

OFFICE OF THRIFT SUPERVISION

Order Approving Application To Establish Operating Subsidiaries

Order No.: 2004-23
Date: April 30, 2004
Docket No. 14470

Citicorp Trust Bank, fsb, Newark, Delaware (Savings Bank), a federal stock savings bank, has filed an application with the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. § 559.11, requesting approval to establish two operating subsidiaries. The Savings Bank proposes to acquire the following two companies from its parent holding company and hold them as first- and second-tier operating subsidiaries: CitiFinancial Mortgage Company, Inc. (Mortgage Subsidiary), and its subsidiary, Associates Home Equity Receivables Corporation (Second-Tier Subsidiary) (collectively, the Operating Subsidiaries).

Background

The Savings Bank, a Bank Insurance Fund (BIF)-insured federal stock savings bank, is a wholly owned, direct subsidiary of CitiFinancial Credit Company (CCC), which is a wholly owned indirect subsidiary of Citigroup Inc. As of December 31, 2003, the Savings Bank had total assets of \$17 billion, total liabilities of \$15.7 billion, and total equity capital of \$1.4 billion. As of such date, the Savings Bank was well capitalized, under OTS regulations.

The Mortgage Subsidiary, a wholly owned, direct subsidiary of CCC, originates prime and sub-prime first and second mortgage residential home equity loans. The Mortgage Subsidiary currently has four wholly owned subsidiaries. While three of them will be merged into the Mortgage Subsidiary immediately before consummation of the proposed transaction, the Second-Tier Subsidiary will continue as a wholly owned direct subsidiary of the Mortgage Subsidiary. The Second-Tier Subsidiary's sole activity is holding a subordinated interest in a pool of securitized mortgage loans.

The Proposed Transaction

In the proposed transaction, CCC will contribute all of the common stock of the Mortgage Subsidiary to the Savings Bank. As a result, the Mortgage Subsidiary will become a wholly owned first-tier operating subsidiary of the Savings Bank. The Mortgage Subsidiary will continue to own all the stock of the Second-Tier Subsidiary, which will become a second-tier operating subsidiary of the Savings Bank. The Operating Subsidiaries will continue their current activities after the transaction.

Operating Subsidiary Application

Generally, a federal savings association may invest in an operating subsidiary only if: (1) the subsidiary engages only in activities permissible for federal associations to engage in directly; (2) the federal association owns, directly or indirectly, more than 50 percent of the voting shares of the operating subsidiary; and (3) no person or entity other than the federal association exercises operating control over the operating subsidiary.¹ In addition, OTS may, at any time, limit a savings association's investment in operating subsidiaries, or may limit or refuse to permit any activities of an operating subsidiary, for supervisory, legal, or safety and soundness reasons.²

With regard to the requirement that the subsidiary may engage only in activities permissible for federal associations to engage in directly, the Mortgage Subsidiary will continue to engage in mortgage loan origination activities, which are permissible for federal savings associations. In addition, the Second-Tier Subsidiary's sole activity will be holding a subordinated interest in a pool of securitized mortgage loans, which is permissible for federal savings associations. Accordingly, OTS concludes that the Operating Subsidiaries' proposed activities are permissible for a federal association.

With regard to the requirement that the federal association own, directly or indirectly, more than 50 percent of the voting shares of the operating subsidiary, the application indicates that each of the Operating Subsidiaries will satisfy this requirement. The Savings Bank will hold all of the common stock of the Mortgage Subsidiary and indirectly, through the Mortgage Subsidiary, hold all of the stock of the Second-Tier Subsidiary. With regard to the requirement that no person or entity other than the federal association exercise operating control over the operating subsidiary, the application indicates that no other party will have operating control over the Operating Subsidiaries.

OTS has carefully considered the supervisory considerations presented by the application. Based on the application, OTS' regulatory experience with the Savings Bank and its holding companies, and the commitments provided in the application, OTS concludes that it has no supervisory objections to the proposed transaction, provided the conditions set forth below are satisfied.

Conclusions

Based on the considerations set forth above, OTS concludes that the application meets the applicable approval criteria, provided that the following conditions are imposed. Accordingly, the application is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the OTS Southeast Regional Director, or his designee (Regional Director):

¹ 12 C.F.R. § 559.2, 559.3(c)(1), and (e)(1) (2003).


² 12 C.F.R. § 559.1(a) (2003).

1. The Savings Bank and the other parties to the transaction must receive all required regulatory approvals and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transaction;
2. The proposed transaction must be consummated within six months from the date of this Order;
3. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Savings Bank and CCC must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operations of the Savings Bank, the Mortgage Subsidiary, and the Second-Tier Subsidiary, as disclosed in the application. If additional information having a material adverse bearing on any feature of the application is brought to the attention of the Savings Bank, the Mortgage Subsidiary, CCC, or OTS since the date of the financial information submitted with the application, the transaction must not be consummated, unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;
4. The Savings Bank must advise the Regional Director in writing within 5 calendar days after the effective date of the proposed transaction: (a) of the effective date of the proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the application, and this Order; and
5. The Operating Subsidiaries must not deviate materially from any of the activities, facts, representations or commitments described in the application, except with the prior written non-objection of the Regional Director.

Any time specified herein may be extended by the Regional Director, for good cause, for up to 120 calendar days.

By Order of the Director of the Office of Thrift Supervision, or his designee, effective

April 30, 2004



Scott M. Albinson
Managing Director
Office of Examinations, Supervision and
Consumer Protection