his analysis of it is flawless. There's simply no basis for the attack on him or the attack on, on, on the, uh, analysis. Beyond that, if one divests assets, one gets cash. Does that necessarily adversely impact? Just as a matter of common sense, does that adversely impact the business organization? Not necessarily. And I think that's inherent in your financial analyst's analysis. So the testimony of our witnesses remains un rebutted. It's a ca – what we're talking about here is captive insurance company. It does not sell to the public. It isn't gonna sell to the public. As Ms. Mulholland pointed out to me shortly before, or rather during the break, to the

Hello, my name is Gwen Jacobs. I am the President of New York ACORN, and I am testifying today for New York ACORN, and for Maude Hurd, ACORN's National President who was not able to be here.

In April ACORN did a study of Citibank's record on single family lending to borrowers of different races and incomes in ten cities; we also looked at their lending record by neighborhood in 6 cities. Finally, we compared Citibank's performance to the performance of other institutions.

What we found is that if you are lower income person of any race, and especially if you are African American or Latino, you had better not look to Citibank for a loan. Citibank is not looking for our business, and if we go to them, we are much more likely to be rejected. Citibank is not making loans in our communities and not meeting its basic legal obligations to serve **all** potential borrowers in its service areas.

Before I go over some of the details of Citibank's outrageously bad record, there are two important things to keep in mind. First, don't dismiss the numbers on Citibank's failure to serve low and moderate income people with the thought we can't afford to buy homes anyway. In cities around the country people with moderate incomes - below 80% of their areas median, and people with low incomes - incomes below 50% of the area median, even those with incomes below 30% of the area median, can and do buy homes. We can and do buy homes, and we can and do pay our mortgages. When banks will lend to us.

When banks like Citibank won't lend to us we pay someone else rent forever - often more rent than we would pay monthly for a mortgage - without ever building the equity of owning a home. Or we are forced to pay outrageous interest rates at mortgage companies. Potential homebuyers who would contribute to community growth and stability are forced to move in order to get a loan; houses are left abandoned, and neighborhoods deteriorate.

Now for the details.

- In 1996 ( the most recent year for which data are available) a Latino applicant for a home loan at Citibank was 300% more likely to be rejected than a White applicant. An African American applicant was 350 % more likely to be rejected than a white applicant.

How does this compare to other institutions?

- Citibank is much worse than your average bank. Citibank's 'rejection ratios' -the rate at which minority applicants are turned away as compared to white applicants - are substantially worse than the average rejection ratios of all lenders in the 15 major cities ACORN has studied. On average Latinos were rejected 1.7 times as often as whites in 1996 compared to 3 times as often by Citibank; and African Americans on average were rejected 2.1 times as often as White applicants compared to 3.6 times as often by Citibank.

How does this compare to Citibank's own past performance?

- Citibank's own performance is getting worse not better. Citibank's loans to African Americans and Latinos fell by more than 50% between 1995 and 1996. The share of Citibank's single family mortgages that went to Latino and African American families fell dramatically from 36% in 1995 to 13 % in 1996.

Even when we looked only at relatively high income applicants - families earning 50 and 60 thousand dollars a year and more, we found that African American applicants were rejected nearly 3 times as often as whites, and Latino applicants were rejected more than four times as often as whites.

One thing that is particularly disturbing about Citibank's record is the fact that not only do they reject minority applicants at high and growing rates, but also their practices - rejections, location decisions, advertising, outreach, customer service - who knows what combination of elements seem to be working increasingly to discourage or prevent minority families from even applying for loans. While the banks total number of applications per year is growing, both the percent of their applications from minority borrowers, and even the absolute number of such applications shrank between 1996 and 1995 to unacceptable levels. Total applications from African Americans and Latinos fell by 47 and 48 percents, respectively. The share of applications from African Americans declined in every city we looked at, and averaged only under 6% of all Citibank applications.

What if we look at neighborhoods, not individual borrowers, or if we focus on income alone, rather than race?

- Citibank has systematically redlined lower income neighborhoods of all races, as well as minority neighborhoods.

For example, Citibank made 104 loans in the Baltimore area in 1996. Only 13 of these, however, were made in inside the city limits - where the Citibank branch itself is located. Looking outside as well as inside the city, nearly half of the Baltimore areas neighborhoods (47%) are low and moderate income - that is, with average incomes below 80% of area median - but these neighborhoods received only 17% of the loans from Citibank. Neighborhoods with average incomes below 50% of area median are 16% of the metro area, but received only 2% of Citibank's mortgages. Neighborhoods with more than 90% minority residents make up 15% of the Baltimore metro area, but received only 1 mortgage loan.

In Miami, where nearly half of the metro area is made up of low and moderate income neighborhoods, Citibank made only 18% of its loans in these neighborhoods. Instead, a full half of the banks loans went to the only 21% of areas with average incomes above 120% of area median. Of its 343 loans in the Miami area, Citibank failed to make even a single one in the 15% of all area census tracts where minorities are more than 80% of the residents.

Here in New York City ACORN looked at more than 800 Citibank loans and found that Citibank makes few loans to any low income or minority neighborhoods, and that while it makes the majority of its loans overall in Manhattan, it makes essentially no loans at all to minority or lower income parts of Manhattan. (*show race map*) Citibank made no loans at all in census tracts in Manhattan which were more than 90% minority in 1996, and only 1 loan in a census tract with more than 75% minority residents in the borough, although there are a total of 76 such census tracts on the island. The bank made only 5% of its loans to such neighborhoods city wide, even though they make up 28% of the MSA.

Looking at income, (*show income map*) although 18.2 % of the New York metro area is low income, Citibank made only 6 loans in these areas. Moderate income census tracts, with incomes between 50 and 80 percent of the area median make up an additional 35% of the city, but received only 10% of Citibank's loans.

I could go on and on.

But what the numbers I have talked about, and those there wasn't time to go over, add up to is a clear picture of the fact that Citibank is steering capital away from us. They control huge amounts of capital and they are directing it away from low and moderate income people of all races, and from African Americans and Latinos of all incomes.

Without access to capital, no matter how hard we work, our families and our neighborhoods will never really thrive. By failing to make loans in our communities, - and they clearly fail to do so - Citibank is blocking our access to opportunity.

Given this record, it is absolutely wrong for Citibank to be given access to still more markets. Given this record, it is absolutely wrong to give Citibank still more market power. The Federal Reserve Board needs to say No to this greater concentration of wealth and power, and say Yes to democracy

My name is Gloria Waldron and I am a member of New York ACORN. I Am testifying in part for Ted Thomas, who is the President of Chicago ACORN, and was not able to be here.

I want to say first for Ted and others in Chicago and around the country how disappointed and angry we are that the Federal Reserve is holding hearings on this merger *only* here in New York. A huge merger is being proposed between two giant companies with bad records, and it is a merger that we and many others believe is illegal under current banking law. Tens of millions of consumers across the county will be affected by this merger , in Chicago, and in Oakland, in Miami, everywhere. But they are being denied the opportunity to comment on it on it person, and deliver their messages to the regulators about what is at stake here.

In Chicago in particular I know that not only ACORN, but also the Chicago Community Reinvestment Coalition, and the Woodstock institute, and others, groups with a long, active, and successful history of fighting for fair access to credit have asked for hearings. When the Federal Reserve Board refused, the Woodsotck institute proposed a video hearing, but the Board said that was too complicated too. When we see that the federal Reserve Board cannot even be bothered to take the trouble to be thorough in hearing from the public about a merger this important we are pretty upset.

Now I want to talk about three things.

First, Travelers record of ignoring inner city and minority neighborhoods  
Second, the total inadequacy of the Citibank's announced CRA commitment  
and Third, the illegal and dangerous nature of this proposed merger.

Travelers Insurance is not serving lower income, urban and minority neighborhoods. We don't have as many numbers on Travelers as we do on Citibank, because they do not have to make their numbers public. Thats part of the problem. What we do know isn't good though.

Insurance industry studies have pointed out that most of insurance agent's business comes from within 3 miles of their office location, and office location was a key element in the Justice Departments Fair Housing Suit against the American Family company in 1995. So, in order to back up what we know from experience about Travelers performance, ACORN has taken a look at their office locations and also their advertising practices.

What we found is that in the ten large racially mixed cities and their surrounding metro areas that we looked at , three out of four Travelers agents are located in zip codes where whites make up more than 85% of the population.

The travelers agents are located mostly in suburban areas, especially wealthier and whiter ones. Fewer than 1/3 of the agents overall were located within the city limits, and this ratio was especially bad in some cities. In DC only 13% are within the city limits; in Bridgeport only 8% are within the city limits, and Philadelphia only 2% of travelers agents are located within the city limits.

The travelers agents are located miles away from low and moderate income and minority neighborhoods. 93% of Travelers insurance agents in the cities we looked at were further than 3 miles from ACORN neighborhoods, while as I said industry studies show that most of an agents business comes from within 3 miles of their office. In Philadelphia travelers agents are on average more than 20 miles from central North Philly. In New York the average distance of Travelers agents from downtown Brooklyn is 24 miles!

Little information about Travelers is available for average consumers, especially in large cities. The company doesn't list many agents in the phone book, and when it does list it is most often in suburban books. Unlike its competitors, Travelers does not advertise in city telephone books. In contrast, the company's internet home page - which is much less accessible to low and moderate income people, as well as to minorities who have a lower rate of internet access than the population as a whole - lists many more agents than do the phone books.

Gwen Jacobs has already talked about Citibank's poor lending record.

Citi has now announced a so called commitment to low income areas to go with its merger proposal. We think it is much too little and much too vague.

Citibank has promised 115 billion dollars over 10 years, which is only 2% of its assets annually. That's 2 % of its assets for African Americans and low and moderate income people. I call it insulting.

Other banks involved in recent mergers have promised much more - 6% for Nationsbank, 5.5% for Bank of America, etc.

Even within the 115 billion, most of what Citibank has promised is consumer lending, like credit cards and auto loans. This will not do anything to deal with their basic problem with making home loans, or small business loans, in our neighborhoods.

Finally, not only do Travelers and Citibank each have records of shutting the door to credit, homeownership and insurance in the faces of low and moderate income and minority people, but the giant combination they are proposing breaks banking laws designed to protect the public from too close relationships between banks and other kinds of companies, and make sure that banks and other kinds of companies are regulated as they need to be. These laws were passed by Congress - elected by the American people - and they have not yet been changed by Congress. We do not think that the Federal Reserve Board, on its own, should be deciding to change them, or to allow special exceptions.

Citibank and Travelers alone already have the power to block people in my neighborhood, and in neighborhoods like mine around New York and around the country from getting the financial resources we need to have a fair chance in this economy. They are doing it already. I am honestly scared at the thought of their getting together, getting bigger, getting even less interested in dealing with anyone who is not already part of their world. I am scared and angry.

# ACORN

**88 Third Avenue  
Brooklyn, NY 11217  
(718) 246-7900  
Fax: (718) 246-7939**

This year New York State has awarded a contract to Citibank to distribute food stamps and public assistance benefits electronically starting in January 1999. However, we have seen that Citibank is not a friend to us. It is basically a bank for the well-off. We will be hurt if we let our money go there. What I urge each and everyone of you to do is open up an account in the bank of YOUR choice now and do not let the city decide the bank for you. Tell others this message so that they too may benefit.

Este año el estado de Nueva York le grantó un contrato a Citibank para distribuir cupones de alimento y los beneficios de asistencia pública electrónicamente comenzando en enero del 1999. Pero, nosotros hemos visto que Citibank no es amigo de nosotros. Es simplemente un banco para los ricos. Vamos a sufrir si dejamos que el dinero vaya ahí. Lo que quiero que cada uno de ustedes hagan es que abran una cuenta en el banco que USTED elige y no deje que la ciudad decida para usted. Díganle este mensaje a otros para que ello también beneficien.

*Shirley Williams  
940 E. 220<sup>th</sup> Street  
Bronx, NY 10469*

*June 24, 1998.*

*Attention: Ms. Ezmini,*

*It is quite evident from recorded statistics that Citibank lending record to minorities and low income communities is rapidly on the decline. More minorities are readily rejected from loans compared to their white counterparts. This is a blatant violation of fair lending policies.*

*I speak from experience as an African American hoping to realize the American dream of owning a home for the first time, but was rejected after applying to Citibank for a loan. These unfair practices must be made known so that consumers will not support Citibank, Travelers which is illegally merge with Citibank, or any other Citibank affiliation.*

*Sincerely,*

*Shirley Williams*

No, this merger should not happen because, its illegal for one, two Citibank has a particularly poor record of direct lending to low income neighborhoods and people of color in New York City.

Citibank lends almost exclusively to upper income neighborhoods in Manhattan predominantly white neighborhood (more than 85% white), receive 75% of Citibank loans in 1996. Even more striking, Citibank made only six loans that year in low income neighborhoods in NYC, Metropolitan area.

Again Citibank rejected African American and Latino applicants for conventional mortgages for homes purchase (2 ½) times more frequently than white applicants.

Citicorp and Travelers Group pledged to invest 115 billion in low and moderate income community over the next decade as part of their historic MEGA MERGES.

Citicorp John Reed and Travelers Sandy Weill ear-marked more than half of that money 59 billion for credit cards students loans and consumer lending. The problem with that is Citicorp has not done anything in the past so what makes me believe that we as people of color or Latino can benefit from this merger. What I see is low and moderate income are being kept poor with high interest rate with the credit, and student loans. Meaning Citibank/Travelers are beneficiating greatly from this action and we as people of color are kept trying to keep our head above water.

Please, read between the lines because life gets no better and increasingly harder to strike for a better condition in our livelihood.

What can be done to improve our condition? We must have low interest rates and guarantee not to raise interest rate after 3, 6 month or even one year after contract. That would help toward depression in our poor neighborhood. That way we as people of color would an incentive to strike from depression to our Economy goals.

Thank you for listening.

UNITED WE STAND, DEVIDED WE FALL

It's that simple!!!!

We Are

ACORN

## CITY BANK'S UNFAIR POLICY

As a bank, there should be rules and regulations and even loop holes to go through. But every bank must try its best to meet the needs of the people.

The policies of City Bank is making it even harder for the poor to save money by raising the deposit for free checking to \$6000 in linked accounts, and its minimum ATM withdrawal to \$40; is a clear indication that the majority of poor people who are Blacks and Hispanics will be unable to maintain or open a saving account in that bank.

*Fredrica Spina*

## The Citibank Travelers Deal: Sign on the Dotted Redline

ACORN examined the lending record of Citibank in ten cities to determine the lender's commitment to low income and minority communities and individuals. These lenders took more than 14,500 applications and originated more than 10,000 single-family owner-occupied mortgages in 1995 and 1996. In 19 out of twenty cases, the share of loans and applications to Latinos or African Americans has declined dramatically between 1995 and 1996 and minorities tended to be rejected for loans substantially more frequently than whites. ACORN also looked at the geographic spread of Citibank's lending in six metropolitan areas and found that low-income and minority neighborhoods were poorly served by Citibank. Citibank's inadequate lending record calls the move to merge with Travelers into question on Community Reinvestment Act grounds. The markets Citibank currently serves are already underserved in terms of credit. Allowing Citibank easy access to new markets would only subject additional communities to its inequitable lending record.

Citibank's lending record is also compared to an ACORN study, which was released in September of 1997, which analyzed the aggregate lending records of banks in fifteen metropolitan areas. Using this information, ACORN is able to compare the racial rejection ratios of Citibank to the average rejection ratios of other institutions in the metropolitan areas where Citibank operates. In every case where Citibank operated in one of the previously studied cities, Citibank's performance was worse than the average.

The merger between Citibank and Travelers is additionally troubling given Travelers dubious record of redlining its insurance products away from low-income and minority communities. Travelers has been charged with violations of the Fair Housing Act for offering homeowners insurance products whose underwriting guidelines have the effect of refusing to serve minority neighborhoods. In New York City, Travelers' auto insurance coverage seems to avoid the Bronx and Queens, effectively screening out many minority drivers. These anecdotal problems suggest there may be more beneath the surface of Travelers performance, but there is no comparable disclosure requirement in the insurance industry to the Home Mortgage Disclosure Act ACORN used to evaluate Citibank.

The findings of ACORN's study on Citibank include:

- **Latino rejection ratios are getting worse at Citibank:** For every white who was rejected by Citibank in 1995, more than two (2.08) Latinos were rejected. In 1996, three Latinos were rejected for each white who was turned down -- an almost fifty percent increase. This is worse than ACORN's 1997 analysis described above which found on average 1.73 Latinos were rejected for each white in 1996 nationwide.
- **Citibank's African American rejection ratios are higher than the national average:** In 1996, the African American rejection ratio at Citibank was 3.59 -- down from 4.12 in 1995. While there is some improvement, Citibank's African American rejection ratio is 70% greater than the 2.11 ACORN found nationally.
- **Applications from minorities are shrinking at Citibank:** Total applications from African American and Latinos fell by nearly half between 1995 and 1996. The number of Latinos applying for Citibank loans fell by 48% and the number of African Americans fell by 47%. The share of applications from African Americans and Latinos dropped to 15% by 1996 -- more than 60% decline since 1995. There was a decline in the share of Latino applicants between 20% and 80% in every city except for Miami which increased 30%. All told, the share African American applications at Citibank declined in every city and averaged only 5.85% of all Citibank applications.

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<sup>1</sup> Rejection ratios compare the rejection rates of minorities compared to the rejection rates of whites, so if ten percent of white applicants were rejected and twenty percent of African Americans were rejected, the rejection ratio would be two

- **Citibank made half as many loans to minorities in 1996 as in 1995:** The number of loans Citibank made to Latinos and African Americans fell by 53% and made up fewer than 15% of the number of loans in Citibank's mortgage portfolio.
- **Citibank rejects even wealthy minorities more frequently than whites:** In six of the cities surveyed, African Americans and Latinos earning more than 120% of the median income were rejected more frequently than similar white applicants. Wealthy Latinos were rejected more than four times as frequently as wealthy white applicants on average. Wealthy African Americans were rejected nearly three times as frequently as wealthy white applicants on average.
- **Citibank loans almost exclusively to wealthy white neighborhoods:** Citibank has systematically engaged in a practice of relining minority and low income neighborhoods, leaving them starving for credit. ACORN looked at over 3,000 home purchase mortgage originations in New York, Washington, Baltimore, Chicago, Oakland, and Miami. In every instance, Citibank loaned almost exclusively to the very whitest and upper income areas while at the same time virtually ignoring minority and low-income areas.

## Citi by City Analysis

### Baltimore

**Lending Record by Race and Income of Applicant:** The number and share of minority conventional mortgage applications has dropped off sharply at Citibank in Baltimore between 1995 and 1996. African American applicants accounted for only 10.2% of Citibank's 1996 applicants, down from 38.2% in 1995. There was only one Latino applicant in 1995 and none in 1996. Over the same period, the share of white applicants grew 61.3% to reach 70.9% of all applications. The number of conventional loans to African Americans fell from 38 in 1995 to 11 in 1996 representing a 69.3% decline in the share of Citibank's loans to African Americans.

In 1995, the rejection ratio for African Americans was quite low -- only 1.09 African Americans were rejected for each white rejection. By 1996, 3.15 African Americans were rejected for every white applicant who was turned down. Incredibly, even wealthy African Americans were 7.25 more likely to be rejected than similarly affluent white applicants, the highest figure of all Citibank operations surveyed.

**Lending Record by Race and Income of Neighborhood:** Citibank made 104 mortgage loans in the Baltimore metropolitan area in 1996. Disturbingly, only 13 of them were made inside the city limits, despite the fact that the only Citibank branch is located at Baltimore's downtown Inner Harbor. Nearly half (47%) of Baltimore neighborhoods are low- and moderate income, but Citibank made only 17% of its mortgage loans to those neighborhoods. The poorest areas received the very least from Citibank. Neighborhoods earning below fifty percent of the median income are 16% of the metro area but they received only 2% of Citibank's mortgages, eight times less than their share of the city. This disparity was made up by Citibank in the wealthy areas. The wealthiest neighborhoods made up 16% of the metro census tracts but received more than 50% of Citi's mortgage originations -- a 300% over representation.

Minority communities were particularly hard hit by Citibank's indifference. One quarter of Baltimore MSA census tracts are minority, but they received only 3% of Citibank's mortgages. Neighborhoods which are more than ninety percent minority received only one mortgage loan (1%) despite making up 15% of the metro area. Neighborhoods comprised of 90% white residents make up 47% of the metro area, but Citibank made 66% of its loans to these areas.

## Chicago

**Lending Record by Race and Income of Applicant:** While the total number of Citibank's applications grew slightly in Chicago between 1995 and 1996, the number and share of minority applicants fell sharply. Applications by African Americans and Latinos dropped off by half between 1995 and 1996 (from 221 to 109 and 402 to 177 respectively). The share of applications to minorities also fell by more than half, down 53.0% by African Americans and 58.1% by Latinos. The number of loans to African Americans and Latinos in Chicago has also been cut by more than half and the share of loans to African Americans has fallen by 57.5% between 1995 and 1996 to 5.4% of all Citibank's conventional mortgages. The share of loans to Latinos fell by 62.7% (to 10.0% of Citi's loans) in 1996.

In 1995, African Americans were four and a half times as likely as whites to be rejected at Citibank in Chicago and Latinos were nearly three (2.78) times as likely to be rejected. In 1996, the figures fell slightly to 2.52 for African Americans and 2.6 for Latinos. ACORN's analysis of all lenders in the 1996 Chicago market found that African Americans were rejected 3.17 times as frequently as whites, only slightly worse than Citibank's own record and that Latinos were rejected 1.93 times as frequently as whites, making Citibank worse than the market as a whole.

**Lending Record by Race and Income of Neighborhood:** Although nearly twenty percent of Chicago's census tracts are below 50% of the median income, Citibank made only 32 loans in these neighborhoods, only 3.12% of its mortgage originations a more than six-fold under representation. Another 30% of Chicago's census tracts earn between 50% and 80% of the median income, yet received only 22.4% of Citibank's mortgages, 30% fewer than their proportion in the metropolitan area. Nearly 45% (43.9%) of Citibank's loans were made to the city's most affluent neighborhoods even though they make up just 15% of the metro area -- nearly a three hundred percent over-representation.

Minority communities were especially underserved by Citibank. Though 30% of the city's census tracts are predominantly minority but they received only 4.6% of Citibank's mortgages. The 19% of the census tracts where more than 90% of the residents are minorities received only 1.7% of Citibank's mortgage loans. In comparison, the 45.0% of the census tracts which more than 85% of the residents are white received 71.0% of Citibank's mortgage originations.

## Miami

**Lending Record by Race and Income of Applicant:** The share of applications by African Americans fell from 18.8% in 1995 to 7.5% in 1996. The number of loans to African Americans fell by more than 50% (from 31 to 15) between 1995 and 1996. The share of loans to African Americans decreased by 69.3% to only 4.9% of Citibank's conventional mortgages. African Americans were rejected more than three (3.25) times as frequently as white applicants in 1996. *Even wealthy African Americans are rejected more than two and a half times (2.57) as frequently as wealthy white applicants.*

**Lending Record by Race and Income of Neighborhood:** While nearly half of Miami's metropolitan area is low- and moderate-income neighborhoods, Citibank made only 18% of its 343 home loans there. Instead, it made almost half of its loans to census tracts over 120% of the median income, despite the fact that these areas make up only 21% of the metropolitan area. There is a more than a 200% over representation of the most wealthy areas in Citibank's loan portfolio. Those that lived in neighborhoods earning less than half the median income, about a fifth of the metro area, fared the worst. Only 3.5% of Citi's loans went to those neighborhoods -- a more than fivefold under representation.

Minority communities received even less from Citibank. Incredibly, Citibank failed to make even a single loan in any census tract where minorities comprise more than 80% of the residents despite the fact that these tracts make up 15% of the metropolitan area. Overall, the minority areas, which are nearly a fourth of the city received only 3.5% of Citibank's home loans -- a more than six fold

under representation. The whiter areas, however, received ample access to credit. Areas where more than 75% of the residents are white received 87% of Citibank's loans despite representing only 63% of the metro area. Census tracts where more than 95% of the residents are white represent ten percent of the city, but these tracts received 25% of Citibank's mortgages.

## Las Vegas

**Lending Record by Race and Income of Applicant:** Though lending activity decreased substantially between 1995 and 1996, it was most apparent amongst minority applicants. The number of African American applicants fell from 32 in 1995 to 2 in 1996. Latino applications declined from 107 to 5 in 1996. The share and number of loans to minorities also declined. Only two African Americans and one Latino applicant received Citibank loans in 1996. The share of African American loans fell 63.7% to 2.8% of Citibank mortgages in 1996. The share of loans to Latinos dropped 95.9% to 1.4% of Citibank's conventional mortgages.

## Los Angeles

**Lending Record by Race and Income of Applicant:** Between 1995 and 1996, Citibank took 50% more applications and made 57% more loans, but the benefits of this increased lending went predominantly to white and affluent borrowers. The share of African American applicants fell from 11.2% in 1995 to 3.5% in 1996 and the real number of applicants fell by more than half from 57 to 27. The number of Latino applications fell from 252 to 78, and the share of Latino applications dropped from 49.7% in 1995 to 10.2% in 1996. The number of loans to whites grew from 66 in 1995 to 297 in 1996 -- a 350% increase. Over the same period the number of loans to African Americans dropped 57% to just 11 originations, a paltry 2.4% of Citibank's mortgages in 1996. Loans to Latinos decreased 70.8% to 40 mortgages, representing only 8.7% of Citibank's originations.

Citibank rejects minorities more frequently than whites and more frequently than average lenders in Los Angeles. A 1997 ACORN study of all lenders in Los Angeles found that African Americans were rejected 1.69 times as frequently as whites and Latinos were rejected 1.38 times as frequently in Los Angeles in 1996. Citibank rejected African Americans 3.26 times as frequently as whites in 1996 and Latinos 2.40 times as frequently. Even for applicants who are all over 120% of the median income, Citibank rejected wealthy African Americans nearly three times as frequently (2.98) as wealthy whites and wealthy Latinos more than three times as frequently (3.13).

## New York

**Lending Record by Race and Income of Applicant:** Although applications to Citibank increased by nearly 25% and loans increased more than a fifth between 1995 and 1996, little of this increased lending activity benefited minorities or those with low incomes. African American applications climbed 8.5% but the share of African American applicants fell by 10.7%. Latino applications fell slightly, from 134 to 128, but the share of Latino applications fell 21.4% to just 5.0% of all Citibank applicants. Lending to African Americans and Latinos is also dropping. Citibank made 9% fewer loans to African Americans in 1996 than 1995, but the share of loans to African Americans fell 25.0% to 6.6% of Citibank's mortgage originations. Citibank made 18.4% fewer loans to Latinos in 1996, but the share of loans to Latinos fell 32.5% to 3.5% of Citibank mortgages.

Citibank's rejection ratios are higher than average New York lending institutions ACORN studied in 1997. At average New York institutions, African Americans were rejected 2.13 times as frequently as whites in 1996, but at Citibank they were rejected 2.67 times as frequently. Latinos were rejected 1.69 times as frequently as whites on average in 1996, but at Citibank they were rejected 2.39 times as frequently. Even the wealthiest minorities were rejected more frequently than whites with similar incomes. African Americans earning over 120% of the median income were rejected 2.63 times as frequently as whites earning the same amount in 1996. Wealthy Latinos were more than twice (2.12) as likely to be rejected as wealthy white applicants in 1996.

**Lending Record by Race and Income of Neighborhood:** ACORN examined more than 800 loans Citibank made in Manhattan, Brooklyn, Queens and the Bronx and determined that Citibank makes very few loans to low income and minority neighborhoods at all, makes the majority of its loans on Manhattan, and makes essentially no loans to the minority and low income areas on Manhattan. Only 3% of Citibank's loans went to neighborhoods where minorities made up more than 90% of the population, even though these neighborhoods represent 15% of the MSA -- a fivefold under representation. Of the 21 loans made to these neighborhoods, none were made on Manhattan. Citi made only 5% of its loans to census tracts where minorities made up more than 75% of the population, even though they represent 28% of the MSA. Only 1 of these loans, less than a tenth of one percent of Citi's mortgages in 1996, was made on Manhattan even though there are 76 census tracts on the island with these demographics.

Even in the other boroughs, Citibank's record of lending to minority neighborhoods is weak. Only 22% of its lending in Brooklyn, Queens, and the Bronx went to census tracts where minorities make up the majority of the population. Even fewer (10 %) went to neighborhoods where minorities make up more than 75% of the population.

In contrast, the very whitest neighborhoods in the city received the majority of loans. Across all boroughs examined, neighborhoods where whites made up more than 85% of the population received 53% of the loans, although they only make up one third of the MSA. In Manhattan, this is even more distinct, where these 85% white areas received 75% of the Citibank's loans.

The same pattern is evident in Citibank's lending to low income areas. Although 18.2% of the metropolitan area is low-income, it made only six loans in these areas -- fewer than one percent (0.7%) of all of Citibank's mortgage loans. Moderate income census tracts, between 50% and 80% of the median income, represent more than a quarter of the metropolitan area yet Citibank made only 10.0% of its loans to these neighborhoods. In contrast, while less than twenty percent of the census tracts in the metro area exceed 120% of the median income, Citibank made 48.0% of its loans to these areas -- nearly two and a half times their proportion in the city.

Again, the extreme focus of Citibank's lending went to Manhattan's upper income areas and the lending on Manhattan tended to go more towards wealthier areas than in Brooklyn, Queens or the Bronx. Only 0.2% of Citibank's loans on Manhattan went to areas below 50% of the median income and only 5.8% of its loans went to areas below 80% of the median income. In contrast, 67.2% of its loans went to upper income census tracts on Manhattan. There were 86 low-income census tracts on Manhattan that received no loans from Citibank. In Brooklyn, Queens and the Bronx, 17.3% of the loans went to areas under 80% of the median income and only 1.5% of Citibank's loans went to areas under 50% of the median income.

## **Oakland**

**Lending Record by Race and Income of Applicant:** There has been a dramatic decline in the number of applications from and loans to minorities in Oakland. African American applications fell from 144 in 1995 to 29 in 1996 -- a 79.9% decline. Similarly, Latino applications fell from 199 in 1995 to 38 in 1996 -- an 80.9% drop. Loans to minorities have also dropped precipitously, the share of loans to African Americans fell 74.4% from 24.0% of Citibank mortgages in 1995 to 6.1% in 1996. The share of Latino loans has fallen from 32.1% in 1995 to 7.89% of Citibank originations in 1996 -- a 75.4% decline. Over the same period the share of loans to the wealthiest borrowers has soared.

Citibank's rejection ratios are higher than at average Oakland lenders. Citibank rejected African Americans nearly three times (2.82) as frequently as whites in 1996, compared to ACORN's 1997 finding that average lenders in Oakland rejected African Americans 2.28 times as frequently as whites. Latinos were rejected 2.63 times as frequently as whites at Citibank in 1996, compared to the city average of 1.64. Even upper income African Americans were rejected more than five (5.14) times as frequently as affluent whites in 1996.

**Lending Record by Race and Income of Neighborhood:** The whitest areas received the majority of Citibank's lending in Oakland. Census tracts comprised of more than 90% white residents make up only 12% of the metropolitan area, but these areas received 30% of the mortgages -- nearly two and half times their representation in the MSA. Neighborhoods where between 80% and 90% of the residents are white received nearly twice the share of Citibank loans as their proportion in the MSA. In stark contrast, the neighborhoods with the highest concentrations of minorities, more than 75% of the residents were minorities, made up 16% of the MSA (more than the whitest neighborhoods) but received only 4% of the Citibank mortgages made in the metro area -- a 400% under representation.

Citibank lending also focused on the wealthiest areas in Oakland. Upper income areas represent one fifth of the metro area, but Citibank made 62.3% of its loans to neighborhoods over 120% of the median income -- a more than 300% over-representation. Low-income areas are twenty percent of Oakland's census tracts, but Citibank made only 14 loans there, a mere 3.8% of its loans.

### **St. Louis**

**Lending Record by Race and Income of Applicant:** Between 1995 and 1996, the number of African American applicants to Citibank fell by 75%, from 15 to 6. The share Citibank lending to African Americans declined even more sharply over the same period decreasing from 2.64% of all of its loans in 1995 to 1.33% of its loans in 1996. In all, Citibank made 8 loans to African Americans in 1995 and only 3 in 1996. It only took 2 applications from Latinos between 1995 and 1996, and made 2 loans.

The Citibank rejection ratio for St. Louis was the highest of the ten cities examined and markedly higher than the areas average lender. In 1996, African Americans were ten and half times as likely to be rejected as white applicants by Citibank. The analysis ACORN performed in 1997 found that the average lender in St. Louis rejected African Americans only slightly more frequently than white applicants, the citywide rejection ratio was 1.34 in 1996 about eight times lower than the Citibank ratio.

### **San Jose**

**Lending Record by Race and Income of Applicant:** African American applications fell to only four in 1996 from 18 in 1995. The share of African American applicants slid from 3.8% in 1995 to 0.8% in 1996. Latino applications fell from 114 to 19, and the share of Latino applications fell 83.9% from 24.3% to 4.9%. Lending to minorities has also fallen fast. In 1995, Citibank made 68 loans to African Americans and Latinos. By 1996, the figure had fallen to 11 -- more than an 80% decrease. The share of loans to African Americans fell from 3.3% in 1995 to 0.6% in 1996. Latinos received 18.9% of Citibank's mortgage loans in 1995, by 1996 they received only 2.6% of the loans.

Latinos were rejected more than four and a half times (4.59) as frequently as white applicants at Citibank in 1996. African Americans were rejected more than four times (4.33) as frequently as whites in 1996. In 1995, upper income Latinos were rejected nearly four times (3.95) as frequently as wealthy whites and in 1995 upper income African Americans were rejected more than four (4.30) times as frequently as upper income whites.

### **Washington, DC**

**Lending Record by Race and Income of Applicant:** Applications from African Americans fell from 194 to 76 between 1995 and 1996. The share of applications from African Americans fell from 32.7% in 1995 to 11.1% in 1996 -- a 65.9% decline. Latino applications fell from 57 to 15 between 1995 and 1996, representing a 77.1% decrease in the share of Latino applicants from 9.6% to 2.2%. Minority borrowers received nearly 40% of Citibank's mortgages in 1995 but only

10.4% in 1996. Citibank lending to African Americans fell from 116 in 1995 to 41 in 1996. Lending to Latinos fell from 32 in 1995 to 8 in 1996.

Citibank's rejection ratios exceed the average of Washington, DC lenders ACORN examined in 1997. Citibank rejected African Americans more than three (3.39) times as frequently as whites in 1996, compared to the city average of 2.31. It also rejected Latinos more than three (3.23) times as frequently as white applicants in 1996, compared to the area average of 1.83. Even upper income minorities were rejected more than three times as frequently as whites with similar incomes in 1996 (3.31 for African Americans and 3.37 for Latinos).

**Lending Record by Race and Income of Neighborhood:** Citibank made few of its loans to minorities in Washington, DC. Although 28% of the Washington, DC census tracts are minority majority, these tracts received only 9% of Citibank's mortgages in the metro area -- a 300% under representation. Conversely, neighborhoods where more than 80% of the residents are white received more than 70% of Citibank's lending, despite making up only 46% of the metro area.

Citibank made only 6 loans to low-income areas in Washington, even though 16% of the census tracts are low-income. Though nearly thirty percent of the metro area is moderate income Citibank made only 14% of its loans to these neighborhoods. Instead, it made the majority of its loans (55%) to census tracts over 120% of the median income even though these neighborhoods are only 17% of the metro area -- a three fold over-representation.

## **The Trouble with Travelers**

Though there is no comparable data that is publicly available on Travelers record of serving low-income and minority communities, there are recent events and studies which indicate that its record may be no better than that of Citibank's, indeed it could be worse. There is evidence that Travelers underwriting guidelines for homeowners and automobile insurance are structured in such a way as to make insurance more expensive, less comprehensive or unavailable in these communities.

The National Fair Housing Alliance has recently filed a Fair Housing Act complaint with HUD against Travelers for underwriting guidelines that disparately impact minority communities. In Washington, DC, for example, Travelers will not insure homes worth under \$250,000 which effectively makes its insurance unavailable for 90% of homes in Latino and African American neighborhoods. It also refuses to underwrite policies for homes older than 45 years, which excludes 38% of the homes in minority neighborhoods -- nearly twice the share of homes excluded in white neighborhoods. Additionally, Travelers requires a credit check to acquire its insurance product, even though credit history is not an indicator for riskier policyholders who might file more claims.

Travelers also makes little commitment to service the minority communities in Washington. Like many insurers, its agents have all but disappeared from minority and integrated neighborhoods, the complaint alleges. The National Fair Housing Alliance used matched-pair testers to verify bias in the underwriting of policies at Travelers and found differential treatment against African Americans.

The lack of service in low-income, minority inner city neighborhoods can be seen in other lines of Travelers business as well. It's Commercial Credit Corporation, which originates mortgages, home equity loans and consumer loans, operates in Illinois, New York, New Jersey, Ohio, and Pennsylvania. The vast majority of its 257 offices are located in the suburbs and small towns. In fact only one office was located in a major city, Philadelphia.

Its auto insurance products also suggest redlining low-income and minority communities. In New York City, the Department of Consumer Affairs found that although 1.26% of the states insured automobiles were in the Bronx and Queens, but Travelers seemed to avoid servicing these areas.

Only 0.46% of Travelers' 303,000 policies were for cars in the Bronx or Queens, 63% less than the two borough's share of cars.

The reliance on anecdotal evidence of Travelers record of serving low-income and minority neighborhoods fairly only underscores the need for further disclosure of Travelers business activities. The disclosure of lending and banking industry information has been critical to making the industry fairer to all consumers and borrowers.

### **Conclusion:**

The formation of Citigroup from the merger of Citibank and Travelers will create the largest financial entity in the world. Given the magnitude and complexity of the merger, ACORN urges diligence and scrutiny of this deal. ACORN believes Citibank and Travelers' poor record of serving low-income and minority individuals and communities must be weighed heavily as regulators consider granting historic powers to Citigroup.

The merger will create a banking institution which would be in violation of current banking law, namely Glass-Steagel and the Bank Holding Company Acts which prohibit the merging of depository institutions with insurers and securities firms. Additionally, the merger application needs to be considered with respect to the impact the acquisition will have on local communities as well as carefully consider Community Reinvestment Act issues. Local communities especially need assurances that this merger will not drain capital and resources out of their communities through deposits and insurance premiums to finance the expansion of Citigroup here and across the world.

All appropriate regulators with jurisdiction over this merger should hold public hearings in their communities to both ask the companies to more fully elucidate their record and to give citizens and community groups the opportunity to express their concerns and opinions.

### **Methodology:**

ACORN examined Citibank's lending activity in nine metropolitan areas between 1995 and 1996. ACORN analyzed Home Mortgage Disclosure Act (HMDA) data released from the Community Right to Know Network. HMDA requires depository institutions with more than \$30 million in assets to report annually to the Federal Financial Institutions Examination Council (FFIEC). The 1997 data will not become available until the middle of the summer. The reporting includes the number and type of loans correlated by race, gender and income of the applicants, the disposition of those applications in each Metropolitan Statistical area where loans are originated.

The lending record by applicant analysis covers applications for all conventional, single family owner occupied mortgages. Citibank took 13,899 of these applications in 1995 and 1996 and made 9,505 loans in the following MSAs: Baltimore, Chicago, Las Vegas, Los Angeles, Miami, New York, Oakland, San Jose, St. Louis and Washington, DC. The lending record by neighborhood analysis covers all single family, owner occupied mortgages, including FHA and VA loans, in six MSAs including: Baltimore, Chicago, New York, Oakland, and Washington DC. For both analyses Citibank operations which were examined included Citibank NA, Citibank FSB, Citibank Mortgage, Citibank Nevada, and Citibank New York State.

## **Traveling to Travelers: Travelers Homeowners Insurance Agents Located Far from Inner City Homes**

### **Summary**

Travelers homeowners insurance business primarily operates in the suburban, wealthier, whiter neighborhoods and caters to these customers while leaving minority and inner city neighborhoods alone. Its agents are located away from inner city neighborhoods and frequently at some distance from downtown areas. It markets its products and services aggressively on the internet but weakly in the yellow pages. These factors suggest that Travelers is actively pursuing wealthier clientele while ignoring inner city minority communities.

In general, the pattern of locating agents beyond inner city minority neighborhoods effectively redlines those areas out of Travelers' business. Most of an agent's business comes within 3 miles of their office location, according to industry studies, and agent location was a key element of the Justice Department's Fair Housing suit against American Family in 1995<sup>i</sup>. Many academic studies have demonstrated the correlation between agent location, service, and race. ACORN's preliminary look at the locations of Travelers agents and its advertising practices raises serious concerns about the company's commitment to inner city, and particularly, minority neighborhoods.

### **Findings**

- The racial composition of the zip codes where Travelers agents are located are measurably whiter than the overall racial breakdown of the cities studied. Three out of four Travelers agents are located in zip codes where whites make up more than 85% of the population. The metropolitan areas of the ten cities on average were made up of 76% white residents and 16% African American residents. In comparison, Travelers agents were located in zip codes which were 86% white and only 6% African American, meaning the agent locations are in zip codes that markedly whiter and more than two thirds less African American than the overall makeup of the metropolitan areas.
- Travelers agents are located predominantly in suburban areas, particularly whiter more affluent areas. In the metro areas studied, fewer than one third of the agents were located within city limits. Some cities were particularly ignored: only 2% of Travelers agents were within Philadelphia city limits, 8% within the borders of Bridgeport, and only 13% within the District of Columbia.
- Travelers agents are located some distance from inner city minority neighborhoods. On average, Travelers agents were more than 17 miles away from ACORN offices, typically located to be accessible to our low- and moderate-income constituency. In New York, the average distance from ACORN's centrally located Brooklyn office was over 24 miles. In Philadelphia Travelers

agents were an average of more than 20 miles away from ACORN's North Philadelphia office. Importantly, the vast majority of the Travelers agents are located further than three miles from ACORN neighborhoods, which is the range where agents do the bulk of their business. On average, 93% of all of Travelers agents studied were further than three miles from ACORN neighborhoods. Even in Dallas, the city with the highest density of Travelers agents within three miles, less than 20% of the agents were within that distance.

- Little information about Travelers is available for average consumers. Travelers has a paltry presence in commercial telephone directories with few agents listed at all and a complete lack of advertising (including the absence of the company umbrella logo unlike its competitors Prudential, State Farm, Nationwide, MetLife). To the extent there is a presence in the phone book, it is more likely to be in suburban editions than the city directories.
- In contrast, the company's internet home page lists many more agents than in the phone book. An extensive examination of inner city and suburban telephone directories in Chicago and Philadelphia found that there were three and two and a half times as many agents respectively on the internet than in the phone book. This demonstrates Travelers focus on white clients, who make up the majority of internet users.

## **Methodology**

ACORN examined Travelers agent locations in ten cities across the country both through a survey of business telephone directories as well as an analysis of the company's agent locations provided by its internet home page. The telephone directory survey consisted of comparing the agent listings in inner city and suburban directories. The internet site survey consisted of comparing the locations of the agents listed on its "Travelers Agent Locator" site within a fifty mile radius of an inner city location. The site provides addresses which were plotted on maps to show the geographic spread of its agents. Fifty miles was chosen to ensure as many agents within the metropolitan area could be examined as possible.

The cities studied were Bridgeport, Chicago, Dallas, Denver, Houston, Milwaukee, Minneapolis-St. Paul, New York, Philadelphia, and Washington DC. A phone book survey was additionally compiled for New Orleans. The zip codes of ACORN offices were used to measure the distance from Travelers agents. In general, ACORN offices are either located in central business districts or minority communities. The racial composition of the zip codes where Travelers agents are located was determined from census bureau data.

## **Internet "Travelers Agent Locator" Survey**

In general, Travelers agents were located far from inner city residents and well beyond the distance most agents would conduct business. Agents primarily solicit business through direct mail, cold calling and telemarketing within three miles of their location. On average, 93% of Travelers agents are further than three miles from ACORN neighborhoods. Philadelphia and Houston have no agents within three miles of ACORN neighborhoods. Even the city with the highest concentration of agents within city limits was less than 20%. This demonstrates a pattern of racial redlining on the part of Travelers to avoid serving these communities.

The average distance to a Travelers agent was more than 17 miles from ACORN neighborhoods. Bridgeport had the highest average distance of nearly 35 miles, New York ranked second averaging 24 miles, and Philadelphia was third averaging more than 20 miles. Only in Houston and Minneapolis-St. Paul was the average under 10 miles, averaging 8 miles each. On average, more than two thirds of the Travelers agents were located outside the city limits, a figure which is somewhat inflated by the high density of agents in Houston and Dallas which have very large city boundaries. The average without Houston and Dallas would be 20%, and none of the other metro area examined had the majority of agents within its boundaries.

### **Telephone Directory Survey**

ACORN examined the Travelers telephone listings in the major commercial yellow pages in each city and surrounding suburbs and found that there were more listings in suburban directories than those in the inner city directories. In all cases, Travelers had very limited advertising presence. It did not purchase advertising space, instead listing only the company name and a list of its agents. In some cases the agents were set apart from other listings with a box. Clearly one could easily overlook the limited Travelers listing in a section of the phone book which is often thirty pages long.

For example, there were two listings for Travelers agents in the Philadelphia Bell Atlantic Yellow Pages 1999 directory. One of those was downtown, the other was in the Northeast, a predominantly white and upper-middle class area of the city. However, there were twelve listings in the suburban Montgomery County and Bucks County directories. A thirty year examination of the county seat of Montgomery County shows Travelers increasing its suburban presence. In 1966, the Norristown phone book listed no Travelers agents, in 1978 it listed two, and in 1997 it listed five.

In Chicago's Consumer Yellow Pages, there are three Travelers agents listed, but four are listed in the suburban Winnetka, Lake Forest and Oak Park directories. In Manhattan, New York, there are eight agents listed for Travelers, but there are only four agents listed in Brooklyn and none in the Queens directory. In comparison, there are twelve agents listed in the suburban Nassau

county directory. There were 67 agents listed on the Travelers home page for Denver, but there were no listings for Travelers in the Central Denver US West 1996-1997 yellow pages.

### **Recommendations**

- Department of Justice and Housing and Urban Development should start a Fair Housing investigation of Travelers agent location and underwriting practices along with an aggressive matched pair testing program and bring charges against any and all violations of the law.
- The Federal Reserve should reject the application for Travelers to merge with Citibank. The pending merger should be rejected on Community Reinvestment Act grounds since neither partner has an acceptable service record. ACORN documented Citibank's record in a study released last month.
- The state insurance commissioners should investigate Travelers for fair housing violations to determine whether there are patterns of discrimination or bias around service and underwriting guidelines.

## **City by City Analysis**

**Bridgeport:** While there is one agent located in Bridgeport, there are no other agents located within twenty miles of the city. The majority of the agents are located in wealthy suburban areas including Danbury, Waterbury and Stamford. 71% of the agents are located in zip codes where whites make up more than 85% of the population.

**Chicago:** Of the four Travelers agents located within the city border, one is in the Loop, two are on the far north side and one is in the southwest on the border with Burbank. The majority of the agents are located in the suburbs, on average 18 miles from downtown. There are offices in River Forest, Hinsdale, and Lake Bluff but none in the predominantly minority areas of the south side and west side of Chicago.

**Dallas:** There are no Travelers' agents in the "southern sector" except for one office in the suburb of Cedar Hill. There are no offices in Oak Cliff, with a population of over 300,000. The southern sector is also the area with the largest concentration of minorities and low- and moderate-income families. In contrast, the exclusive enclaves of Highland Park and University Park, where the average house price is three times as high as for the metro area, each have a Travelers agent. 85% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

**Denver:** Travelers has dozens of branches in the predominantly white and affluent south east Denver and none in the African American and Latino areas of north and north east Denver. In comparison, in the mountain town of Evergreen there are three agents. 82% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

**Houston:** The Travelers offices are primarily located in more affluent areas of the Memorial or Galleria along with Bellaire, an upper middle class suburb. A few other agents are clustered in West Houston, another more affluent area. 64% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

**Milwaukee:** Travelers agents are primarily located in the more affluent suburbs like West Allis, Brookfield, and Wauwatosa. None are located in the minority and low- and moderate-income areas. The average agent is located 15 miles from downtown. Every single agent is located in zip codes where whites make up more than 85% of the population.

**Minneapolis-St. Paul:** The majority of Travelers agents wealthier and whiter suburbs including Minnetonka and Eden Prairie. Of the agents in St. Paul, one of the two is located in the posh Macalester-Groveland neighborhood. 64% of the Travelers agents are located in zip codes where whites make up more than 85% of the population.

**New Orleans:** From a phone book survey ACORN found that 66% of the Travelers agents are located in zip codes where whites exceed 85% of the population. One of the two offices located in a more integrated zip code is instead in a central business district with a markedly smaller population. ACORN made several test calls to Travelers agents and found that they would not provide Travelers policies for properties valued under \$50,000, which is above many inner city home values in New Orleans.

**New York:** The vast bulk of Travelers agents are on Long Island and north of Westchester County. The majority of the 20% of Travelers agents which are located within the five borough area are in downtown Manhattan. Two more are in Staten Island, one is in Brooklyn Heights, with two more in Brooklyn, two in the Bronx, and two in Flushing. 71% of the Travelers agents in the metro area are located in zip codes where whites make up more than 85% of the population.

**Philadelphia:** The only Travelers agent located within the city limits is in the Northeast, well over three miles from the concentrations of African Americans in the north and west of the city. 98% of the agents are located in the suburbs. There are six agents in Bucks County's seat, Doylestown, and three in Montgomery County's seat, Norristown. 91% of Travelers agents in the metro area are in zip codes where whites make up more than 85% of the population.

**Washington:** Only two agents are located with the city boundary, one just north of the White House and one in Georgetown. The remainder of the metro area's Travelers agents are in suburban Maryland (College Park, Wheaton, and Bethesda) and even further away in Virginia (including Manassas, Woodbridge, King George, and Montross). Three out of four agents are located in zip codes where whites make up more than 85% of the population.

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<sup>i</sup> Ritter, Richard J., "Racial Justice and the Role of the US Department of Justice in Combating Insurance Redlining," printed in *Insurance Redlining: Disinvestment, Reinvestment, and the Evolving Role of Financial Institutions*, 1997. Also, Gregory Squires, William Bellows, Karl Taeuber, "Insurance Redlining, Agency Location, and the Process of Urban Disinvestment." *Urban Affairs Quarterly*, 1991, vol. 26, no iv, pp 567-588.