

## Neighborhood Economic Development Advocacy Project

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October 24, 2000

John Opello  
Senior Case Manager  
Federal Deposit Insurance Corporation  
New York Regional Office  
20 Exchange Place, 4<sup>th</sup> Floor  
New York, NY 10005

RE: Revised attachment to Comment in Opposition to Notice of Citigroup's Intention to Acquire Control of Associates National Bank and Affiliates

Dear Mr. Opello:

Enclosed is a revised attachment to the comment in opposition to Citigroup's intention to acquire control of the Associates, submitted to the FDIC on October 18, 2000, by the Central Brooklyn Partnership, Cypress Hills Local Development Corporation, Greater Rochester Community Reinvestment Coalition, Neighborhood Economic Development Advocacy Project, NYPIRG, and Foreclosure Prevention Project for Seniors at South Brooklyn Legal Services. Please replace the map entitled "THE ASSOCIATES & CITIGROUP Foreclosure Actions Filed by Zip Code", with the enclosed map, entitled "THE ASSOCIATES & CITIGROUP SUBPRIME Foreclosure Actions Filed by Zip Code." Feel free to contact me at (212) 393-9595, with any questions. Thank you very much.

Sincerely,

Anna Kalthoff  
Projects Coordinator

Enclosure

**Central Brooklyn Partnership  
Cypress Hills Local Development Corporation  
Greater Rochester Community Reinvestment Coalition  
Neighborhood Economic Development Advocacy Project  
NYPIRG**

**South Brooklyn Legal Services - Foreclosure Prevention Project for Seniors**

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*c/o 299 Broadway, Suite 706, New York, NY 10007  
Tel.: (212) 393-9595 / Fax: (212) 393-9555*

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October 18, 2000

**BY HAND DELIVERY**

Mr. Daryl P. Stum  
Regional Director  
Federal Deposit Insurance Corporation  
New York Regional Office  
20 Exchange Place, 4th Floor  
New York, NY 10005

Re: Comment in Opposition to Notice of Citigroup's Intention to Acquire Control of  
Associates National Bank and Affiliates

Dear Mr. Stum:

The six undersigned organizations join together to urge the Federal Deposit Insurance Corporation (FDIC) to deny Citigroup's notice to acquire control of Associates First Capital Corporation and its subsidiaries, including Associates National Bank, Hurley State Bank, and Associates Capital Bank (Associates).

**Request for Public Hearings**

Before making its ruling, the FDIC should hold regional public hearings on the proposed merger. Public hearings are imperative given the public interest implications and high stakes of the proposed merger for borrowers and communities.

**Need to Deny Application**

Over the years, our communities have seen Citibank systematically close branches and fail to serve credit needs adequately. At the same time, Citigroup's subprime affiliates and subsidiaries have aggressively targeted the same neighborhoods with loan flipping, excessive fees, and other predatory practices. Citibank affiliates, including Commercial Credit and IMC have become notorious among legal services

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advocates and foreclosure prevention counselors. The situation is guaranteed only to worsen if Citigroup is permitted to acquire the Associates.

Known as one of the nation's worst predatory lenders, the Associates is under investigation by several federal and state agencies for its lending practices, and is the subject of at least four class action lawsuits and hundreds of individual actions. We have enclosed a video, prepared by advocates in Atlanta, as an exhibit to this comment. The video documents the terrible lending abuses wrought by the Associates and underscores why the FDIC should deny the proposed transaction.

Even under the FDIC's streamlined application procedures, the FDIC should deny or condition this proposed acquisition based on Community Reinvestment Act (CRA) and fair lending grounds. See 12 U.S.C. Sec. 1817 (j)(7); 12 C.F.R. Sec. 225.13. There are ample grounds for such disapproval: First, Citigroup's track record in subprime lending renders it unfit to assume control of another major subprime lender, whether measured by insurance risk, financial history, or character and integrity of corporate management. Second, the institution to be acquired is a well-known predatory lender that has been subject to at least 100 fair lending lawsuits and is now the target of United States Department of Justice and Federal Trade Commission investigations into its lending practices. Third, the FDIC must reject this proposed acquisition on antitrust grounds and based on safety and soundness considerations.

We call on the FDIC to delay a final decision 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). Under the Change in Bank Control Act, "The Board may impose conditions on any approval, including conditions to address competitive, financial, managerial, safety and soundness, convenience and needs, compliance or other concerns, to ensure that approval is consistent with the relevant statutory factors and other provisions of the [Bank Holding Corporations] Act." See 12 C.F.R. § 225.13(d). The FDIC should 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 in 1998, the OTS persuaded Travelers to provide consumer protections associated with its high loan-to-value lending and to make a nationwide CRA pledge of nearly half a billion dollars. Although the undersigned groups urge the FDIC to reject the proposed acquisition, if the acquisition is approved, a strong commitment would at least mitigate potential harms caused by the merger.

**Commenting Organizations**

Collectively our organizations represent millions of New Yorkers throughout the state.

- The Central Brooklyn Partnership is a community-based, not-for-profit organization that builds the capacity of people within Bedford Stuyvesant, Crown Heights and

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the surrounding area to build and exert economic power. The Partnership's initiatives combine financial cooperatives, leadership development, and financial literacy programs with advocacy and community organizing efforts that focus on economic justice issues.

- The Cypress Hills Local Development Corporation (CHLDC) is a community-based not-for-profit organization serving the northeast corner of Brooklyn. CHLDC has adopted a comprehensive approach to community development and focuses on the three main needs of the community: housing preservation and development, economic development and job training, and youth and family educational programs and services.
- The Greater Rochester Community Reinvestment Coalition was convened in 1993 to review lending patterns in the Rochester area. The coalition's membership, representing over 30 nonprofit organizations, looks at unmet credit needs within the community and works with local financial institutions to meet those needs.
- The Neighborhood Economic Development Advocacy Project (NEDAP) provides community groups with legal, technical, and policy support on economic justice and community reinvestment issues. NEDAP has led efforts to combat predatory lending in New York State, provided testimony to federal and state agencies and regulators on predatory lending, and acts as resource center on fair lending and community reinvestment for New York community groups and advocates.
- The New York Public Interest Research Group (NYPIRG) is New York State's largest student directed non-profit consumer protection, environmental preservation and social justice organization. Since 1973, NYPIRG has fought against bank redlining practices and homeowner tax inequities, and advocated for protections for consumers seeking loans, insurance, and other financial-services products.
- The Foreclosure Prevention Project for Seniors, a unit of South Brooklyn Legal Services, is an integrated outreach, education, and legal service delivery program for low income senior home owners at risk of foreclosure, with a specific focus on abusive lending practices by subprime mortgage companies. Since its inception in 1998, the Project has provided counsel and advice, referral services, and legal representation to more than 400 at-risk homeowners in all five boroughs of New York City. As a result, the Project has detailed knowledge of the array of abusive practices utilized by predatory lenders, brokers, and contractors in the City, and at the devastating effect that those practices have had on low and moderate income communities of color, particularly in Brooklyn and Queens.

Our organizations have seen predatory lending destroy the hard work of community reinvestment and neighborhood revitalization. Many of us have worked with lending institutions to increase affordable and prime CRA-related lending in our neighborhoods. Mergers such as the Citigroup and Associates merger will undo the

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hard work of our organizations and communities to secure services and lending by financial institutions.

FDIC's regulatory oversight is meaningless if this proposed acquisition, and others to come, are steamrolled through a 20-day notice and comment period without in-depth scrutiny, public hearings or additional time to comment. We urge you at the public hearings to request that Citigroup specifically address how it plans to clean up the Associates' predatory practices, as well as its the predatory practices of current Citifinancial and related companies.

**Citigroup's False Assurances**

We do not accept Citigroup's public statements that it will clean up the Associates:

Citigroup recognizes that legitimate questions have been asked by regulators, community groups and the media in the past regarding Associates. Citigroup will be a large participant in the consumer finance marketplace as a result of the Merger. . . . Involvement of companies like Citigroup helps enhance practices with this segment by expanding alternatives for consumers, increasing the quality of products offered and adhering to high standards for sales practices. Moreover, Citigroup has a long history of successfully integrating companies with differing cultures and bringing these businesses to its standards and practices quickly. (Notice of Change in Control, filed by Citigroup on Sept. 15, 2000, at 4.)

We find such statements disingenuous in light of the practices of Citigroup's subprime subsidiaries, formerly known as Commercial Credit, Source One, and IMC Mortgage Company, which now operate under the name Citifinancial. Complaints received by South Brooklyn Legal Services about IMC loans show certain common predatory patterns. They were originated by small lenders, several of whom have surrendered their licenses or declared bankruptcy, and then quickly assigned to IMC. Most of them are unaffordable or barely affordable, involve loan flipping, questionable home improvement contractors, and/or heavy refinancing of unsecured debt. Almost all of them involve inexplicably high brokers fees, and are targeted toward African-Americans.

Due to these predatory and unsound lending practices, IMC borrowers go into default much faster than Citigroup's conventional borrowers. An examination of all foreclosures commenced in Brooklyn during a 12 month period between August 1998 and July 1999 uncovered 115 foreclosures on loans by Citigroup's prime lender, Citibank, N.A., and 125 foreclosures on IMC loans. Of the Citibank mortgages in foreclosure, the average duration from origination to commencement of the foreclosure action was 10.0 years. More than 98% of the mortgages lasted for more than 3 years before falling into foreclosure, with 33% enduring for 11 or more years.

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In contrast, the figures for the IMC mortgages in foreclosure show that most of them were destined to fail from the beginning. The average duration from origination to commencement of the foreclosure for an IMC mortgage was just 1.6 years. Only one, or less than 1%, of the IMC mortgages examined endured more than 3 years before going to foreclosure. 19 mortgages, or 15.2%, lasted for one year or less before falling into foreclosure. Furthermore, racial targeting by IMC is demonstrated by the fact that 80% of the IMC mortgages that went into foreclosure were made in communities with at least an 80% nonwhite population. Only 33.0% of Citibank, N.A. mortgages in foreclosure were in communities with at least an 80% nonwhite population.

**Case Examples**

The following profiles exemplify the types of loans made and purchased by Citigroup:

Ms. G is a senior citizen on a fixed income who has lived at her home in the Bronx for more than 30 years. She cares for her teenage granddaughter. In 1998, she had owned her home free and clear when she was solicited for home repairs by a contractor going door to door. Because she was in need of repairs, and because she trusted the contractor, she agreed to a vastly overpriced home improvement contract, which was then parlayed into a \$75,000 loan with a private lender. The contractor and the broker, Equity Stars, have the same ownership, and the broker took an unconscionable \$15,000 fee for brokering the loan. The private lender also works for the broker and contractor. Less than one month after the closing, Equity Stars flipped her loan into another high-cost, high-interest loan with a lender called Capital Quest, this time for \$110,500. On her fixed income, Ms. G was unable to afford either loan. Equity Stars took another \$7,650 in brokers fees on the Capital Quest loan. The additional proceeds on that loan have never been traced, although they appear to have gone to the contractor/broker. The contractor was paid before the work was done. The work was very shoddy and never completed, and Ms. G never made payments on the loan as a result. Ms. G was assured at both closings that she did not need an attorney. Shortly after closing, the loan was sold to IMC, which soon after brought a foreclosure proceeding against Ms. G. The foreclosure is currently being pursued by Citifinancial.

Ms. B is a 65-year-old widow who has lived in her rural Ulster County home for more than twenty years. She survives on Social Security income and a small widow's pension. Several years ago, she was contacted by a home improvement contractor who proposed to fix up her house. The contractor obtained for her a \$38,573 mortgage, of which \$18,163 was used to pay off her purchase money mortgage and the remainder went to settlement fees and the repair work. After the contractor had started work and made a shambles of the house, he insisted that more money would be necessary to complete the repairs. Five months after the prior loan closing, the contractor induced Ms. B into an unaffordable \$51,675 refinance with a 5% "loan discount" fee, which significantly increased her monthly payments. The refinance was with Commercial Credit Plan of Georgetown Inc., a Travelers subsidiary that is now part of Citifinancial. Commercial Credit also financed a \$3,058 up-front credit insurance premium,

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gratuitously padding the principal of the loan for its own profit. In the end, Ms. B did not benefit from the refinance because most of the proceeds went to settlement costs and the contractor never completed the work. After paying her monthly mortgage payment, plus \$230 in additional property taxes and insurance, Ms. B was left with approximately \$100 monthly in residual income to cover all her other living expenses. Consequently, she defaulted on her payments. Citifinancial has commenced a foreclosure action against Ms. B.

Rather than cleaning up these subprime subsidiaries, Citifinancial has continued to foreclose aggressively on the predatory loans it acquires and services. Nothing that Citifinancial has done shows that it will do anything different with the high volume of predatory loans that the Associates will bring into the portfolio. The addition of the Associates to Citigroup's already suspect mix of subprime loan products would be an explosive combination. Indeed, Citigroup has demonstrated its intent to reap profits regardless of costs to poor communities: earlier this year, Citifinancial eagerly testified in support of raising a maximum state interest rate to more than 36%. (Crain's New York Business, March 13, 2000, at 42.) Citigroup has also indicated its opposition to prohibitions on the financing of single-premium credit insurance, which is a common predatory practice used to further skim equity from unsuspecting borrowers.

**CRA and Fair Lending Issues**

Under the Change in Bank Control Act, the FDIC is required to take into consideration the CRA record of institutions proposing to merge - in this case, the highly unusual "Needs to Improve" rating of Associates National Bank (Delaware). Such rating ranks ANB in the bottom 2% of reviewed institutions. In 1997, the FDIC found that ANB had made "few" qualified community development investments during the evaluation period. More importantly, the evaluators found "reason to believe that a substantive violation of the Equal Credit Opportunity Act (ECOA) and Regulation B had occurred," involving "disparate treatment of applicants and card holders on a prohibited basis." While the underlying discriminatory practices were not publicized, we hope that your office will use its own evaluation as a guide to the pending decision instead of accepting Citigroup's naked assertion that it "plans to review this issue to ensure that all necessary steps have been taken." (September 15, 2000 Notice of Change in Control at 8).

The Associates and the subprime affiliates of Citigroup make a higher percentage of loans to traditionally underserved borrowers than the prime subsidiaries of Citigroup. Associates and Citifinancial each made about 50 percent of their single-family loans to low- and moderate-income borrowers in 1999. In contrast, Citigroup's prime mortgage lenders made about 19 percent of their loans to low- and moderate-income borrowers. Citigroup's prime affiliates trail the national benchmark by 9 percentage points: in 1999, 28 percent of loans made by all lenders that report under HMDA were to low and moderate income borrowers. If Citigroup acquires Associates, it is likely that this uneven pattern will continue. A financial depository institution is not adhering to the spirit and letter of CRA when its subprime affiliates

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disproportionately serve lower income populations while its prime affiliates fall considerably behind its peers in serving lower-income borrowers. CRA has an implicit mandate to provide affordable credit since it requires lenders to serve credit needs of all communities consistent with safety and soundness. Research has demonstrated that high percentages of subprime lending are not safe and sound for communities or lending institutions. On CRA grounds, there is substantial grounds for rejection or conditioning of Citigroup and Associates' notice of application.

On fair lending grounds, Citifinancial may be violating Regulation C, which governs HMDA disclosures. Though Citifinancial made more than 19,000 loans, it reported 76 percent of borrowers as race unknown. Lending institutions are not required to report the race of borrowers when they take applications over the phone. It is unbelievable, however, that Citifinancial would have closed 76 percent of its 19,000 loans over the phone. Dishonest and incomplete HMDA reporting defeats the purpose of HMDA, and calls into question Citigroup's integrity. We ask that you investigate Citifinancial's HMDA reporting practices.

**Competence and Integrity**

The FDIC should reject Citigroup's notice under the competence and integrity factor under the Change in Bank Control regulations. HMDA analysis suggests that Associates and Citigroup target non-white and low- and moderate-income neighborhoods for subprime loans. The incompetence and dishonesty of these lending institutions are compounded when one considers that most of their abusive and high cost loans are targeted towards the elderly, people of color, low- and moderate-income borrowers, and other consumers who can least afford the abuses.

**Maps**

The attached maps illustrate the discriminatory patterns of Citigroup's subprime and prime lenders.

1. The Associates and Citigroup – Subprime Lenders: Foreclosures filed - by individual lender, Brooklyn, New York.
2. The Associates and Citigroup – Foreclosure Actions filed - by zip code, Brooklyn, New York.
3. Citibank, N.A.: Home Purchase Loans – 1999, New York City. This map shows Citibank, N.A.'s market share of home purchase loans in New York City.
4. Citibank, N.A.: Home Purchase Loans – 1999, New York City Metropolitan Region. This map shows Citibank, N.A.'s market share of home purchase loans in the New York City and Long Island MSAs.

Maps 1 and 2 show the concentration of foreclosure actions filed by Citibank-owned and serviced subprime lenders and the Associates in predominantly non-white communities in Brooklyn, New York. Maps 3 and 4 show the striking paucity of home purchase loans made by Citibank, N.A. in the low income communities and neighborhoods of color in New York City.

### Safety and Soundness Concerns

Under the Change in Bank Control Act, the FDIC must reject notices that pose a threat to the federal deposit insurance funds. According to the FDIC, the 150 depository institutions that carry subprime portfolios in excess of 20 percent of capital drain "a disproportionate share of supervisory resources, and create extremely high costs for the deposit insurance funds when institutions in these programs fail." (FDIC Press Release, "FDIC Proposes New Capital Requirements for Subprime Lenders," November 2, 1999.) Even in the midst of an economic boom, a disproportionate number of subprime lenders is problematic from a safety and soundness standpoint. Although subprime lenders constitute only 1 percent of all insured financial institutions, they account for 20 percent of depository institutions that have safety and soundness problems. Five of nine insured banks that failed in 1998 and early 1999 had significant subprime portfolios. Several of the subprime lenders that failed used accounting practices to cover up portfolios that contained disproportionately high rates of default.

The Citigroup and Associates combination 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, particularly given the high volume of predatory loans in the Associates' portfolio.

It is no coincidence that this proposed acquisition is occurring during a period when the predatory practices of Associates are facing regulatory scrutiny and legal challenges throughout the country. The Associates clearly needs the deep pockets of a Citigroup to survive, and Salomon Smith Barney, a Citigroup subsidiary, is already involved in the securitization of the Associates' loans.

### Reject the Merger or Set Forth Conditions for the Associates and Citigroup

Fair lending protections do not protect only consumers. By preventing massive amounts of delinquencies and defaults, fair lending protections protect safety and soundness. Thus, for safety and soundness factors and all the other reasons discussed above, the FDIC should reject this merger. At a minimum, we join with groups across the country to demand that you impose as a condition of approval that the Associates and Citigroup institute the following fair lending protections:

- Prohibition on lending based on the equity in the home rather than based on the homeowner's ability to pay;
- Sufficient steps to prevent excessive fees to mortgage brokers;
- Limitation on the financing of fees to 3% of the total loan amount;
- Prohibition on repeated refinancings (flipping) with no benefit to the borrower, particularly when triggered by an undisclosed balloon payment;
- Prohibition on the financing of single-premium credit insurance;
- Prohibition on prepayment penalties on subprime loans;

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- Prohibition on mandatory arbitration clauses in loan contracts;
- Assurances that borrowers receive the most affordable interest rate loan for which they qualify; and
- Restitution for victims of Associates predatory loans.

We also call on the FDIC to reveal publicly the results of your own investigations and the specific measures that will be taken to address each predatory practice that has been raised in numerous investigations and lawsuits. The public must then be given an additional opportunity to respond to the purported safeguards.

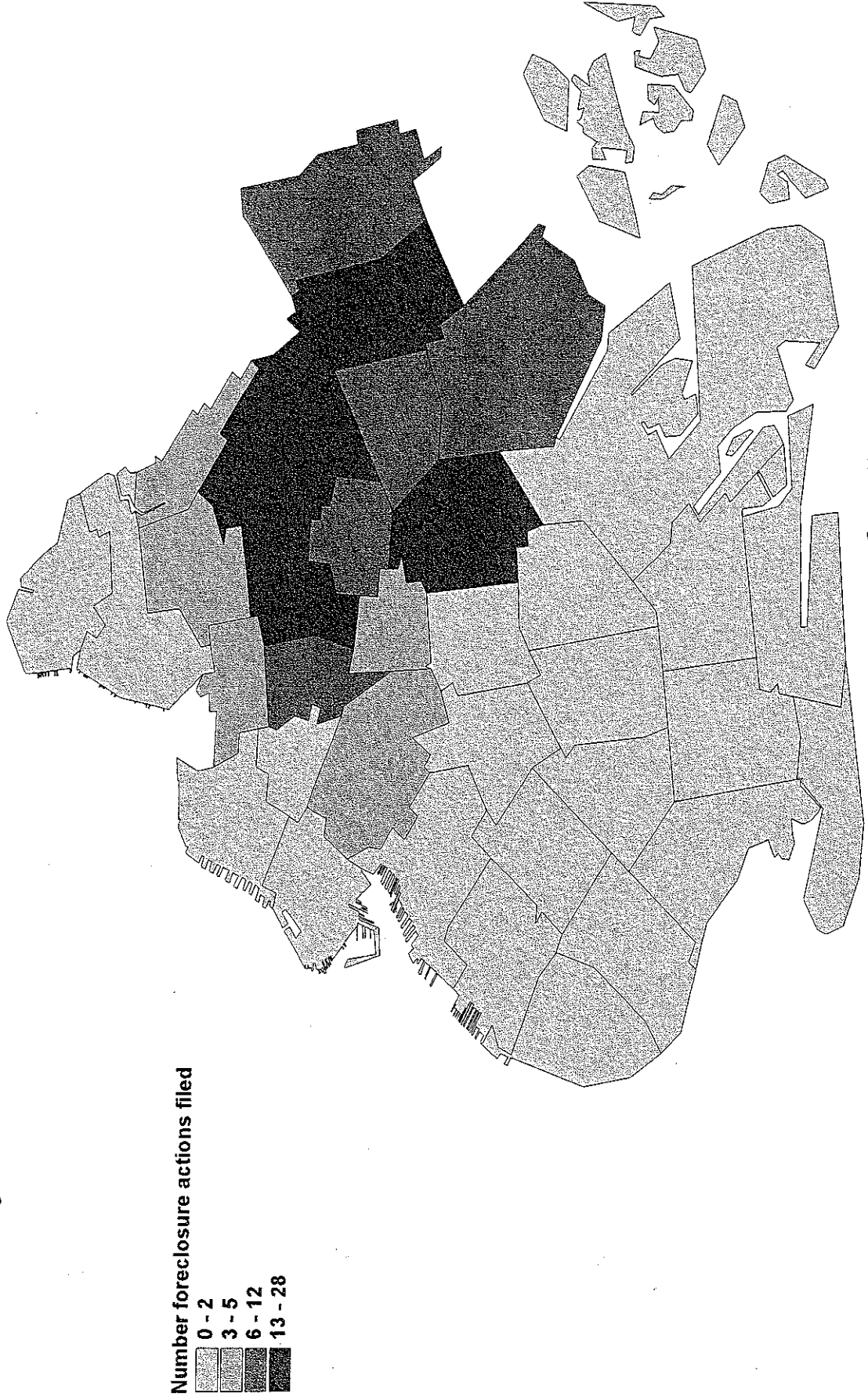
Thank you for your consideration of this comment.

Sincerely,

Central Brooklyn Partnership  
Cypress Hills Local Development Corporation  
Greater Rochester Community Reinvestment Coalition  
Neighborhood Economic Development Advocacy Project  
NYPIRG  
South Brooklyn Legal Services - Foreclosure Prevention Project  
for Seniors

# THE ASSOCIATES & CITIGROUP Foreclosure Actions Filed by Zip Code

## Brooklyn, NY

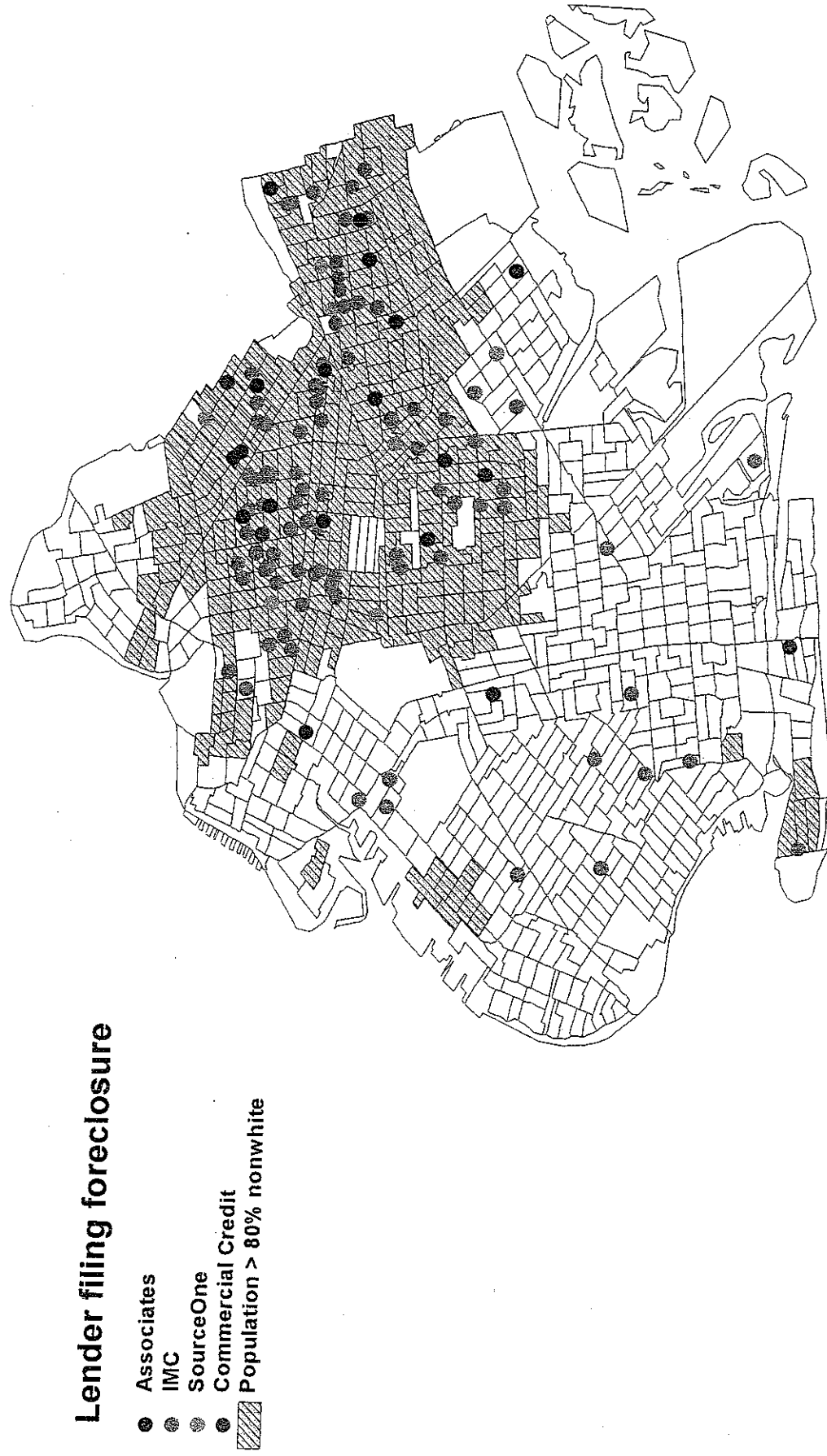


Source: Lis pendens filed between August 1, 1998 and August 1, 1999  
by The Associates, IMC, Source One and Commercial Credit

Prepared by Neighborhood Economic Development Advocacy Project - (212) 393-9595

# Line Associates and Citigroup - Subprime Lenders

## Foreclosures filed - by individual lender Brooklyn, NY



Source: Lis pendens filed between August 1, 1998 and August 1, 1999