

OFFICE OF THRIFT SUPERVISION

Approval of Transfer of Assets and Capital Distribution Applications

Order No.: 2005-44
Date: October 19, 2005
Docket Nos.: 16138, H-3431, H-3637

FDS Bank, Mason, Ohio (FDS Bank), a federal savings bank, has filed an application with the Office of Thrift Supervision (OTS), under 12 C.F.R. § 563.22(c), to sell a substantial portion of its credit card accounts to Citibank N.A., New York, New York (Citibank). FDS Bank has filed an application under 12 C.F.R. § 563.143 to make certain cash capital distributions to its holding company, FDS Thrift Holding, Co., Inc., Cincinnati, Ohio (Holding Company), and also to distribute to the Holding Company all of the preferred stock of Department Stores National Bank, Sioux Falls, South Dakota (DSNB) that FDS Bank receives upon consummation of the sale of the credit card accounts. (Collectively, the foregoing are referred to herein as the Applications.)

The Parties

FDS Bank is a Bank Insurance Fund (BIF)-insured federal stock savings association, which is headquartered in Mason, Ohio. FDS Bank is a second tier, wholly owned subsidiary of Federated Department Stores, Cincinnati, Ohio (FDS), and a wholly owned direct subsidiary of the Holding Company. FDS Bank offers Visa cards and private-label cards associated with FDS' retail operations. Over 99 percent of FDS Bank's operations consist of its Visa and non-employee private-label credit card accounts (Credit Card Business).¹

Citibank, which had total assets of more than \$704 billion as of June 30, 2005, is a subsidiary of Citigroup, Inc., New York, New York, which has total assets in excess of \$1.484 trillion. On September 20, 2005, the Office of the Comptroller of the Currency granted Citibank preliminary conditional approval to establish DSNB as an operating subsidiary. DSNB will be a Federal Deposit Insurance Corporation insured limited-purpose credit card bank.

The Proposed Transaction

FDS Bank proposes to sell its Credit Card Business to Citibank. Citibank will in turn contribute the Credit Card Business to DSNB. FDS Bank will invest \$100 in DSNB and receive 49 percent of a class of voting preferred stock of DSNB. Additionally, FDS

¹ FDS Bank also offers private-label credit cards to employees of FDS and its subsidiaries. For the purposes of this Order, employee private-label credit card are not included in FDS Bank's "Credit Card Business."

Bank will have equal representation with representatives of Citibank on committees that will govern the operations of DSNB.

FDS Bank has requested OTS approval to make certain capital distributions during the year after the proposed sale of the Credit Card Business. FDS Bank proposes to make a capital distribution of a portion of the proceeds from the sale of its Credit Card Business. Also, upon the sale of its Credit Card Business to Citibank, FDS Bank proposes to transfer the preferred stock in DSNB described above to the Holding Company. Finally, FDS Bank's relationships with Citibank and DSNB will generate income, a part of which FDS Bank proposes to distribute in monthly installments of varying amounts as capital distributions.

Transfer of Assets Application

FDS Bank has applied to transfer its assets that relate to its Credit Card Business to Citibank. Section 563.22(d) of OTS' regulations provides that in considering a transfer application OTS will consider: (i) the capital levels of the resulting association; (ii) the financial and managerial resources of the constituent institutions; (iii) their future prospects; (iv) the convenience and needs of the communities to be served; (v) the conformity of the transaction to applicable laws, regulations and OTS policies; and (vi) whether the transaction is fair and equitable.

As for the capital levels of the resulting association, the Applications indicate that FDS Bank is well capitalized and will remain well capitalized after consummation of the transfer.

As for financial and managerial resources, OTS has reviewed the financial and managerial resources of FDS Bank. FDS Bank will remain well capitalized after the transfer transaction. After the transaction, FDS Bank's management team will remain in place. OTS is familiar with FDS Bank's management, and based on agency experience with FDS Bank, OTS concludes that FDS Bank's management resources are consistent with approval.

Based on its consideration of the managerial and financial resources of FDS Bank, and OTS' review of FDS Bank's projected operations after the transfer, OTS concludes that the future prospects of FDS Bank are consistent with approval.

As for convenience and needs, Citibank plans to have DSNB continue the Credit Card Business, and there is no indication that there will be material changes in the manner in which that business is conducted, or the types of services offered. In addition, FDS Bank does not plan to amend its Community Reinvestment Act (CRA) assessment area as a result of the proposed transaction and will maintain its existing CRA programs. Based on the foregoing, OTS concludes that the convenience and needs of the community are consistent with approval.

As for conformance to law, regulation and supervisory policy, OTS' review of the Applications did not indicate any violation of law or regulations, or non-compliance with supervisory policies, in connection with the proposed transaction. Based on the foregoing, OTS concludes that approval of the proposed transaction is not objectionable based on conformity of the proposed transaction to applicable law, regulation, and supervisory policies.

As for factors regarding equitable treatment and disclosure, employment contracts, and advisory boards, OTS' review of the Applications indicates that the proposed transaction appears to be equitable to all concerned. The transfer was negotiated at arms'-length between independent parties.

Capital Distributions

FDS Bank has requested OTS approval, pursuant to 12 C.F.R. § 563.143(a)(2), to make certain cash capital distributions, as described in the Applications, and to dividend its DSNB preferred stock to the Holding Company.

OTS may deny a capital distribution notice if, generally, the proposed capital distribution would: (i) cause the institution to become undercapitalized; (ii) raise safety and soundness concerns; or (iii) violate any statute, regulation, agreement with OTS or condition of approval.² The proposed distributions will not raise safety and soundness concerns, violate any prohibition contained in law, agreement with OTS, or condition of approval, and FDS Bank will remain well capitalized after the distributions. Accordingly, we conclude that FDS Bank's proposed capital distributions are consistent with approval.

Conclusions

Based on the foregoing analysis, OTS concludes that the Applications meet the applicable approval criteria, provided that the following conditions are complied with in a manner satisfactory to the Northeast Regional Director, or his designee (Regional Director). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. FDS Bank, Citibank, and DSNB must receive all required regulatory and shareholder approvals and submit copies of all such approvals to the Regional Director prior to the consummation of the proposed transactions;
2. The proposed transactions covered by the Applications must be consummated within 120 calendar days from the date of this Approval Order;

² 12 C.F.R. § 563.146 (2005).

3. On the business day prior to the date of consummation of the proposed transactions, the chief financial officer of FDS Bank must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operation of FDS Bank as disclosed in the Applications. If additional information having a material adverse bearing on any feature of the Applications is brought to the attention of FDS Bank or OTS since the date of the financial statements submitted with the Applications, the transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides prior written non-objection to consummation of the proposed transactions; and,
4. FDS Bank must advise the Regional Director in writing within 5 calendar days after the effective date of each of the proposed transactions: (a) of the effective date of the respective transaction; and (b) that the respective transaction was consummated in accordance with all applicable laws and regulations, the Applications, FDS Bank's commitments, and this Approval Order.

The Regional Director may, for good cause, extend any time period set forth herein for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or his designee,
effective October 19, 2005.



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