

Judging Citi, a Year Later Subprime reform 'on track'; critics unsatisfied

[ERICK BERGQUIST](#). [American Banker](#). New York, N.Y.: [Sep 10, 2001](#). Vol. 166, Iss. 174; pg. 1

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By the numbers, Citi seems to be making steady progress in its commitment to reform Associates First Capital Corp. and become a model subprime lending citizen. But the response of activists sometimes makes it seem that nothing has changed.

Which raises the question: Can Citigroup Inc. ever satisfy critics that it has done enough to improve its subprime lending operation?

After making a host of concessions last fall during the regulatory approval process, in February

[Citigroup](#) severed ties with 1,100 brokers who had worked with Associates. In June it agreed to stop selling single-premium credit insurance. In August it cut loose another 2,500 brokers and 300 correspondents and suspended foreclosure on 1,200 borrowers who may not

have been treated fairly. Finally, last week [Citigroup](#) announced a \$20 million settlement with the North Carolina attorney general over charges that some 9,000 borrowers were tricked into buying expensive insurance.

Yet consumer activists, and even some industry observers, are still skeptical over the success and sincerity of Citigroup's housecleaning.

Some of the conflict arises from a "glass half full, glass half empty" difference in perspective.

For example, some question how big a sacrifice it was for [Citigroup](#) to purge the brokers, some of whom were let go for reasons unrelated to abusive lending practices.

Typically, 20% of a lender's brokers generate 80% of loans it buys, said Michael McMahon, an analyst with Sandler O'Neill & Partners. That [Citigroup](#) suspended 64% of its brokers may not significantly affect its origination volumes, he said.

Moreover, it is routine for acquirers to dump some brokers and correspondents within six months of a purchase, said another observer, who asked to remain anonymous. Pruning Associates' network may have been less a policing effort and simply a part of Citigroup's transition plan, he said.

From Citi's point of view, the company can't seem to get credit for anything it does.

Broker practices were an agenda item in the earliest days of formulating a plan for addressing the public's concern over predatory lending, said Pam Flaherty, a [Citigroup](#) senior vice president with responsibility for community relations and outreach. "We were aware that brokers

were at the heart of that public discussion and were at the heart of a lot of the cases" that had generated attention, she said.

So it moved early and visibly on that hot-button item. Likewise, Citi has moved step by step to roll back some other practices that raised activists' ire, most notably when it eliminated single premium credit insurance.

Still, critics seem unsatisfied. Of course, on some level, [Citigroup](#) -- with its size and power -- will always be an easy target for activists. Still, the incremental nature of Citigroup's response seems to be feeding the problem. Most recently, it seems to have contributed to a sense that Citi is dragging its feet on the tough reforms.

"Can we ever be satisfied? Yes, but not if their policy continues to be reacting to each criticism by being hostile, and then relenting when there is incredible pressure, and finally meeting critics halfway," said Robert Gnaizda, the Greenlining Coalition's general counsel. "Each time they make an announcement you learn later there is less to it than you thought.

"That's why the critics are now highly skeptical."

Other consumer advocates agreed.

"While Citi plays around the edges, there are fundamental problems with their loan products," said Ira Rheingold, the head of the National Association of Consumer Advocates in Washington, who charged that the company's compensation structure still gives brokers an incentive to gouge customers. Prepayment penalties and large fees also plague [Citigroup's](#) subprime lending, he said.

The Greenlining Coalition plans to protest at a Citibank branch in Los Angeles on Tuesday, with 60 to 70 people dancing to a Mariacchi band playing a song titled, "Goodbye to Citigroup." Greenlining, which is an umbrella group for dozens of minority and religious groups, contends

[Citigroup](#) is a predatory lender, among other things.

In a progress report on its initiatives issued in late August, [Citigroup](#) championed its decision to sever business ties with Associates' partners, including the mortgage brokers and correspondent lenders. It emphasized the decision to abandon the sale of single-premium credit insurance, and detailed improvements at the retail level, such as a program that rewards borrowers who make on-time payments with reductions in rates.

To those who contend that Citi has only dealt with Associates-related issues, the company points to its report, noting that several initiatives are branch-specific. Those include branchwide training and the adoption of third-party "mystery shopper" visits. "Are we perfect? No, but we're on track to keep all our commitments by the end of the year, and we continue to learn," said Ms. Flaherty.

