OCTOBER 4, 2000

SCHAKOWSKY WARNS PREDATORY LENDING WOULD INCREASE IF CITIGROUP/ASSOCIATES FIRST CAPITAL MERGER IS APPROVED

POINTS TO CITIGROUP AND ASSOCIATES FIRST CAPITAL DISMAL RECORDS & CALLS ON FDIC & OCC TO DISAPPROVE MERGER UNLESS *"STRICT AND ENFORCEABLE"* CONSUMER PROTECTIONS ARE PUT IN PLACE

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL) today said that the Citigroup, Inc., and Associates First Capital Corp. merger would *"give even greater resources to accused predatory lenders and increase their threat to homeowners."* Schakowsky is a member of the House Banking Committee and the author of H.R. 3901, the Anti Predatory Lending Act of 2000

In a letter to the Federal Deposit Insurance Corporation and the Office of the Comptroller, Schakowsky listed specific instances where these companies have engaged in predatory lending and questionable financial practices and warned that consumers would be harmed if these companies are allowed to merge to create the largest publicly traded finance company.

Schakowsky wrote, *"Associates is a well known predatory lender that has been subject to at least 100 fair lending lawsuits and is now the target of Department of Justice and Federal Trade Commission investigations."* She added, *"In August 2000, Citibank* (a subsidiary of the Citigroup financial holding company) *had to pay $45 million to settle claims that the bank was charging late fees and extra interest when borrowers were actually paying on time. Moreover, there is evidence that Citigroup may be engaging in a pattern or practice of steering minorities towards high cost and abusive loans in violation of the nation's fair lending laws."*

Schakowsky called on the regulators to disapprove the merger unless *"strict and enforceable requirements to protect consumers"* are put in place. Schakowsky wrote that the new company must:

- **Prohibit the financing of single-premium credit insurance,**

- **Limit the financing of fees,**

- **Prohibit prepayment penalties on subprime loans,**

- **Take sufficient steps to prevent abusive fees to mortgage brokers (yield spread premiums)**

- **Prohibit mandatory arbitration clauses in loan contracts,**

- **Assure that borrowers receive the most affordable interest rate for which they qualify,**

- **Prohibit repeated refinancings (flipping) with no benefit to the borrower, particularly when triggered by an undisclosed loan payment, and**

- **Provide restitution for victims of Associates predatory loans.**

Below is the Letter.

October 4, 2000

The Honorable Donna Tanoue
Chairwoman
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

Mr. Richard Erb
Licensing Manager
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Dear Ms. Chairwoman and Mr. Erb:

The merger between Citigroup and Associates First Capital Corp. would create the nation's largest publicly traded finance company. This would give even greater

resources to accused predatory lenders and increase their threat to homeowners. Consequently, I urge you to disapprove of the relevant applications unless these concerns are addressed.

Associates is a well known predatory lender that has been subject to at least 100 fair lending lawsuits and is now the target of Department of Justice and Federal Trade Commission investigations. Some questionable practices that Associates has been accused of include:

- **Aggressive and abusive sales tactics that specifically encourage loan flipping in Virginia lawsuit, (Oppel, Richard A., Dallas Morning News, August 16, 1998, p. 1H).**

- **Mandating credit life insurance for loan approvals in Georgia and Washington State, (Ibid and Montius, Peter, "Cobb Man Puts House On Line in Suit Against Creditor," Atlanta Journal Constitution, October 2, 1999, p. 25.).**

- **Standard deceptive and fraudulent sales tactics, including non-disclosure of fees and egregious fees for services that the borrower we did not request in Alabama lawsuit (Hudson, Michael, "Cashing in on Poverty," The Nation, May 20, 1996, p. 11.).**

- **Issuing loans that include monthly payments greater than the borrower's income, with exorbitant interest rates and up to ten points in fees in New York lawsuit (Goetz, Thomas, "Loan Sharks, Inc.," Village Voice, July 15, 1997, p. 33.).**

These abuses are unlikely to be eliminated given Citigroup's own record. In August 2000, Citibank had to pay $45 million to settle claims that the bank was charging late fees and extra interest when borrowers were actually paying on time. Moreover, there is evidence that Citigroup may be engaging in a pattern or practice of steering minorities towards high cost and abusive loans in violation of the nation's fair lending laws. In 1998, IMC, Citigroup's major subprime lender in the Chicago region, had a market share in black neighborhoods that was more than 16 times its market share in white areas. IMC ranked among the top 10 subprime lenders in black neighborhoods in the region in 1998. Additionally, according to a recent analysis of Home Mortgage Disclosure Act data by the National Community Reinvestment Coalition, another Citigroup subsidiary, Citifinacial, may be violating the Home Mortgage Disclosure Act by not reporting race for 76% of its loans. The acquisition of Associates will hardly improve Citigroup's record. Associate First's own market share in black neighborhoods is 6 times its market share in white neighborhoods.

The Citigroup/Associates applications should not be approved unless there are strict

and enforceable requirements to protect consumers. In that vein, I urge you to condition any approval on agreement by the new combined company to:

- **Prohibit the financing of single-premium credit insurance,**

- **Limit the financing of fees,**

- **Prohibit prepayment penalties on subprime loans,**

- **Take sufficient steps to prevent abusive fees to mortgage brokers (yield spread premiums)**

- **Prohibit mandatory arbitration clauses in loan contracts,**

- **Assure that borrowers receive the most affordable interest rate for which they qualify,**

- **Prohibit repeated refinancings (flipping) with no benefit to the borrower, particularly when triggered by an undisclosed loan payment, and**

- **Provide restitution for victims of Associates predatory loans.**

From 1993-1998, foreclosures in the Chicago area doubled to 5000. I fear that this is due to predatory lending and that this merger could make matters worse for consumers in Chicago and across the country. Consequently, I urge you to reject the Citigroup/Associates applications unless the companies make assurances that consumers will receive adequate protections.

Sincerely,

Jan Schakowsky
Member of Congress