



November 30, 2000

Ms. Stacie E. McGinn
Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue, N. W.
Washington, D.C. 20005-2111

Subject: **Hurley State Bank**
Hurley, South Dakota

Associates Capital Bank, Inc.
Salt Lake City, Utah

Dear Ms. McGinn:

On September 18, 2000 the FDIC received, and accepted as substantially complete, two notices, each filed by Citigroup, Inc., New York, New York ("Citigroup") pursuant to the Change in Bank Control Act, 12 U.S.C. § 1817(j), (the "Act"). The two notices (the "Notices") are for Citigroup's proposed indirect acquisition of the subject banks. We have evaluated the information contained in those Notices and have conducted an investigation of the competence, experience, integrity, and financial ability of Citigroup. Based upon the information submitted and our investigation, and after considering the views of the appropriate State depository institution supervisory agencies and the public commenters, we issue this letter to convey our intent not to disapprove the proposed acquisitions. The acquisitions may proceed immediately.

In arriving at our decision, the FDIC determined that none of the statutory criteria for disapproving a proposed acquisition were satisfied. Those statutory criteria are set forth at 12 U.S.C. 1817(j)(7). That section provides that the FDIC may disapprove any proposed acquisition if:

- a) The proposed acquisition of control would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States;
- b) The effect of the proposed acquisition of control in any section of the country may be substantially to lessen competition or to tend to create a monopoly or the proposed acquisition of control would in any other manner be in restraint of trade, and the anticompetitive effects of the proposed acquisition of control are not clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served;

- c) The financial condition of any acquiring person is such as might jeopardize the financial stability of the bank or prejudice the interests of the depositors of the bank;
- d) The competence, experience, or integrity of any acquiring person or of any of the proposed management personnel indicates that it would not be in the interest of the depositors of the bank, or in the interest of the public to permit such person to control the bank;
- e) Any acquiring person neglects, fails, or refuses to furnish the appropriate Federal banking agency all the information required by the appropriate Federal banking agency; or
- f) The appropriate Federal banking agency determines that the proposed transaction would result in an adverse effect on the Bank Insurance Fund or the Savings Association Insurance Fund. 12 U.S.C. § 1817(j)(7).

These criteria generally focus on the acquiring party, not the bank or banks being acquired. Moreover, the listed criteria do not include a review of the Community Reinvestment Act (CRA) records of the acquiring party or the bank(s) being acquired. Consequently, in making its decision, the FDIC did not consider the specific merits of any public comments relating to the CRA. The FDIC will, however, take pertinent comments received into consideration when conducting future CRA evaluations of Hurley State Bank and Associates Capital Bank, Inc.

The FDIC received 153 public comments regarding these Notices during the comment period ending October 18, 2000. All of the comments either opposed the acquisitions or recommended the imposition of conditions on any non-disapproval of the acquisitions. Although most of the comments alleged predatory or otherwise questionable lending and/or marketing practices of Associates and its various subsidiaries, some comments raised concerns about aspects of Citigroup's lending record and business practices.

Citigroup provided a public response to these comments, formulated after Citigroup representatives met with numerous community organizations and legislators throughout the nation. As a result of these discussions, Citigroup indicated that it would implement several operational changes, including:

- Testing a "Referral Up" program in four states;
- Introducing new lending programs (Freedom Loans and Graduation Loans) to benefit subprime borrowers demonstrating a good payment record or who have attained prime-credit status;
- Enhancing overall compliance programs, including reviewing all programs, introducing a special toll-free telephone number for problems, and updating training;
- Offering monthly premium credit insurance;

- Providing increased disclosure on single premium credit insurance;
- Eliminating on a pilot basis single premium credit insurance in selected offices in at least two states;
- Offering flexibility to a borrower to choose a product with or without a prepayment fee;
- Reducing prepayment fees to a maximum of three years;
- Changing arbitration provisions for all real estate-secured consumer finance loans nationwide to the arbitration standards established by the New York State Banking Department;
- Testing a broker project in two states that will cap lender and broker fees at 3 percent, eliminate prepayment fees, and prohibit balloon payments, negative amortization, and the refinancing of below market-rate non-profit loans;
- Requiring that all brokers and correspondents sign and adhere to a new code of conduct; and,
- Implementing a review unit to ensure that no borrower inappropriately loses his/her home through foreclosure.

This authorization to proceed with the acquisitions is based upon the specific information contained in the Notices. An acquisition that is not consistent with the information provided in the Notices may be a violation of the Act, and may result in civil money penalties or criminal prosecution. Any changes to the information provided in the Notices may alter the FDIC's findings on the proposed acquisitions and, therefore, must be reported to the New York Regional Office in writing and acknowledged by that office in writing prior to consummation of the acquisitions. An example of such a change would be a change in the terms, conditions, or financing of the acquisitions. Depending on the circumstances, we may need to obtain additional information or to reconsider the issue.

Please inform the New York Regional Office in writing when the transaction has been consummated. If the transaction is not consummated within one year from November 30, 2000, reconsideration may be necessary. If you have any questions, please contact Assistant Regional Director Gregory P. Wyka at (917) 320-2550.

Sincerely,

Michael J. Zamorski
Acting Director