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June 18, 1998

Betsy Buttrill White  
Federal Reserve Bank of New York  
Senior Vice President  
33 Liberty Street  
New York, NY 10045-0001

Dear Ms. White:

I am writing with respect to a proposed merger recently announced by Travelers Group Inc., New York, NY and Citicorp; & Citibank, N.A., both of New York, NY; Universal Bank, N.A., Columbus, GA; Citibank, Perinton, NY; Citicorp Holdings, Inc.; Citibank Delaware, both of New Castle, DE; Citibank, N.A., Las Vegas, NV & Citibank, N.A., Sioux Falls, SD.

The merger also includes the following:

Travelers Group Inc., New York, NY and All Travelers & Citicorp subsidiaries, including Citibank, Federal Savings Bank, San Francisco, CA; Travelers Bank & Trust, F.S.B., Newark, DE; Universal Financial Corp., Salt Lake City, UT; Commercial Credit Corp., Honolulu, HI;

These mergers are subject to approval by the Federal Reserve Board.

William Michael Cunningham and Creative Investment Research, Inc., for reasons outlined below, oppose this merger. We look forward to reviewing other comments on this merger application.

Sincerely,

William Cunningham for  
William Michael Cunningham and Creative Investment Research, Inc.

cc:

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Board of Governors of the Federal Reserve System  
Jennifer J. Johnson, Secretary  
20th & Constitution Avenue, N.W.  
Washington, DC 20551-0001

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Bank Holding Company Merger application of:

Travelers Group Inc., New York, NY and Citicorp; & Citibank, N.A., both of New York, NY; Universal Bank, N.A., Columbus, GA; Citibank, Perinton, NY; Citicorp Holdings, Inc.; Citibank Delaware, both of New Castle, DE; Citibank, N.A., Las Vegas, NV & Citibank, N.A., Sioux Falls, SD.

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**We oppose this merger proposal.** The proposed merger is not consistent with the standards for merger application approval outlined under 12 U.S.C. Section 1841 et. seq., the Bank Holding Company Act of 1956. We feel these banks have not been meeting their respective CRA obligations to serve the credit needs of the communities in which they are chartered.

Specifically, 12 U.S.C. § 1842 states that:

(c) Factors for consideration by Board

(1) Competitive factors

The Board shall not approve -

would (A) any acquisition or merger or consolidation under this section which  
or result in a monopoly, or which would be in furtherance of any combination  
in conspiracy to monopolize or to attempt to monopolize the business of banking  
any part of the United States, or  
section (B) any other proposed acquisition or merger or consolidation under this  
whose effect in any section of the country may be substantially to lessen  
competition, or to tend to create a monopoly, or which in any other manner

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would be in restraint or (FOOTNOTE 4) trade, unless it finds that the  
anticompetitive effects of the proposed transaction are 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.

(FOOTNOTE 4) So in original. Probably should be "of".

(2) Banking and community factors

In every case, the Board shall take into consideration the financial and  
managerial  
resources and future prospects of the company or companies and the banks  
concerned,  
and the convenience and needs of the community to be served.

**Cause for review**

Institutions at issue: summary -

According to the company, "Travelers Group Inc. (the 'Company') is a diversified financial services holding company engaged, through its subsidiaries, principally in four business segments: (i) Investment Services (primarily through Salomon Smith Barney Holdings Inc. and its subsidiaries), including Asset Management; (ii) Consumer Finance Services (primarily through Commercial Credit Company and its subsidiaries); (iii) Property & Casualty Insurance Services (primarily through Travelers Property Casualty Corp. and its subsidiaries); and (iv) Life Insurance Services (primarily through The Travelers Insurance Company and its subsidiaries and the Primerica Financial Services group of companies).

On November 28, 1997, a newly formed wholly owned subsidiary of the Company was merged (the 'Merger') into Salomon Inc ('Salomon')<sup>1</sup>. Under the terms of the Merger,

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<sup>1</sup>We note that, according to published reports, "the integrity of the entire U.S. Treasury securities auction market was called into question when Salomon Inc., admitted in August 1991 to serious violations of the auction rules during 1990 and 1991. This

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approximately 188.5 million shares of Company common stock were issued in exchange for all of the outstanding shares of Salomon common stock, based on an exchange ratio of 1.695 shares of Company common stock for of Salomon common stock, for a total value of approximately \$9 billion. Each of Salomon's series of preferred stock outstanding was exchanged for a corresponding series of Company preferred stock having substantially identical terms, except that the Company preferred stock issued in conjunction with the Merger has certain voting rights. Thereafter, Smith Barney Holdings Inc. ('SBHoldings'), a wholly owned subsidiary of the Company, was merged into Salomon to form Salomon Smith Barney Holdings Inc. ('SSBH'), which is the primary vehicle through which the Company engages in investment banking, securities and commodities trading, brokerage, asset management and other financial services activities. The Merger constituted a tax-free exchange and was accounted for under the pooling of interests method. This method of accounting requires there statement of all periods presented as if the Company and Salomon had always been combined."

Citicorp stated that "Citicorp, with its subsidiaries and affiliates, is a global financial services organization. Its staff of 93,700 (including 54,800 outside the U.S.) serves individuals, businesses, governments, and financial institutions in approximately 3,000 locations (including branches and representative, subsidiary, and affiliate offices) in 98 countries and territories throughout the world as of December 31, 1997. Citicorp, a U.S. bank holding company, was

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led to fines, censure, Congressional hearings and a review of the market by the Treasury, Federal Reserve System, and the Securities and Exchange Commission. Following one of their recommendations, in September 1992, the Treasury began selling 2-year and 5-year Treasury notes using a uniform-price auction, in which all winning bidders pay the same price, rather than a discriminatory-price auction, in which winning bidders pay what they bid." In essence, the firm attempted to "monopolize" or "corner the market" in a particular U.S. Treasury security. Such behavior should give regulators pause when considering this merger application, given the ability of the merged institution (including Salomon, now Salomon Smith Barney) to use the bank as a source of capital and other non-monetary (reputation, perceived safety) resources. 12 U.S.C. § 1842 speaks directly to this type of behavior. Clearly, the public is at risk.

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incorporated in 1967 under the laws of Delaware and is the sole shareholder of Citibank, N.A. ('Citibank'), its major subsidiary. Citicorp is regulated under the Bank Holding Company Act of 1956 and is subject to examination by the Federal Reserve Board ('FRB'). Citibank is a member of the Federal Reserve System and is subject to regulation and examination by the Office of the Comptroller of the Currency ('OCC')."

Our position:

**We oppose this merger.** We feel it would be "in furtherance of (a) combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States."

In addition, we oppose the merger on CRA grounds. While Citicorp has acceptable HMDA lending data, we feel there are other compelling reasons to deny this merger application on CRA grounds.

The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution, " and to take that record into account in its evaluation of an application for a deposit facility.

We suggest that Board staff more broadly analyze the merger partner's activities in meeting the credit need of the community. We feel this includes reviewing the securities market-related activities of Travelers Group Inc., New York, NY and Citicorp; & Citibank, N.A., both of New York, NY. In addition, we feel this review necessitates an examination designed to uncover any discriminatory business lending practices. This would include inspecting the gender and ethnic makeup of the government entities/regions or owners of firms using the following services provided by the applicant:

a. Municipal Revenue Bonds/Securities

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- b. Mortgage related securities
- c. Commercial Paper
- d. Consumer - receivable related securities("CRR's")

Activities in at least one of the above functional areas have been defined by the Federal Reserve Board (in an *Order Approving Application to Engage in Commercial Paper Placement to a Limited Extent (Federal Reserve Bulletin, Feb. 1987, p. 148)*) as "so functionally and operationally similar to the role of a bank that arranges a loan participation or syndication that banking organizations are particularly well suited to perform the commercial paper placement function." Given this, we suggest that laws designed to prevent discrimination in the provision of other banking services also apply to at least this functional area.

The applicants activities in this area may violate Regulation B, Section 202.4. Regulation B, Section 202.4 states that "A creditor shall not discriminate against an applicant on a prohibited basis regarding any aspect of a credit transaction." In addition, we note that "The Equal Credit Opportunity Act (ECOA) -- originally enacted in 1974, and amended in 1976 and 1991 -- prohibits discrimination in all forms of credit transactions, including consumer and business loans as well as mortgage loans."

We feel these institutions have been discriminatory in the provision of certain Commercial Paper Placement facilities to women and minority-owned businesses. We respectfully request the Board reconsider this application in light of the fact that virtually none of the applicants' customers in this product area are women and/or minority-owned businesses.

We suggest, for reasons outlined, that the Federal Reserve review the securities activities of these merging institutions, paying particular attention to the insurance, securities and futures market related activities of the following applicant: Commercial Credit Corp., Honolulu, HI. We note that the Board has the authority and ability to review other information it deems relevant.

In our view, the applicant should be required to provide all credit services in a non-discriminatory manner. Further, it is our belief that the times require

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measures to compel the applicant to provide credit in this manner. The applicant has ignored certain institutional product developments that may allow it to more efficiently and adequately provide capital to underserved individuals, communities and populations. (For example, several firms have developed a financing facility making short-term loans to minority-owned natural gas suppliers under contract to major utilities.)

The Federal Reserve noted, in a 1989 study, (in an *Changes in Family Finances from 1983 to 1989: Evidence from the Survey of Consumer Finances (Federal Reserve Bulletin, Jan. 1992, p. 1)*) a widening income gap. That study indicated: "The small rise in the median values of income and net worth and the simultaneous substantial rise in the mean values indicate that the distributions of income and net worth became more concentrated between 1983 and 1989." This trend has continued. Over the past few years, income inequality has increased. According to the U.S. Census Bureau<sup>2</sup> "... when money income is examined, each indicator shows increasing income inequality over the 1968-1994 period."

It is our belief that recent tensions in certain parts of the country are a result of, in part, this widening income gap. We feel this increased concentration of wealth has contributed to and encouraged the development of, in certain individuals and in certain parts of the country, a "bunker," or militia mentality that can have a negative impact on the country, including its capital markets.

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<sup>2</sup> From "A BRIEF LOOK AT POSTWAR U.S. INCOME INEQUALITY", U.S. Bureau of the Census, by Daniel H. Weinberg. See data at <http://www.census.gov/ftp/pub/hhes/income/incineq/p60asc.html>

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Certain organizations, like the applicants, have been the pecuniary beneficiaries of an unprecedented increase in financial market activity and stock values, as the charts below show.<sup>3</sup> The applicants must be encouraged to apply its skills to deliver main line services to all, prudently but in a non-discriminatory manner.

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<sup>3</sup> "Nineteen ninety-seven was a good year. We reported earnings of \$3.6 billion (\$4.1 billion without the restructuring charge). Your stock closed the year at \$126 7/16, up 23%. We increased the dividend to \$2.30 in January." John Reed, Chairman and Chief Executive Officer, Citicorp, in the 1997 annual report. Average household income in the U.S. increased at a much slower rate in 1997. Note that we have no problem with banks making money. We simply want others, including companies owned by women and minorities, to have the opportunity to experience such outstanding stock price performance. To date, as the Federal Reserve Board Chairman acknowledged in New York on January 16, 1998, they have not. This bank is, in part, responsible.

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In a recent speech, on January 16, 1998 in New York, Federal Reserve Board Chairman Alan Greenspan noted (at the Wall Street Project Anniversary Conference of the Rainbow/PUSH Coalition):

“We need also to make further progress in establishing business relationships between the financial services sector and the rapidly expanding number of minority-owned businesses...Minorities must be assisted in finding sources of equity finance. This is an essential part of the financial foundation for the dynamic young enterprises that are so central to our wealth-creating process.”

We agree. We suggest the Board look, in this specific and particular case, at the assistance these two entities have provided to women and minority-owned companies seeking equity financing. Their record of neglect and discrimination is clear.

If such activity is reviewed, we caution the Board against only reviewing the record these institutions have providing equity capital to minority and women-owned banks: this particular record and set of activities are meaningless. Both a review<sup>4</sup> conducted by this firm and a broader study of minority banks conducted by Federal Reserve Board staff members<sup>5</sup> have shown these minority bank programs to be less productive than expected.

Most minority bank programs are, in fact, simply public relations vehicles. Most are actually managed by the CRA, public relations or communications department, not by the investment area at the bank. The implication is clear. Any serious or significant activity would be managed by the bank's investment area.

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<sup>4</sup> The Minority Bank Monitor, May 16, 1998 edition.

<sup>5</sup> “Do Minority Owned Banks Treat Minorities Better: An Empirical Test of the Cultural Affinity Hypothesis” Mr. Glen Canner, et. al. Paper presented at the 34<sup>th</sup> Annual Conference on Bank Structure and Competition, May, 1998.

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We have broad knowledge concerning the community development activities of the bank under review in this matter. We also have some general information on minority and women-owned bank utilization practices by both merger applicants. (As the Board is aware, under certain sections of CRA, banks are granted “positive regard” when they provide financing for or facilities to women and minority-owned financial institutions.) Both Citicorp and Travelers Corp. have selected minority institutions to work with because of the minority institutions’ ties to regulatory and political bodies, a most cynical motive. Often times, the minority financial institution investments are few in number and minority institutions selected are underperformers when it comes to actually making loans to minorities.<sup>6</sup>

Citicorp’s other CRA activities are impressive, but, when viewed against the full scope of the applicant's operations, shallow. The Board has cautioned banks concerning this type of limited CRA activity. Mr. Alan Greenspan, Chairman of the Federal Reserve Board, in a speech given at a Community Forum on Community Reinvestment and Access to Credit in Los Angeles, California on January 12, 1998, stated:

“Activities developed by banks to meet credit needs in low- and moderate-income neighborhoods should be well-planned and thoughtfully implemented within their overall business plans. Banks should not try to throw money at a problem or ‘just write the check’--that's not to anyone's advantage.”

Again, we concur. We suggest that any merger application review be broad in scope, and that such a review should take into account, as suggested above, “overall business plans.” This would include securities and insurance market activities.

We also suggest that the Board ignore offers such as those made by prospective partners in another proposed merger, NationsBank Corp. and BankAmerica Corp.,

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<sup>6</sup>Minority bank investments reported by Citicorp in it’s 1997 annual report: Founders National Bank, South Central, Los Angeles. Number of minority banks and thrifts in the U.S. as of 5/98 - 188.

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who recently pledged to lend \$350 billion over the next decade to low- and moderate-income and minority customers. Such pledges are meaningless.<sup>7</sup>

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<sup>7</sup>To explain, if I take out a bank loan, the bank requires me to sign a legally enforceable contract specifying performance expectations and penalties for nonperformance. No such legally enforceable contract exists with respect to this pledge. It is impossible to legally penalize the banks for nonperformance. This renders the pledge hollow, not worthy of consideration.

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Further, we remind the Board of continuing dangers related to financial product cross selling. According to the Washington Post<sup>8</sup>,

“NationsBank Corp. yesterday agreed to pay \$6.75 million in fines to settle charges it sold high-risk investment funds as safe banking products, mostly to elderly customers who suffered significant losses.”

We note that if the NationsBank agreed to pay \$6.75 million, true damages were probably much higher. Clearly, the public is at risk.

According to Institutional Investor magazine, “Sandy Weill and John Reed want to peddle every financial product under the sun, from growth stocks to Visa cards, to every possible buyer, from the credit-card happy denizens of lower Manhattan to the nascent middle class of Outer Mongolia. That’s the customer-driven logic behind their decision last month to.. combine the Travelers Group and Citicorp.”<sup>9</sup> Given the risks to the public, as illustrated in the NationsBank case cited above, this is particularly troublesome. According to the same magazine, “Executives at few firms have been more skillful at cross selling than those at Weill’s empire (referring to Travelers Group and its subsidiaries.)”<sup>10</sup>

Until we see firm evidence that the proposed merger partners are providing a full range of financial services to customers in a **safe and non-discriminatory manner**, we feel this merger application should be rejected by the Board. In addition, we believe the Federal Reserve Board lacks the legal authority to approve this merger. This merger is prohibited under Glass-Steagall.

Finally, it is our continuing belief that the Federal Reserve Board should be

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<sup>8</sup>Tuesday, May 5, 1998, Page A1,

<sup>9</sup>Citigroup’s Insurance Policy, Institutional Investor, Page 11. May, 1998.

<sup>10</sup>Ibid.

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designated a “*Super-regulator*,” with broad responsibility for overseeing the activities of banks, thrifts, pension funds, insurance companies, mutual fund companies, brokerage firms and investment banks. We note our belief that financial institution convergence, driven by recent advancements in financial and computer technology, requires the creation of such a “*Super-regulator*.”

We do not oppose financial institution convergence. But, until the U.S. financial institution regulatory structure advances<sup>11</sup> to take into account recent real world market and technological developments, approving mergers like the one in question would expose the public to undue risk. Approval would be, simply, dangerous and injurious to the public welfare.

Respectfully submitted,

William Michael Cunningham

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<sup>11</sup> “The regulatory authority for it (this proposed transaction) is not yet in place, but the firms recognized that the market is already there.” Mr. Neil Lewis, superintendent of the New York State Insurance Department, as quoted in Institutional Investor, May, 1998. Page 12.