Testimony of Robert Annibale
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Community Reinvestment Act Interagency Public Hearing
July 19, 2010

Good morning Vice Chairman Gruenberg, Governor Duke, Comptroller Dugan and Director Bowman. My name is Bob Annibale and I appreciate the opportunity to appear before you today on behalf of Citigroup Inc. (Citi). Specifically, I appreciate the invitation of the FDIC to discuss the important topic of expanding the Community Reinvestment Act (CRA). While my fellow panelists will have additional issues to raise, I have chosen to focus my remarks on the potential for the CRA to include a stronger focus on basic banking services that enable families to save and build assets. This is because there is a growing need for so many households and communities at all income levels, but especially low-to-moderate levels, to attain financial stability and growth opportunities. Accordingly, I come here specifically to discuss how the CRA can help support the goal of building assets for individuals and their families.

As Global Director of Citi Community Development, I direct Citi's efforts to support underserved individuals, families and communities in achieving economic empowerment and asset growth. We do this by developing flexible and innovative products, expanding access to financial products and services and building constructive community partnerships, while maintaining a sustainable business model.

Citi is a firm supporter of the CRA. Through its banking subsidiaries, Citi makes significant lending, investment and service commitments to meeting both the letter and the spirit of the regulation. These commitments are reflected in our record of compliance with the CRA and are assessed by the agencies represented here today. Citi has received the highest possible rating — "outstanding" — for each of our five banks in our most recent exams.

We believe strongly in the founding premise of the CRA, which was to ensure that banks help meet the credit needs of their entire communities, including low- and moderate-income (LMI) neighborhoods, in a manner consistent with safe and sound banking practices. However, it is also critical to observe the innovative developments reflected in new financial products and the changes in the financial sector since the law was passed in 1977. Any effort to explore how CRA could be modernized should consider these dynamics and how these innovations can bring greater benefit to LMI communities, in ways that perhaps could not have been envisioned over 30 years ago.

Today, banks play an important role in supporting the kinds of sustainable, constructive changes — including stable homeownership and the development of small businesses[1] — that revitalize LMI communities, by (among other activities) **providing access to and promoting usage of the financial services that permit individuals and families to build assets**.

Citi has been engaged in expanding access to savings accounts and savings-led products. For example, we have had a long standing role in supporting the Individual Development Account (IDA) movement in the U.S. IDAs provide incentive, by means of matching contributions, for LMI individuals to save toward specific asset goals such as purchasing a home, obtaining postsecondary education or establishing a small business. Those who participate in these programs often have access to supplementary financial education and coaching that can enhance long-term financial capabilities and catalyze positive economic outcomes.

Citi was a key investor in the American Dream Demonstration and the Saving for Education, Entrepreneurship and Downpayment (SEED) Policy and Practice Initiative, the country's first national IDA and matched savings programs for children, orchestrated by the Corporation for Enterprise Development (CFED) with technical guidance and research oversight provided by the Center for Social Development (CSD) of Washington University in St. Louis, Missouri. As of the end of 2009, Citi has banked 45 active IDA master accounts with nonprofits across the country, with almost 4,000 active IDA saver accounts. The average balances in these accounts is

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[1] I am referring specifically to the Comptroller of the Currency's Community Developments Fact Sheet entitled "CRA: Community Development Loans, Investments and Services," revised August 2009, and in particular the section entitled "What is 'community development'?" That section says that community development activities, among other things, help LMI individuals afford housing and promote economic development by financing businesses.

approximately $800 and growing, and the total of available matching funds — ready to be accessed when each individual meets their IDA goal — is over $4 million.

Our community partners have experienced great success in offering IDA accounts to LMI individuals. For instance, Opportunity Fund in California has opened more than 3,000 IDAs representing $11 million saved. In New York City, the Youth Financial Empowerment program that Citi supports in partnership with the Administration for Children's Services is preparing foster children for the transition to adulthood by establishing savings and transaction accounts. Citi also is a supporter of New York City's Financial Empowerment Centers, which have (among other essential services) helped LMI customers to save.

A 2009 policy paper authored by Ellen Seidman, former Senior Fellow at New America Foundation and the Board Chair of the Center for Financial Services Innovation (CFSI) has noted, "saving and investment were not part of the initial CRA focus, in part because the CRA at the time sought to address the problem that financial institutions in lower-income communities did not reinvest low-income individuals' savings in their communities. Today, the problem is not so much reinvestment of savings as spurring savings in the first place. It is clear, given the current debt-led economic troubles and low national personal savings rate that Americans need to save more money." The paper points out that "in 1977, individual access to investment opportunities was limited, but there was less need for such opportunities because defined-benefit retirement plans, in which the employer took responsibility for investment decisions and outcomes, were much more common. This has since changed. The new paradigm should therefore cover: (a) non purpose-limited, short-term savings opportunities; (b) longer-term, low-risk saving and investment."[2]

Thirty-three years after the enactment of the CRA, financial services institutions do not receive definitive CRA consideration for offering transaction or savings accounts. Saving is key to attaining higher education, buying a home, and planning for retirement. But we must also realize that saving, especially for LMI households, is critical to stabilizing cash flow to cover small emergencies, such as repairing a car or paying an unexpected medical bill. A savings account can act as a personal safety net that enables families to climb the economic ladder and achieve a level of stability for their futures.

In a recent article, it has been suggested that the evolution of the CRA into the current three-part test — including Lending at 50 percent weight; Investments at 25 percent weight; and Services at 25 percent weight — does not fully promote the CRA's intent to strengthen LMI communities in the current environment. The article proposes that, to best address the problems of LMI communities, "the CRA is most likely to meet with success…if bankers…are able to use their skills and experience to develop new products and services…." The article also proposes that "it may be a good time to consider transaction, savings or other products and services for the unbanked or underbanked."[3] It should be noted that of the 25 percent of the CRA rating dedicated to the Service Test, approximately 90 percent of the test is focused on branch distribution.

At all times and particularly in the current economy, there is a need for families to establish and invest in savings accounts towards such goals as homeownership, starting a business, going to college and retirement. As noted in a book co-edited by Michael Barr, now Assistant Secretary of the U.S. Department of the Treasury, "nationally, nearly 25 percent of low-income American families — those earning less than $18,900 a year — are 'unbanked,' that is, they have neither a checking nor a savings account…. Even among moderate-income households earning between $18,900 and $33,900 per year, nearly 13 percent lack any bank account…."[4]

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[2] "A More Modern CRA for Consumers" by Ellen Seidman (Federal Reserve Bank of San Francisco, February 2009: http://www.frbsf.org/publications/community/cra/more_modern_cra_consumers.pdf)
[3] "It's the Rating, Stupid: A Banker's Perspective on the CRA" by Mark Willis, Ford Foundation Visiting Scholar; pp.59-70 (http://www.frbsf.org/publications/community/cra/index.html). Presented at 2009 Federal Reserve Bank of San Francisco meeting on CRA reform.
[4] "Insufficient Funds: Savings, Assets, Credit, and Banking Among Low-Income Households." Rebecca M. Blank and Michael S. Barr, Eds. (Russell Sage Foundation, 2009) p. 67.

According to a study by the Center for Financial Services Innovation, for most people, owning a checking or savings account is the first step in creating a sustainable and sound economic future.[5] The study cites a "Credit Path" model that describes the process by which low-income individuals can progress from meeting immediate transactional needs to building longer-term assets. The model, a metaphor for the progression to financial prosperity, describes a path along which consumers travel, first as transactors, then as savers, then as borrowers, and finally as owners. Currently the CRA exam provides substantial credit for the "borrower" and "owner" stages of this pathway, but little for the "transactor" and "saver" stages.

Recent federal data suggests that Americans are saving at a rate of 3.5 percent, up from just above one percent at the beginning of 2008.[6] This upward trend reflects the inclination of Americans to pay down debt and spend less than they earn. This is a positive development that should be strengthened. We believe that the CRA has a critical role to play in encouraging financial institutions to engage in these issues and deliver solutions.

Savings accounts are one of the most basic asset accumulation tools and act as a gateway to the financial mainstream. Earned Assets Resource Network (EARN), Citi's long-time community partner in San Francisco, has opened over 2,928 accounts with over $4 million in savings. A recent study issued by EARN suggests that enrollment in matched savings programs has any number of positive benefits for individuals and society as a whole. First, matched savings programs can lead to a sustained pattern of savings. These programs also serve as good introductions into the mainstream financial world for many participants. Successful savings also seem to encourage participants toward greater civic engagement.[7]

Saving can be a springboard to a better future for low-income and youth populations, and can dramatically increase opportunities to break the cycle of poverty through education and/or entrepreneurship. Citi has been working for over a year to develop and launch an ambitious new college savings product with three nonprofits — the United Negro College Fund, the KIPP charter schools and CFED — to offer LMI families the opportunity for educational savings, academic and financial counseling and scholarship assistance. In addition, the Citi Foundation has provided a $2.5 million grant to operate the program and Citi's businesses will provide $5 million in matching contributions and scholarships to reward students who meet their savings and academic goals.

Research shows that, regardless of a family's income level, the children of parents who own assets are more likely to have higher academic achievement and complete more years of education than families with no financial assets.[8] Further, we believe that the ability to engage young people in the savings process early in life will help place them firmly in the financial mainstream.

It should be noted that savings is not only critical to the asset acquisition process, but can support asset preservation as well. For example, in June 2010, CFED and the Urban Institute released a study of 831 homebuyers in 17 states who purchased homes using IDAs between 1999 and 2007.[9] When compared to other LMI homebuyers who purchased homes in the same communities and over the same time period, IDA homebuyers obtained significantly more preferable mortgage loan terms, with only 1.5 percent having high-interest mortgage rates, compared to 20 percent of the broader sample. LMI individuals in the program were also two to three times less likely to lose their homes to foreclosure. In addition to relatively low foreclosure

[5] "Breaking the Savings Barrier: How the Federal Government Can Build an Inclusive Financial System" by Anne Stuhldreher and Jennifer Tescher, p.2 (Center for Financial Services Innovation, February 2009: http://cfsinnovation.com/system/files/imported/managed_documents/unbanked_report.pdf)

[6] U.S. Bureau of Economic Analysis data (http://www.bea.gov/briefrm/saving.htm)

[7] http://eon.businesswire.com/portal/site/eon/permalink/?ndmViewId=news_view&newsId=20100127005712&newsLang=en

[8] "Getting Ahead or Losing Ground: Economic Mobility in America" by Ron Haskins et al. (Brookings Institution, February 2008: http://www.brookings.edu/reports/2008/02_economic_mobility_sawhill.aspx).

[9] "Weathering the Storm: Have IDAs Helped Low Income Homebuyers Avoid Foreclosure?" by Ida Rademacher et al. (CFED, April 2010: http://cfed.org/knowledge_center/research/weathering_the_storm_have_idas_helped_low-income_homeowners_avoid_foreclosure)

rates for the IDA sample, the report's property searches revealed that, as of April 2009, 93 percent of IDA homebuyers in the study had retained their homes with no evidence of problems paying their mortgage. Various aspects of the IDA programs may contribute to these results, including the financial match (which can increase down payments), access to financial education and homeownership counseling (which can lead to improved credit scores), and mortgage product monitoring for the best loan terms.

We also should acknowledge that mainstream savings accounts reduce the risk of theft, fraud and loss for American families. These families might utilize potentially expensive products and services from alternative financial services (AFS) providers — such as check cashers or payday lenders — which make it harder for them to achieve financial security. Research by the Pew Health Group (PHG) on California families confirms the widely shared view that having a bank account generally provides families access to basic financial services at a lower cost than using AFS providers.[10] In addition to savings accounts, we think other innovative savings and credit building mechanisms that help consumers move along the asset building path are also critical. Savings-led credit products incentivize LMI consumers to use credit wisely and help them save while rebuilding their credit score or building a credit history for the first time.

Citi strongly believes that partnerships with community-based intermediaries, including many of our partners who are here today to provide testimony, are critical not only to expanding outreach but also to enhancing the understanding of consumer needs. I have mentioned a number of our partners already; others include Juma Ventures in California, Justine Peterson in Missouri and the Local Initiative Support Corporation's Financial Opportunity Centers in Chicago, all of which provide underbanked and LMI populations with access to financial products and services and counseling. Accordingly, we believe that facilitating savings opportunities through these types of partnerships should receive additional weight under the CRA service test.

As my testimony has outlined, Citi considers savings accounts and other asset building vehicles to be essential to the economic self-sufficiency of LMI communities. Savings accounts — specifically IDAs — *are* contemplated by the current CRA. Section 11.24(d)-2 of the 2010 CRA Q&A states that examiners evaluate the actual services and products provided by an institution in connection with IDA programs as CRA-eligible under a number of CRA criteria.

We are proposing that you consider an expansion of the current regulation to recognize not just IDAs but also savings and transaction accounts more broadly, and savings-led credit products, as a way to provide incentive for banks to meet the needs of LMI communities. The flexibility of the CRA has been demonstrated through the evolution of the regulations under the Act over time to reflect changes in the external environment, and in the present deliberations.

We appreciate the flexibility and the opportunities that these hearings provide for innovation in demonstrating positive impact on LMI communities. In the end, that positive impact on expanding financial inclusion and prosperity for LMI communities is our shared goal.

In conclusion, we reiterate our support for the CRA and at the same time we ask you to consider augmenting the CRA's focus on asset-building activities. The CRA already recognizes the importance of assets in its embrace of homeownership and small business, which derive from — and are catalysts for — asset accumulation. We ask you to consider giving more credit to other asset building activities, such as emergency savings programs, educational savings, retirement savings and savings-led credit products.

We thank you for this opportunity to contribute to the public discussion regarding the CRA and welcome the opportunity to further expand or provide background information on my comments today. Thank you for your time and attention.

[10] "Unbanked By Choice: A Look at How Low-Income Los Angeles Households Manage the Money They Earn" by The Pew Health Group (July 2010: http://www.pewtrusts.org/our_work_report_detail.aspx?id=59978)