



---

Comptroller of the Currency  
Administrator of National Banks

Limited Purpose

---

## **Public Disclosure**

**April 24, 2006**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Citibank (South Dakota), National Association  
Charter Number 16971**

**701 East 60<sup>th</sup> Street North  
Sioux Falls, South Dakota 57117**

**Comptroller of the Currency  
Large Bank Supervision  
250 E Street, SW  
Washington, DC 20219**

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **Institution's CRA rating:**

**This institution is rated Outstanding.**

The conclusions for the rating criteria are:

- The bank demonstrates a high level of qualified investment activity, including some investments that are not routinely provided by private investors, as well as an adequate level of community development services.
- The bank demonstrates occasional use of innovative or complex community development services and qualified investments.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

## **Scope of the Examination**

In evaluating Citibank (South Dakota), National Association's (CBSD) performance under the CRA, we reviewed community development activities from May 1, 2003 through April 24, 2006. We reviewed the level and nature of qualified investments and community development services. At the bank's request, we also considered qualified investments and community development services provided by its affiliates. At the prior examination, dated May 5, 2003 which was a four year exam period, we rated the bank Outstanding.

CBSD has adequately addressed the needs of its assessment area, and therefore, qualified investments and community development services outside of the assessment area were considered in evaluating its performance.

## **Description of the Institution**

CBSD, located in Sioux Falls, South Dakota, is a Competitive Equality Banking Act (CEBA) limited purpose credit card bank with no branch banking offices. CBSD was designated a limited purpose bank in 1996. As of year-end 2005, CBSD had \$44 billion in total assets with almost \$94 billion in pass-through receivables and \$64 billion in securitized receivables. The bank issues consumer credit cards and services credit card accounts. Services provided at the South Dakota processing center include providing customer service by telephone and correspondence, establishing new cardholder relationships and enhancing existing accounts, developing technology and providing technical support, providing transaction services, and retaining credit card accounts and balances. The bank offers Visa and MasterCard consumer products, AT&T Universal Card, American Express products, and oil and gas private label programs. CBSD also has agent banking relationships. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit and community development needs of

its assessment area. The Competitive Equality Banking Act of 1987 designation requires that the bank does not participate in any non-consumer credit card activities, so the bank does not have any community development lending activity.

CBSD is a subsidiary of Citibank, National Association, which is a direct subsidiary of Citigroup, headquartered in New York, New York. Citigroup is one of the largest financial services company in the world with assets of \$1.5 trillion as of December 2005. The affiliates of CBSD include Citigroup (community development investments and lending through Citibank Community Development Group), Citigroup Foundation (qualified grants), Citibank USA, National Association (joint community development services), CitiHousing, Inc. (community development services), and Smith Barney (community development services). No other affiliate received CRA credit for specific loans, investments or services attributed to Citibank (South Dakota), National Association.

From the beginning of the evaluation period through the end of 2005, CBSD's Tier 1 capital grew steadily, total income remained relatively unchanged, and total assets and pass-through receivables declined.

**Table 1: Financial Information (\$000s)**

	<b>Year-end 2003*</b>	<b>Year-end 2004*</b>	<b>Year-end 2005*</b>	<b>Average 2003-2005</b>
Tier 1 Capital	\$5,038,953	\$8,161,643	\$10,013,711	\$7,738,102
Total Income	\$8,999,169	10,644,412	9,985,688	\$9,876,423
Net Operating Income	\$2,857,116	3,027,011	2,276,217	\$2,720,115
Total Assets	\$56,549,931	54,708,683	44,011,444	\$51,756,686
Pass-Through Receivables	\$97,548,930	96,880,960	93,996,871	\$96,142,254

Source: Consolidated Report of Condition and Income and bank reported data. \*Annualized data reported.

## **Description of Assessment Area**

The bank's assessment area is the entire Sioux Falls metropolitan statistical area (MSA) #43620. It consists of four counties in the southeast corner of South Dakota - Minnehaha, Lincoln, McCook, and Turner.

The Sioux Falls MSA is the largest urbanized area in South Dakota with a population of 187,093 according to 2000 census data. The MSA includes Sioux Falls, the state's most populous city. Outside city limits, the area is predominately rural land dotted with smaller farm communities. Per 2000 census data, 35 percent of the families in the area have low- or moderate-incomes with 7.0 percent of all households living below poverty. The Department of Housing and Urban Development estimates the area's median family income at \$62,800 for the year 2006.

The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The Sioux Falls MSA contains no low-income tracts. Five (of the area’s seven) moderate-income census tracts are located in the city of Sioux Falls (Minnehaha County). McCook and Turner Counties both have a moderate-income census tract, which roughly covers the southern half of each county.

The following table summarizes additional select demographics for the Sioux Falls MSA:

**Table 2: Sioux Falls MSA Demographics**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	37	0.0%	18.9%	67.6%	13.5%
<b>Families by Income Level</b>	48,663	15.3%	19.6%	28.6%	36.5%
<b>Businesses</b>	13,234	0.0%	23.3%	68.6%	8.1%

Source: Demographic Data - 2000 U.S. Census, 2004 Dun & Bradstreet Data.

The Sioux Falls economy remains healthy. The area is experiencing population growth (21.9% percent increase from 1990 to 2000). The employment base is diversified with a broad range of services including finance, retail, and health care. Sioux Falls is a regional provider of medical and retail services and is, in fact, the largest retail center between Denver and Minneapolis/St. Paul.

Unemployment rates remain below state and national averages according to information from the Department of Labor. As of December 2005, the unemployment rate for the Sioux Falls MSA was 3.1% (not seasonally adjusted), compared to state and national averages of 3.9% and 4.9%, respectively (not seasonally adjusted).

The banking environment is highly competitive. There are 32 FDIC-insured financial institutions with branches in the MSA. There are also ten credit unions that are headquartered in the Sioux Falls MSA. South Dakota has liberal usury laws and, consequently, Sioux Falls is home to several credit card banks with limited purpose CRA designations - including CBSB; Citibank USA, National Association; Department Stores National Bank; Target National Bank; and Wells Fargo Financial Bank. These institutions provide strong competition for community development activities, particularly qualified investment opportunities.

Over the evaluation period, OCC representatives met with several community contacts including two city officials, an affordable housing organization, and a nonprofit provider of services to low- and moderate-income children. We also reviewed a representative sample of public evaluations for other local banks.

Credit and community development needs in the assessment area are somewhat limited given the area’s favorable demographics, strong economy, and highly competitive banking environment. However, there are ongoing needs for:

- Affordable housing and rental stock to accommodate a growing employment base;

- Small business loans to encourage economic growth in rural areas;
- Financial educational of homebuyers, small business owners, and youth; and
- Social services for economically disadvantaged individuals.

In the course of our performance context research, we did not identify any adverse comments regarding local banks' responsiveness to area credit needs or participation with community development initiatives. We considered the one CRA complaint that we received during the evaluation period concerning the bank's prior "Outstanding" CRA performance evaluation.

## **Conclusions about Performance**

### **Summary**

- CBSD provided a high level of qualified investments and an adequate level of community development services during this evaluation period. We considered the bank's performance strong. The volume of CBSD's community development activities represents 9.9 percent of average Tier I capital for the evaluation period and 7.8 percent of average total income for the evaluation period. The bank made qualified investments and grants totaling over \$767 million. Of the total dollars invested, 85 percent were provided in the current evaluation period and 45 percent directly benefited the bank's greater regional area that includes the assessment area. Bank officers and employees provide numerous community development services, mostly financial and technical assistance to boards or committees of organizations providing community development services to the assessment area.
- The bank occasionally uses innovative or complex community development investments and services. Some of the bank's service projects are very large, requiring coordination among state and local government agencies, nonprofit organizations, private businesses, and the bank. The investments include creative financing to support bond issues and narrowly-directed investments to meet very specific assessment area credit needs.
- The bank's qualified investments and grants and community development services exhibited excellent responsiveness to the credit and community development needs within the assessment area. Qualified investments have primarily focused on affordable housing needs. Substantially all of the grants were to organizations that provide services to low- and moderate-income individuals and families. Community development services cover a wide range of activities, including housing development and rehabilitation, home ownership counseling, small business development, job training, financial literacy, and social services.

### **Qualified Investments**

During the evaluation period, CBSD's qualified investments and grants totaled \$655 million. Forty-five percent of these dollars directly benefited the bank's greater regional area that includes the assessment area. The types of investments the bank made include: low income

housing tax credits (LIHTC); qualified housing bonds to create affordable home ownership for low- and moderate-income (LMI) individuals; mortgage-backed securities collateralized by loans to low- and moderate-income households; and qualified charitable contributions.

During the review period, CBSD purchased \$38.3 million in bonds issued by the South Dakota Housing Development Authority (SDHDA). The proceeds of the bond sales are used to provide below market rate mortgage loans to first-time homebuyers with incomes within federally-established limits. The purchase of bonds by CBSD provided the SDHDA with the ability of not having to re-price any unsold bonds. Since SDHDA did not re-price the bonds, they were able to continue offering low rate mortgages.

Since 1997, Citigroup has maintained a portfolio of mortgage-backed securities that are collateralized by loans to LMI households in Citigroup markets. Citigroup ensures the securities serve a community development purpose by tracking the underlying loans in each security by the income level of the borrower. During this evaluation period, Citigroup purchased mortgage-backed securities and allocated almost \$109.3 million to CBSD for mortgages made in the greater regional area which includes the assessment area.

CitiHousing, Inc., a wholly-owned subsidiary of CBSD which was created in 1993, continues to be a major leader in the financing of affordable housing in the Sioux Falls assessment area and communities throughout the state. CitiHousing is a for-profit community development corporation that facilitates the development of affordable housing with an emphasis on those that qualify for the LIHTC Program. During the review period, an additional \$10 million was invested in CitiHousing by CBSD, bringing the total investment to \$30 million. One of the most innovative projects was a complex of 24 one-bedroom assisted-living apartments for individuals who face chronic homelessness as a result of their severe and persistent mental illnesses. This is the first program using housing tax credits that provides service-enriched housing for individuals with mental illnesses.

During the review period, CBSD made investments totaling \$243.3 million that participate in LIHTC programs nationwide. Sixteen of the funds were within the broader regional area including the bank's assessment area representing 60 percent in the total number of funds and \$92.4 million or 38 percent in dollars. These funds are used to provide housing for LMI consumers whose income is normally at 60 percent or less of the area's median income. In Harrisburg, SD there is a project being developed that will contain 44 multi-family units in seven 2-story buildings where all the tenants' income will be at or below 40 to 50 percent of the area median income.

## **Qualified Grants**

During the evaluation period, CBSD made grants totaling over \$234 million dollars to agencies in its assessment area that provide: community development services for low- and moderate-income people with respect to affordable housing; community services - including financial education relating to credit, home buyer, home maintenance, and financial planning; activities

that promote economic development for small farms and businesses; and activities that revitalize or stabilize low- or moderate-income areas. Below are some examples of activities that were funded with both the Foundation and local grant monies.

Effective April 2004, Citibank implemented an industry-leading policy for the funding of credit counseling agencies. In an effort to ensure that customers get the best counseling support available, Citibank became the first major financial institution to overhaul the traditional “fair share” funding model in favor of a new grant program that awards agencies that provide the best services for the bank’s clients. CBSD contributed \$232.7 million during the evaluation period. Of that amount, \$8.3 million benefited consumers in the bank’s broader regional area including the bank’s assessment area. Most of the credit card receivables CBSD holds come from customers outside of the north central plains states.

Specifically, these organizations provide assistance to a majority of low- and moderate-income borrowers who are delinquent in their payments or may be at risk of going into default on consumer loans, including credit cards. The agencies offer financial education and debt management counseling to consumers on all aspects of their credit situation. They also help prepare workable budgets and provide assistance with restructuring and consolidation of debt.

Through the Community Summer Intern Program (CSIP), CBSD funds summer internships for college and graduate students to work for community development organizations that target low- and moderate-income people. This program provides organizations with valuable project development assistance, and it introduces a new generation of potential leaders to the field of community development. CBSD funded four internships for \$20,000 in 2003, four internships for \$20,000 in 2004 and five internships for \$25,000 in 2005.

CBSD has partnered with key community development organizations, called “strategic partners,” to develop a number of signature programs. Through the Community Development Capacity Building Program, CBSD provides financial training and one-on-one project development assistance to organizations engaged in community development and neighborhood revitalization. CBSD has partnered with the National Development Council (NDC), which provides training courses and project development assistance to non-profits and specializes in economic and housing development finance. In 2004, the foundation provided NDC with a \$170,000 grant and in 2005, a \$225,000 grant to support training and technical assistance nationwide. Over the past two years, NDC provided 22 trainings to more than 600 attendees across CBSD marketplaces. In South Dakota, CBSD sponsored NDC’s seminar, “Economic Development Finance” to 27 participants representing nonprofit and community development organizations and local, county and state governments from across South Dakota.

For the past five years, CBSD has worked with a community fund to encourage entrepreneurship and make capital available to those who do not have access to traditional bank financing. The fund is a Community Development Financial Institution (CDFI) located on the Cheyenne River Indian Reservation in north central South Dakota. It provides training, technical assistance, micro-financing and business incubation for entrepreneurs on this reservation. During the evaluation period, Citigroup Foundation provided \$75,000 in grants for loan loss reserves for the

revolving loan fund as well as to support the operations of an Individual Development Account (IDA) Program for Native American youth. Additionally, the Foundation awarded a grant of \$14,150 to a community organization as part of the Women and Company Micro-enterprise Boost Program. This signature program is designed to give practical assistance to LMI women entrepreneurs by providing them with effective business skills training and technical assistance from local micro-enterprise development agencies.

**Table 3: Qualified Investment Activity (000s)**

	<b>Benefits Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Totals</b>
<b>Originated Investments</b>	\$266,749	\$153,421	\$420,170
<b>Originated Grants</b>	\$10,479	\$224,408	\$234,887
<b>Prior-Period Investments that Remain Outstanding</b>	\$68,283	\$44,066	\$112,349
<b>Total Qualified Investments</b>	\$345,511	\$421,895	\$767,406

**Table 4: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	4.5%	5.5%	9.9%
<b>Total Investments/Average Total Income</b>	3.5%	4.3%	7.8%
<b>Total Investments/Average Pass-Through Receivables</b>	0.4%	0.4%	0.8%

## **Community Development Services**

CBSD and its affiliate, Citibank USA, National Association (CBUSA), have dual employees who provide community development services in the assessment area, throughout the state of South Dakota and the broader regional area. None of the credit given for community development services has been duplicated between the two banks. During the evaluation period, CBSD employees have provided technical expertise on financing and developing affordable housing projects; financial and technical assistance to loan programs that support economic revitalization through small businesses; and financial education to low- and moderate-income groups and individuals. CBSD has developed several programs that are designed to build capacity and leadership within the non-profit community development sector.

Since 1992, CBSD has had a partnership providing technical expertise with the SDHDA to develop financing solutions for affordable rental and for-sale housing in the Sioux Falls area and across the state. Since that time, CBSD, CBUSA, CitiHousing and SDHDA have constructed



and rehabilitated affordable housing for LMI families, the elderly and people with special needs. Total project costs for these affordable housing units are in excess of \$100 million.

CBSD staff members serve on boards and committees for a number of South Dakota-based community development organizations that benefit LMI populations. They also serve as task force members on important community initiatives, such as transitional housing and financial literacy programs for LMI youth. From May 2003 through April 2006, CBSD employees served on the Board of Directors and/or Advisory Boards of 36 community organizations statewide. In 2003, they served in 35 positions; 37 positions in 2004; 38 positions in 2005; and, until April 2006, 43 positions.

During this evaluation period, CBSD provided leadership and expertise to develop the SDHDA Habitat for Humanity Loan Purchase Program. With the steadily increasing costs of construction and land, the 14 Habitat for Humanity Affiliates in South Dakota requested assistance from the State Habitat organization with finding ways to leverage their existing capital so they could continue to provide affordable housing. Serving as the Treasurer of the State board, a Citibank officer provided the leadership needed to assist Habitat for Humanity–South Dakota in developing a loan purchase program. The Habitat affiliate can sell a mortgage by permanently transferring its interest in the mortgage to SDHDA as the investor. Selling the mortgages allows the affiliate to receive money up front rather than receiving monthly payments over the life of the loan. Additionally, the Citibank employee developed a comprehensive program manual for use by SDHDA and the affiliates and traveled throughout the state to conduct training on the loan purchase program to the affiliates.

For more than a decade, Citibank employees have provided community development services by volunteering time, as a representative of CBSD, to help tutor children in the School-Based Mentor Program in the Sioux Falls School District. Over the past three school years, 225 volunteers have dedicated time to help children throughout the school district. Citibank’s volunteers have a significant presence at Hawthorne Elementary School, with 145 mentors serving children in this LMI neighborhood.

## **Fair Lending Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate** – Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Assessment Area (AA)** – A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

**Benefit to Assessment Area** – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank’s assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

**Block Numbering Area (BNA)** – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

**CEBA** – Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a “bank holding company” under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

**Census Tract (CT)** – Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Community Development (CD)** – Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA)** – The statute that requires the OCC to evaluate a bank’s record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Geography** – A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Limited Purpose Institution** – An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

**Median Family Income (MFI)** – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**Metropolitan Statistical Area (MSA)** – Area defined by the director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Net Operating Income** – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, “Pretax Operating Income (TE)”*]

**Pass-Through Receivables** – Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

**Tier 1 Capital** – The total of common shareholders’ equity, perpetual preferred shareholders’ equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, “Net Tier One”*]

**Total Assets** – Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, “Total Assets”*]

**Total Income** – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, “Total Interest Income” and “Noninterest Income”*]