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OF THE  
**FEDERAL RESERVE SYSTEM**  
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TO THE BOARD

**AUG 28 2001**

Carl V Howard, Esq  
General Counsel -- Bank Regulatory  
Citigroup Inc  
425 Park Avenue  
2nd Floor/Zone 2  
New York, New York 10043

Dear Mr Howard

This is in response to the request by Citigroup Inc , New York, New York ("Citigroup"), for an exemption from section 23A of the Federal Reserve Act (12 U S C § 371c) in order that Citigroup may transfer to Citibank, N A , New York, New York ("Citibank"), and certain other subsidiary banks of Citigroup (collectively with Citibank, the "Citibank Entities") certain assets of Associates First Capital Corporation, Irving, Texas ("Associates")<sup>1</sup>

Citigroup acquired Associates (assets of \$96 billion) on November 30, 2000 As part of an internal corporate reorganization, Citigroup now proposes to transfer the commercial finance, international consumer finance, and consumer credit card businesses of Associates (the "Bank Businesses") to the Citibank Entities The U S consumer finance business of Associates would not be transferred to the Citibank Entities as part of the reorganization and would be retained at the holding company level To facilitate the reorganization, Citigroup has requested an exemption from section 23A for the proposed transfer of \$46.7 billion of the assets of the Bank Businesses to the Citibank Entities<sup>2</sup>

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<sup>1</sup> The Citibank Entities consist of Citibank, Citibank (South Dakota), N A , Sioux Falls, South Dakota ("Citibank SD"), Citibank Delaware, New Castle, Delaware ("Citibank DE"), and Hurley State Bank, Sioux Falls, South Dakota

<sup>2</sup> In conjunction with the transfer of the Bank Businesses to the Citibank Entities, approximately \$18.7 billion of credit card assets, as discussed below, would be

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The proposed reorganization involves three sets of transactions. First, Citigroup would contribute the commercial finance companies of Associates (assets of \$20.2 billion) to Citicorp Leasing, Inc., a wholly owned, direct operating subsidiary of Citibank. Second, Citigroup would contribute the international consumer finance companies of Associates (assets of \$18.5 billion) to Citibank's Edge subsidiary, Citibank Overseas Investment Corporation. Third, Citigroup would effect a general restructuring and consolidation of its U.S. credit card business (including \$8 billion of asset transfers from Associates to the Citibank Entities that are nonexempt covered transactions under section 23A) into two bank subsidiaries (from the existing eight bank subsidiaries). The credit card restructuring would consolidate Citigroup's consumer credit card origination business in Citibank SD and its commercial credit card origination business in a new national bank.

Section 23A limits the amount of "covered transactions" between a bank and any single affiliate to 10 percent of the bank's capital stock and surplus, and limits the aggregate amount of covered transactions between a bank and all its affiliates to 20 percent of the bank's capital stock and surplus. Covered transactions include a bank's loans to an affiliate, investments in the securities of an affiliate, purchases of assets from an affiliate, and certain other transactions. The proposed transfers of \$46.7 billion of the assets of the Bank Businesses by Citigroup to the Citibank Entities are covered transactions under section 23A.<sup>3</sup>

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transferred between subsidiary banks of Citigroup. These transfers would occur in a manner that qualifies for the regulatory exemption from section 23A for transactions subject to review under the Bank Merger Act. See 12 C.F.R. 250.241. In addition, approximately \$14.1 billion of credit card assets would be transferred between subsidiary banks of Citigroup in a manner that qualifies for the statutory exemption from section 23A for transactions between sister banks. See 12 U.S.C. § 371c(d)(1).

<sup>3</sup> Although most of the transfers are in the form of share contributions, under Board precedent, the contribution to a bank of shares of an affiliate (that becomes a subsidiary, and not an affiliate, of the bank after the transfer) is treated as a purchase of assets by the bank from an affiliate to the extent that the contributed company has liabilities to an affiliate of the bank. As of March 31, 2001, the

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Section 23A specifically authorizes the Board to exempt "at its discretion transactions or relationships from the requirements of this section if it finds such exemptions to be in the public interest and consistent with the purposes of this section."<sup>4</sup> The Board has approved exemptions in similar cases for one-time transfers that are part of a corporate reorganization and that are structured to ensure the quality of the transferred assets.<sup>5</sup>

As in previous cases reviewed by the Board, the proposed transaction is a by-product of a one-time corporate reorganization. Also as in previous cases, Citigroup has made commitments to the Board designed to limit losses that might occur from the asset transfers. First, for a two-year period following the transfer of the Bank Businesses to the Citibank Entities, Citigroup would make quarterly cash contributions to each Citibank Entity equal to the book value, plus any write-downs taken by the bank, of any transferred assets that have become low-quality assets, as defined in section 23A, during the quarter. Second, Citigroup would make quarterly cash contributions to each Citibank Entity, for a two-year period following the reorganization, equal to the amount of any write-down during the quarter (i) of a transferred residual interest in a securitization or (ii) of an asset that was a low-quality asset, as defined in section 23A, at the time of its transfer to the bank. Third, Citigroup has committed that, before the transfer of the Bank Businesses, the boards of directors of each Citibank Entity would approve the transaction. Fourth, Citigroup has committed to submit written quarterly reports to the Federal Reserve Bank of New York demonstrating compliance with all commitments made in connection with the exemption request.

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Bank Businesses to be transferred to Citibank had borrowings of approximately \$30 billion from Citigroup or other affiliates of the Citibank Entities.

<sup>4</sup> 12 U S C § 371c(f)(2) (emphasis added)

<sup>5</sup> See Travelers Group Inc. and Citicorp, 84 Federal Reserve Bulletin 985, 1013-14 (1998)), Letter dated November 14, 1996, from William W. Wiles to John Byam, Letter dated August 6, 1987, from William W. Wiles to Timothy McGinnis.

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Furthermore, although Citigroup proposes to transfer some low-quality assets to the Citibank Entities, the Citibank Entities would not purchase any low-quality assets in the reorganization. In previous cases, any low-quality assets held by the affiliate being transferred to the bank were removed before the transfer of the affiliate's shares. The low-quality assets then were either separately transferred to the bank for no consideration after consummation of the share transfer or retained at the holding company level.

Citigroup, however, proposes to leave \$2.4 billion of the existing low-quality assets in the Bank Businesses and other businesses transferred to the Citibank Entities, and to transfer the businesses with sufficient capital to offset the low-quality assets. Citigroup has contended that this has the same effect as removing the low-quality assets and contributing them separately to the banks (as has been permitted in previous cases), and should not be deemed to be a purchase by the banks of low-quality assets from an affiliate because each bank would receive a capital contribution from Citigroup that exceeds the amount of the low-quality assets received by the bank. Citigroup has proposed to contribute \$7.6 billion of regulatory capital to the Citibank Entities in the reorganization. The Board believes that \$5.2 billion of regulatory capital – the amount of regulatory capital contributed to the Citibank Entities in the reorganization (\$7.6 billion) minus the amount of low-quality assets in the Bank Businesses and other businesses at the time of their transfer to the Citibank Entities (\$2.4 billion) – is appropriate and would leave the transferred businesses (approximately \$61 billion of assets) adequately capitalized.<sup>6</sup> Accordingly, no Citibank Entity should be deemed to be purchasing a low-quality asset in the reorganization.

The reorganization would enhance the ability of Citigroup to operate the Bank Businesses by integrating the management of those businesses with the management of the corresponding businesses at the Citibank Entities. In addition, the reorganization would provide the Bank Businesses with a more stable source of liquidity and would permit the Bank Businesses to operate at a

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<sup>6</sup> Although Citigroup's general section 23A exemption request relates to approximately \$47 billion of Associates assets being transferred to the Citibank Entities, the entire proposed restructuring (including those aspects of the transaction that do not require a section 23A exemption) would involve the transfer of approximately \$61 billion of assets to the Citibank Entities.

lower cost of funds. The reorganization also would increase the opportunities for the Citibank Entities to maximize their profitability by adding income-producing assets to the banks.

Neither the Office of the Comptroller of the Currency nor the Federal Deposit Insurance Corporation has objected to the proposal.

In light of all the facts of record, the proposed transactions appear to be consistent with safe and sound banking practices and on terms that would ensure the quality of the assets transferred. Accordingly, the transactions appear to be in the public interest and consistent with the purposes of section 23A, and the Board hereby grants the requested exemption.

This determination is specifically conditioned on compliance by Citigroup and the Citibank Entities with all the commitments and representations made by them in connection with the exemption request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific circumstances surrounding the proposed transactions, and may be revoked in the event of any material change in those circumstances or any failure by Citigroup or the Citibank Entities to continue to observe any of their commitments or representations. The grant of this exemption does not represent a determination concerning the permissibility of any other transactions that are subject to section 23A or concerning any other affiliates of Citigroup.

Sincerely yours,

(signed)  Robert deV. Frierson  
Robert deV. Frierson  
Deputy Secretary of the Board

cc Federal Reserve Bank of New York

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bcc Mr Frierson - MS 29  
Mr Alvarez - MS 1  
Ms Nardolilli - MS 9  
Mr Van Der Weide - MS 1  
Ms Cross - MS 408  
Ms M Clark - MS 408  
Ms Cox - MS 408  
Ms Ellis - MS 1  
BS&R Clearing Unit - MS 408  
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Legal Records (2) - MS 8