

October 2, 2000

Mr. Richard Erb
Licensing Manager
Bank Organization and Structure
Comptroller of the Currency
Mailstop 3-8
250 E St. SW
Washington DC 20219

Dear Mr. Erb:

The Woodstock Institute is a 27-year-old nonprofit organization located in Chicago that promotes community reinvestment and economic development in lower-income and minority communities. We have worked with a number of lending institutions to increase affordable and prime CRA-related lending in the Chicago region. Over the years, we have watched predatory lending destroy the hard work of community reinvestment and neighborhood revitalization. We are concerned that mergers such as the Citigroup and Associates merger will undo the efforts of our organization and our partner lending institutions. Therefore, the Institute requests that the Office of the Comptroller of the Currency (OCC) disapprove of Citigroup's application to acquire Associates. Under your normal merger application procedures, this acquisition should be denied or at least conditioned on Community Reinvestment Act (CRA) and fair lending grounds. Even under the streamlined procedures of the Change in Control Act, we believe ample grounds exist for disapproval. The competency, integrity, and history of Citigroup render the company unable to assume control of another major subprime lender.

Associates is a well-known predatory lender that has been subject to at least 100 fair lending lawsuits and is now the target of Department of Justice and Federal Trade Commission investigations. Furthermore, Woodstock Institute believes that the OCC must reject this proposed acquisition on anti-trust and safety and soundness considerations.

At the very least, we ask the OCC to delay approval until Citigroup publicly commits to institute fair lending protections regarding its subprime lending. This is critically important because the Associates and Citigroup's subprime affiliates make more than one hundred thousand loans on an annual basis (almost 150,000 single family loans in 1999). We understand that under the

Change in Control procedures, the OCC does not have the authority to make its approval conditional

upon specific improvements in CRA or fair lending performance. However, the OCC can follow the lead of the Office of Thrift Supervision (OTS) in securing voluntary commitments from lending institutions. When the OTS allowed Travelers to convert its bank to a thrift back in 1998, the OTS persuaded Travelers to provide consumer protections associated with its high loan-to-value loans and to make a nationwide CRA pledge of nearly half a billion dollars.

We ask you to reject the merger of Citigroup and Associates on the following grounds:

CRA and Fair Lending Issues

We are disturbed that the Associates and the subprime affiliates of Citigroup make a higher percentage of loans to traditionally underserved borrowers than the prime subsidiaries of Citigroup. We suspect that Citigroup and Associates are engaging in a pattern or practice of steering minorities towards high cost and abusive loans in violation of the nation's fair lending laws. Research has demonstrated that high percentages of subprime lending are not safe and sound for communities or lending institutions. HMDA analysis suggests that Associates and Citigroup target minority and low- and moderate-income neighborhoods for subprime loans. For example, in 1998 in the Chicago area, the Associates' market share of refinance loans in predominately black neighborhoods exceeded its market share in predominately white tracts by a factor of more than 6 to 1. In the same year, IMC, Citigroup's major subprime lender in the Chicago region, had a market share in black neighborhoods that was more than 16 times its market share in white areas. IMC ranked among the top 10 subprime lenders in black neighborhoods in the region in 1998. Additionally, Citifinancial may be violating Regulation C (which governs HMDA disclosures) by not reporting race for 76% of its loans. Dishonest and incomplete HMDA reporting defeats the purpose of HMDA, which is to determine if lending institutions are providing equal access to affordable credit.

Anti-Trust and Convenience and Needs

The Change in Control Act permit the agency to reject a notice if the negative impacts of monopoly are not outweighed by the positive impacts of serving convenience and needs. Citigroup's acquisition of Associates will

create monopolies in the subprime lending markets in several metropolitan areas across this country. Moreover, instead of providing benefits in terms of serving convenience and needs, these monopolies will only make affordable credit less accessible and available.

Competence and Integrity

The OCC should reject this notice under the competence and integrity factor of the Change in Control Act. HMDA analysis suggests that Associates and Citigroup target minority and low- and moderate-income neighborhoods for subprime loans. Woodstock Institute has been working with other community organizations to compile a nationwide laundry list of the deceptive and dishonest loan practices of Citigroup and Associates. The incompetence and dishonesty of these lending institutions is compounded when one considers that most of their abusive and high cost loans are targeted towards the elderly, minorities, low- and moderate-income borrowers and others who can least afford the abuses.

Some questionable practices that Associates has engaged in include: aggressive and abusive sales tactics that specifically encourage loan flipping (Virginia lawsuit); mandating credit life insurance for loan approvals (lawsuits in Georgia and Washington State); standard deceptive and fraudulent sales tactics, including non-disclosure of fees and egregious fees for services that the borrower did not request (Alabama lawsuit); issuing loans that included monthly payments greater than the borrower's income, with exorbitant interest rates and up to ten points in fees (New York lawsuit); and blatant lying on the part of Associates when informing borrowers about the terms and classifications of their loans (lawsuit in Pennsylvania). These lawsuits against Associates must be considered in light of Citigroup's recent legal troubles. In August of 2000, Citibank had to pay \$45 million to settle claims that the bank was charging late fees and extra interest when borrowers were actually paying on time. Citigroup does not present itself as a corporation that has managed itself in such a way that will enable it to adequately contain the abuses of such a troubled subprime lender as Associates.

Safety and Soundness

The OCC's change in control regulation requires the agency to reject notices when they pose a threat to the federal deposit insurance funds. The FDIC estimates that about 150 depository institutions make significant amounts of

subprime loans. Even in the midst of an economic boom, a disproportionate number of subprime lenders are problematic from a safety and soundness perspective. Although subprime lenders constitute about 1 percent of all insured financial institutions, they account for 20 percent of depository institutions that have safety and soundness problems.

The Citigroup and Associates merger would involve hundreds of billions of dollars in assets and hundreds of thousands of subprime loans. It is likely that such a large lending institution would be deemed too big to fail. And it is likely that such a large subprime lending institution would pose new and unprecedented threats to the federal deposit insurance funds.

Either Reject the Merger or Persuade the Associates and Citigroup to Accept Conditions

Fair lending protections do not only protect consumers. By preventing massive amounts of delinquencies and defaults, fair lending protections encourage safety and soundness. For all of the reasons stated above, we recommend that the OCC reject this merger. At the very least we insist that you persuade the Associates and Citigroup to institute the following fair lending protections:

- Prohibition on the financing of single-premium credit insurance,
- Limitation on the financing of fees to 3% of the total loan amount,
- Prohibition on prepayment penalties on subprime loans,
- Sufficient steps to prevent abusive fees to mortgage brokers (yield spread premiums),
- Prohibition on mandatory arbitration clauses in loan contracts,
- Assurances that borrowers receive the most affordable interest rate for which they qualify,
- Prohibition on repeated refinancings (flipping) with no benefit to the borrower, particularly when triggered by an undisclosed balloon payment, and
- Restitution for victims of Associates predatory loans.

Public Hearings

Since the stakes are so high in this merger, we ask that you conduct public hearings in the major markets of Citigroup and Associates. Written comments alone cannot adequately convey the breadth and depth of abusive lending undertaken by these lending institutions. Woodstock Institute believes that only a public airing of the critical issues in this merger will motivate the search for a just solution in this case.

Sincerely,

Malcolm Bush
President