# D R A F T

# M E M O R A N D U M

**TO:** File

**DATE:** Thursday, February 25, 2010, 3:05pm

**RE:** Interview with Lloyd Brown (Citi) about Community Reinvestment Act

*Paul Weiss*

Joyce Wong, Susanna Buergel

*Citigroup*

Lloyd Brown, Jim Garner (counsel)

*Financial Crisis Inquiry Commission*

Brad Bondi, Tom Stanton, Karen Dubas

**BONDI:** You joined Citi in July 2009. Are you still able to talk about Citigroup’s past CRA commitments?

**BROWN:** I’m generally prepared to talk to past commitments.

**BONDI:** I have Karen here with me. We’re with the FCIC, a commission set up by Congress to determine the causes of the financial crisis. Because we are federal government employees, you’re obligated by law to be truthful to us, but we don’t have any reason to believe that you would be less than truthful.

You’ve been designated as a person of knowledge of the CRA commitments done by Citigroup. Is that your understanding?  
  
**BROWN:** Yes.

**BONDI:** What is your title?  
  
**BROWN:** I’m a Managing Director and the CRA Director.

**BONDI:** What Citi entity are you affiliated with?

**BROWN:** I’m in the Global Community Relations Group, which is based in the corporate communications center. I have responsibility for all five legal vehicles with respect to CRA and report on CRA activities out of those vehicles. My duties include providing analysis with respect to each vehicle and interfacing with regulators.

I work with the OCC regarding Citibank N.A., Citibank South Dakota, and Department Stores National Bank. I work with the OTS on Citicorp Trust Bank, and I work with the FDIC on Citibank.

CitiFinancial and CitiMortgage do not have CRA obligations, but their activities can be included as a part of the obligations for the entities that I’ve named.

**BONDI:** Prior to your employment at Citigroup, you worked for Bank of New York Mellon. Did you do CRA there?

**BROWN:** I also served as the CRA officer there.

**BONDI:** So you have eleven years of CRA experience?

**BROWN:** Prior to Bank of New York Mellon, I worked at IBJ Schroder. My job there started in December 1995 as the CRA officer.

**BONDI:** To whom do you report?

**BROWN:** I report to Robert Annibale, the Managing Director and Head of Global Community Relations.

**BONDI:** Are you the head person responsible for CRA issues?

**BROWN:** On a day-to-day basis, I manage CRA, but many if not all of the officers at Citi have responsibility for compliance issues.

**BONDI:** In terms of having a responsibility for CRA, do you spend most of your time doing this?

**BROWN:** Yes.

**BONDI:** Who is Jeffrey Jaffe?  
  
**BROWN:** Jeff Jaffe left Citigroup before I joined, but he served as CRA Director before me. Ronald Span (sp?) was my immediate predecessor. He is now the director of the CRA Analysis.

**BONDI:** What is the difference between these positions?

**BROWN:** I replaced him in terms of overall responsibility. There are three groups under me: CRA Analysis, Regulatory Reporting, and the Verification Unit. He oversees CRA Analysis now.

The Verification Unit is unrelated to CRA. It ensures the data integrity for the annual reports that we file, including the HMDA report. We file the CRA data report that captures information on small business lending.

**BONDI:** Who is Kristin Krasta (sp?)?  
  
**BROWN:** She would have held the CRA Director previously, I think. She is still with the company. I believe she’s a part of the business practices group.

**BONDI:** Who’s Katherine Schnabel (sp?)?  
  
**BROWN:** She retired from Citi in July or August, and she served as the CRA Officer for Citibank South Dakota and Department Stores National Bank.

**BONDI:** Who is Eric Eve?

**BROWN:** Eric Eve was the former head of Citi Global Communications.

**BONDI:** Who is Cynthia Armine?

**BROWN:** Cynthia Armine is the Chief Compliance Officer for the entire organization. She is still at Citi.

**BONDI:** I want to ask you about some Citi commitments reported by the National Community Reinvestment Coalition in their September 2007 report.

**BROWN:** I’ve not interacted with that group before. I have interacted with a group of a similar name in Pittsburgh.

**BONDI:** I’m interested in CRA commitments that were fulfilled using mortgages. This report sets out CRA commitments since 1997 or so. There is a commitment in and around 1998 concerning the Citigroup and Travelers merger. It was reported as $115 billion over a 10 year time frame.

**BROWN:** I have a general understanding about that commitment.

**BONDI:** Does the commitment that I explained sound correct?  
  
**BROWN:** Yes.

**BONDI:** Was the commitment made as a part of the merger?  
  
**BROWN:** From a chronological standpoint, they were similar in time. Citi alone, and not in connection with a third party, entered into the commitment to articulate what Citi intended to do over a period of time.

**BONDI:** Was that commitment fulfilled?  
  
**BROWN:** It is my understanding that has been fulfilled. All of the commitments that I know of have been fulfilled. There is one commitment outstanding with a *de minimis* amount associated with it that will be paid off later this year. That’s from the 2002 Cal-Fed merger commitment, and it has about a $200,000 balance remaining.

The CRA commitments of which I’m aware are:

* 1998 Citicorp-Travelers merger commitment of $115 billion (fulfilled)
* 2002 Cal-Fed merger commitment of $120 billion ($200,000 remaining)
* 2003 affordable housing commitment of $200 billion (fulfilled)
* 2001 ten-year commitment with the California State Banking Department 10 year commitment in 2001 ( merged into the Cal-Fed commitment)
* New York State Banking Department commitment in which Citi agreed to ensure that a certain percentage of mortgage originations would target low- and moderate-income (LMI) individuals.
* Texas merger commitment in which Citigroup agreed to open four or five branches in a particular geographic area
* San Diego commitment (Brown is not sure of the particulars or dollar value)

**BONDI:** How much in money has Citi committed and fulfilled with respect to mortgages under CRA since the 1998 merger of Citi and Travelers?

**BROWN:** While the majority of the commitments relate to CitiMortgage activity, a portion relates to community development and investment activities. My estimate is about $435 billion, and all of that has been fulfilled.

**BONDI:** How much of that relates to mortgages?  
  
**BROWN:** I believe that the majority related to mortgages. I would say 75% or more.

**BUERGEL:** You’ve been saying CRA commitments. I think that there might be some misunderstanding.

**BONDI:** Tom Stanton has entered the meeting. What is the misunderstanding?

**BROWN:** CRA is a regulation that says that all banks have an obligation to provide credit to all communities, including low- and moderate-income borrowers, consistent with safe and sound lending practices. Those commitments that I mentioned do not strictly follow the HMDA or CRA disclosures.

**STANTON:** What happens if you don’t meet your CRA commitment goal?

**BROWN:** Nothing. When a CRA commitment is a voluntary commitment between a bank and a community group, the Fed considers it as a private agreement. These commitments are generally always fulfilled. Many of the transactions that are undertaken as a part of the business would be considered in the normal course of business.

**STANTON:** So you talk to you business team and decide what you’re doing, and then you make a commitment to do that?

**BROWN:** Yes.

**BONDI:** Are you familiar with the rating system of the OCC for CRA?

**BROWN:** Yes.

**BONDI:** What is “substantial non compliance”?  
  
**BROWN:** The OCC may preclude Citi from expanding branches or engaging in mergers and acquisitions. As a practical matter, that has only happened to one bank—Shaman Bank—that was located in Massachusetts.

**BONDI:** Does the CRA rating have significance in the approval of an expansion or merger?

**BROWN:** Yes.

**BONDI:** What is the lowest CRA rating that Citi has received?

**BROWN:** The primary vehicle, Citibank N.A., has received a “satisfactory” rating for the last 20 years, except for its 2003 rating of “outstanding.” This consolidated Citibank has grown from nine CRA investigation areas to sixty-two CRA investigation areas for its next examination.

**STANTON:** What does an exam entail?

**BROWN:** It begins with an exam-over-exam analysis. However, given that many of the consolidated vehicles were previously regulated by the OTS, the OCC cannot do that. Then they would look at the deposit market share—Citi is fourth or fifth in this area—and the OCC would expect a linear output. Your CRA output should be ranked fourth or fifth as well.

**BONDI:** Do you have any interaction with the business unit associated with mergers and expansions?

**BROWN:** I have not had any interaction with the mergers and acquisition team at Citi.

**BONDI:** Do you keep track of any characteristics of the loans made by Citi under CRA? Would you track FICO scores and other risk characteristics?

**BROWN:** CRA commitments do not include a provision for tracking FICO scores, so I do not track FICO scores.

**BONDI:** Does Citi anywhere track FICO scores?

**BROWN:** The mortgage company would assess the FICO scores of all borrowers as a part of its normal origination process.

**BONDI:** What happens to the CRA mortgages that are made? Are they held on the books, securitized into RMBS and sold, sold as whole loans, or does it depend?

**HUANG:** There are two different kinds of CRA loans: there are CRA voluntary commitments and there are CRA obligations that are compulsory.

**BONDI:** I’m asking right now about the CRA commitments that were fulfilled since 1998. I’m talking about the mortgages that compose the $435 billion.

**BROWN:** I’m not 100% clear and have not had conversations about that. I would surmise that those that are conforming are sold to Fannie or Freddie and I would imagine that some portion are securitized, and that the nonconforming loans are held in portfolio.

**BONDI:** Are there some reports that would track this?  
  
**BROWN:** I don’t have this kind of report, nor does my group. I would have to make some inquiries to see if anyone tracks these loans in this type of way.

**BONDI:** Is there any tracking that is done of loans that are made under CRA commitments?  
  
**BROWN:** As a part of this agreement, if a mortgage is made outside of the CRA voluntary assessment area, we do not report this for HMDA purposes. As a result, we do track all of the mortgages that Citi originates, but it is not in the context of CRA commitments.

**BONDI:** On page 26 of the NCRC September 2007 “CRA Commitments,” there is a description:

Citibank intends to offer certain products and services specifically to first‐time homebuyers as part of its 2002 pledge in the states of California and Nevada. These programs include FHA programs, low- to no‐down payment programs, and down payment assistance programs (like IDAs and closing cost assistance grants). Citibank has a primary focus of the very low income (50% or less of average median income) families for its construction and permanent lending for residential developments.

My question is, do you recall or are you aware of that commitment as described?  
  
**BROWN:** I am not aware of that commitment as described, and I think that recitation is factually incorrect. The average area median income plays no part; it’s the area median income. Construction and residential lending are conducted by separate parties.

**BONDI:** In that commitment, it was reported that Citi made a commitment in 2002. Is that the Cal-Fed commitment?

**BROWN:** I believe that to be the same commitment.

**BONDI:** Can you describe that commitment and how it was met?  
  
**BROWN:** It was a unilateral commitment on behalf of Citi because there was a concern that East Coast-based banks would not be responsive to the concerns of West Coast-based communities. We met the commitment primarily through mortgage activities and offering mortgages to areas of Nevada and California.

**STANTON:** When you look at your office and the tools that you have to improve Citibank support of LMI individuals and community lending, what are the tools that you have and which are the most effective?  
  
**BROWN:** I do not originate or produce mortgages. That occurs through the mortgage company, which provides mortgages geared toward the LMI community that are consistent with our product offerings and that meet safe and sound lending practices. Through partners, we work toward expanding mortgage opportunities for borrowers.

I’d say that my unit looks at our assessment area in a very granular fashion. The line unit goes out and talks to the mortgage company. To the extent that you’re able, you have a guideline of x number of mortgages that you could make.

From time to time, my colleagues comment on the challenges that they face, and from time to time they are not able to make their commitments. For example, in a high rent or cost market, it may be hard to make the commitments. To the extent that facts support it, we will tell the OCC why the numbers are the way that they are.

**BONDI:** Is there any correlation between the mortgages that are used to meet a commitment and FICO score? Are the borrowers to whom these mortgages are made what would be deemed to be a subprime borrower with a FICO score under 660 or 620?

**HUANG:** Just to clarify, in response to the previous question, Mr. Brown was speaking to CRA obligations, is that correct?  
  
**BROWN:** That is correct. The mortgages that are made under CRA obligations and under CRA commitments are one and the same. Some of the mortgages made under CRA commitments might not be reported because they are not in their assessment area. For example, in the Cal-Fed deal, it is focused on a geographic area rather than on LMI borrowers.

I have not seen FICO scores tracked. CitiMortgage is a prime lender, so CitiMortgage does not engage with subprime mortgages like you described.

**BONDI:** So the Cal-Fed commitment went to borrowers with FICO scores above 660?

**BROWN:** The Cal-Fed commitment was only for prime channels. It did not include CitiFinancial or Citicorp Trust Bank.

**BONDI:** You mentioned a commitment by CitiMortgage of $200 billion. When was that commitment made?  
  
**BROWN:** That was in 2003, and it was a ten-year commitment. It was unilateral without a third party. Unilateral means that Citi was not prompted to do it in connection with a community group or an activity. It was an announcement of what we were going to do in the normal course of business.

**BONDI:** There is a statement about that commitment in the 2007 NCRC report on p. 27:

As part of its 2003 pledge, CitiMortgage will offer a Closing Cost Assistance Program (CCA) that encourages people to become homeowners by reducing closing costs for buyers in certain areas. In addition to CCA, CitiMortgage has instituted a program that allows borrowers with past credit difficulties to obtain a mortgage rate two percent lower than what credit impaired borrowers typically pay. Borrowers who have paid on time for 24 consecutive months are eligible for reductions in mortgage interest rates.

Is that your understanding of the commitment that CitiMortgage made in 2003?

**BROWN:** I do not have an understanding to that granularity, and I am not familiar with that document.

**BONDI:** Did you consult a review sheet for this interview?

**BROWN:** There was a summary of the commitments that existed. They were prepared by colleagues of mine—staff members in my unit. It does not describe the commitments in that level of granularity.

**BONDI:** I’d like a copy of that summary. How was that 2003 commitment fulfilled?  
  
**BROWN:** My understanding is limited—I just know that it has been fulfilled. I assume it was fulfilled in the normal course.

**BONDI:** Is there anyone there with better understanding of these commitments?  
  
**BROWN:** I don’t know of anyone in my unit who would know. I can talk to people outside my unit.

**BUERGEL:** We do intend to collect information about CRA commitments and we’ll present that to you in writing. Perhaps we should do that first, and then we can talk to you about additional resources to devote to that?  
  
**BONDI:** Okay. Do you know what happened to the mortgages from that 2003 commitment?

**BROWN:** I do not know. I would guess that those that were conforming were sold into the secondary market.

**BONDI:** What is a credit-impaired borrower?  
  
**BROWN:** Someone who does not meet Citi’s credit standards.

**BONDI:** If subprime is a borrower with a credit score under 660, were any subprime mortgages made to a subprime borrower?  
  
**BROWN:** I do not know. In Cal-Fed it was specifically noted that that commitment targeted prime borrowers. CitiMortgage was the principal vehicle for this commitment, and as it is a prime vehicle, I would assume most mortgages were prime.

**BONDI:** What about commitments with respect to CitiFinancial?  
  
**BROWN:** CitiFinancial has not been targeted specifically in our CRA efforts.

**BONDI:** Do you receive letters from community groups?

**BROWN:** The Association for Neighborhood Housing Lenders has sent me letters twice. They wanted us to strengthen our commitment to multi-family housing

**BONDI:** What is Citi Community Capital?

**BROWN:** That is an entity based in our investment bank that makes community development loans and investments. Those investments are primarily low-income tax credits. I don’t believe it is involved in residential lending at all.

**BONDI:** What are CRA verification forms?  
  
**BROWN:** They were established in May or June 2009 in response to a need to ensure that the data that is reported to our regulator is accurate. It was easier for us to summarize the information.

**BONDI:** How long was that form?  
  
**BROWN:** It’s a four-page long form with a series of questions. These are commercial borrowers, and it describes the type of loans and the determination that this is a community development loan.

**BONDI:** In 2004, the OCC rejected Citi’s CRA strategic plan. Can you comment on this?

**BROWN:** I am not aware of that plan or that event.

The only legal vehicle that might have had a plan would be Department Stores National Bank. That’s one of the two legal vehicles based in South Dakota. Their strategic plan was entered into in 2007. I don’t know if there were iterations before that. That strategic plan must be approved by your regulator, and community groups have the opportunity to comment on your plan.

**BONDI:** What comments were made?  
  
**BROWN:** That plan had two letters. On renewal plans we had no comments. Most people don’t know that Department Stores National Bank is affiliated with Citi, so it draws less attention for comments.

**BONDI:** What is the purpose of a strategic plan?  
  
**BROWN:** Some entities have CRA obligations but do not have traditional banking operations. Department Stores National Bank is a vehicle that is used for Macy’s cards, American Airline cards, etc. It’s a way to manage that obligation by doing CRA investment or development since the unit does not do loans.

**BONDI:** Was the OCC on the other side of that plan?  
  
**BROWN:** Yes.

**BONDI:** What was the term or time period for that plan?  
  
**BROWN:** Plans last for two years and they are available to be renewed. The plan technically expired at the end of December 2009, but the designation remains in effect until your next examination, which is in early 2011, so we are in the process of reviewing the plans.

**BONDI:** Have you heard from or met with community groups?  
  
**BROWN:** No. Most people are unaware of Citibank’s affiliation, so they care less about the plan.

**BONDI:** What is the process by which Citi decides to make a voluntary commitment?

**BROWN:** In the year that I’ve been there, we have not considered a commitment. In general, banks are willing to make a commitment if it would expedite a merger or acquisition.

**BONDI:** If it makes a merger move more quickly?  
  
**BROWN:** Yes.

**BONDI:** In the past, are commitments forward-looking or backward-looking? Do you plan for what you need to fill and then fill it in, or do you look back afterwards and fit it in?

**BROWN:** I would imagine that past performance is considered. CitiMortgage can discern that it makes $200 billion per year. When they make a ten-year commitment, they know what they are able to do. It’s a signal to community groups that we’re here to stay, that we want to be a part of the community, and that we will help the community grow.

**BONDI:** Is there data that you track in terms of where you are in the process of meeting a commitment?

**BROWN:** There’s only one commitment outstanding. For this commitment, we update the numbers annually. I feel that commitment will be satisfied in advance of its 2012 expiration.

**BONDI:** Is a ten-year commitment for each year over ten years, or is it that you’ll meet the commitment within a ten year window?

**BROWN:** The latter. You commit to meet it within the time frame.

**BONDI:** How long does it take to meet a commitment?

**BROWN:** I don’t think that there’s an average life. It depends on your mortgage output, and there are ups and downs over ten years in terms of mortgage production.

**BONDI:** Are you aware, since 1998 and the Travelers-Citi merger, of any regulators threatening explicitly or implicitly to block a merger or expansion on the grounds of the CRA?  
  
**BROWN:** No.

**BONDI:** Are you aware, within that time frame, of a regulator telling Citi to increase its voluntary commitments?  
  
**BROWN:** No.

**BONDI:** Can you talk me through the process of how Citi would funnel a commitment through the organization if it makes a voluntary CRA commitment?   
  
**BROWN:** As I have not gone through one at Citi, I would have to surmise that it would be something that would be consultative with all of the stakeholders. You would look at annual and past performance and consult with myself and all of the seniors involved. Based on the last commitment date, there has not been a need to do that yet.

CRA had a season, and that season has expired, and I don’t believe that many banks will be entering into commitments going forward.

**BONDI:** Are you aware of any community groups talking to a regulator to block an expansion?  
  
**BROWN:** I am not aware, but it could have happened.

**BONDI:** Can you explain the CRA obligations by law?  
  
**BROWN:** They are defined in the context that banks have an obligation to make credit available to all communities. You have an obligation to track all loans as a part of your regulatory submissions. There is not a formula that you have to do “x.”

**BONDI:** Are there dollar amounts of CRA loans that Citi felt legally obligated to do?  
  
**BROWN:** From my perspective, that’s the biggest misperception. CRA tracks the number of units. A $10 mortgage has the same value as a $200,000 mortgage. I’m not aware of any need to commit any specific dollar amount for CRA purchases.

**BONDI:** What are in the reports?  
  
**BROWN:** The HMDA reports provide a headcount and total dollar amount of the mortgages that we’ve made. For mortgages, it will indicate the rate of the borrower and the location of the mortgage.

**BONDI:** Are you aware of Citi engaging Ernst & Young around 2004 to provide CRA training to employees?  
  
**BROWN:** I’m not specifically aware of that. I have the understanding that Ernst & Young provided training last year to ensure that everyone understood what CRA provided.

**BONDI:** Who received training?

**BROWN:** All of the members of my group and the CPC group.

**BONDI:** Were there training materials or handouts for that meeting?  
  
**BROWN:** I’m not aware of any.

**BONDI:** To the extent that there are any materials, I’d like to see them.

What has been Citi’s experience in fulfilling its voluntary commitments? Is it a difficult process? I’m trying to get a sense of the ease or difficulty associated with it.  
  
**BROWN:** Upon my arrival, I inquired about the commitments, but other than that it has not been something that we have focused on, so I assume that Citi has been able to meet its commitments without too much difficulty.

**BONDI:** Is there anyone you can identify who was involved in the Citi-Travelers commitment?

**BROWN:** To the best of my knowledge, no one in my group was involved in that commitment or at Citi during the time of the merger.

**BONDI:** There’s a production from Citi’s lawyers (CITI-FCIC 00082641) from an April 20, 1999 CRA Annual Update. On page 24, there’s a statement that says that improved CRA results in 1997 helped obtain merger approval. Is that a true statement in your understanding?

**BROWN:** I do not know and I would not have an understanding on that.

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