July 5, 2001

Federal Reserve Bank of New York
Attn: Mr. James Beit, Bank Supervision Officer
33 Liberty Street
New York, NY 10045-0001
FAX: 212-720-1608

Dear Mr. Beit:

I am writing from the Woodstock Institute in Chicago, which is a 28-year-old nonprofit dedicated to promoting community reinvestment and economic development in lower-income and minority communities around the country. The Institute opposes the proposed acquisition of Grupo Financiero Banamex Accival and its subsidiaries (Banamex) by Citigroup until the issues described in this letter are addressed. We would like to also request public hearings on this matter.

Citigroup's proposal raises numerous policy and regulatory issues, including under the Community Reinvestment Act (CRA), which the Federal Reserve Board should closely consider during mergers and at the requested hearings. In November 2000, the Board allowed Citigroup to acquire Associates First Capital Corp., a company which had already been sued for discrimination against Latinos by the U.S. Justice Department, without allowing public comment on Citigroup's application. On March 6, 2001, the FTC sued Citigroup and Associates (re-named CitiFinancial), alleging systematic predatory practices in Citigroup's subprime lending, including deception of consumers, "packing" of credit life insurance, and "flipping" of high-cost loans. See Federal Trade Commission v. Citigroup, Inc., et al., Civil No. 010 CV 0606. Information from inside CitiFinancial that describes similar practices has recently become public. While we recognize the importance of Citigroup’s recent decision to stop selling single premium credit life insurance, this is only a first step towards curbing systemic abuses.

Citigroup's April 16, 2001, response to the FTC predatory lending complaint claims that "Citigroup is not liable for the acts of The Associates," and that "CitiFinancial is not a successor to The Associates and is not liable for its acts." This attempt to deny a remedy to victims of predatory lending is troubling, as is the Board’s refusal to conduct any on-site examination of CitiFinancial. Business Week of June 4, 2001, reported: "In Mexico,” says Victor Menezes, Citigroup's head of emerging markets, “the group hopes to

build a consumer-finance business--which typically specializes in high-interest lending to people with poor credit--with the help of Keith Hughes, the former Associates CEO, who will serve as a consultant." As Citigroup's home country supervisor, the Federal Reserve should inquire into and act on these issues—including awaiting the resolution of the FTC's predatory lending lawsuit against Citigroup—before even considering allowing Citigroup to dramatically expand its practices into Mexico.

Since Citigroup's subprime lending activities, alleged to be predatory by the FTC and others, occur in every service area of each of Citigroup's banks, these activities must be reviewed and acted on by the FRB, including under the Community Reinvestment Act. It is also significant that Citigroup controls a bank with a rare Needs to Improve CRA rating: Associates National Bank (ANB) in Delaware (ANB). Under the Gramm-Leach-Bliley Act of 1999 (GLBA), this is supposed to preclude Citigroup from acquiring another bank in the U.S. (in this case, California Commerce Bank).

In late 2000, after formal requests were filed with the Federal Reserve to notify Citigroup, pursuant to 12 U.S.C. §1843(l)(2) of its loss of GLBA powers in light of ANB's Needs to Improve CRA rating, the FRB issued a final regulation, "interpreting" (and ignoring) the plain language of the GLBA, and changing, without public notice, 12 CFR 225.84(a) -- a reinterpretation that benefited only one company: Citigroup. Citigroup's ANB still has a Needs to Improve CRA rating. While this should preclude approval of Citigroup's application, we also request hearings on this issue.

The Federal Reserve enforces the cap of 10% of U.S. deposits that any one institution can control. Here, U.S.-based Citigroup seeks to control over 25% of the banking assets of the U.S.'s neighbor to the south, Mexico. In 1998, the U.S. General Accounting Office (GAO) found that Citibank had violated its own supposed safeguards in assisting Raul Salinas de Gortari in a money laundering scheme that took $90 to $100 million out of Mexico. Citigroup suffered few to no repercussions. In November 2000, a U.S. Senate investigation into money laundering again found that Citigroup has insufficient controls in place to prevent money laundering. This is another reason for the requested hearings.

In 1998, Citigroup acquired the Mexican bank Confia (which the Fed soon forced to disgorge $12.2 million in money laundering-related funds). Through acquiring Confia, Citigroup locked in what amounted to a subsidy of $120 million a year, in the form of interest payments on a $2.5 billion

high yield promissory note. As public outrage grew, the Mexican agency IPAB paid off this note in May 2000. Citigroup sued and also threatened to pull out of Mexico. Ernesto Zedillo, just before leaving office in November 2000, agreed to continue subsidy payments to Citigroup. Serious questions are being raised about this arrangement, the tax treatment of this proposal, Citigroup's proposed continued ownership interest in the telecommunications firm Avantel, and some of the $3.6 billion of troubled loans that Banamex transferred to IPAB. These are all issues that must be inquired into and addressed before the Board even considers acting on (other than to deny) this Citigroup - Banamex application.

For the above reasons, the Federal Reserve Board should schedule and hold public hearings on Citigroup's application to acquire Banamex, and, on the current record, should deny Citigroup's application.

Sincerely,
Malcolm Bush
President