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Testimony

of

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Before

The

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Hearing

on

"Affiliate Sharing Practices and

Their Relationship to the Fair Credit Reporting Act"

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Good morning, Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. My name is Martin Wong and I am the General Counsel of Citigroup's Global Consumer Group. On behalf of Citigroup, I want to thank Chairman Shelby for holding these hearings on the Fair Credit Reporting Act ("FCRA") and I appreciate the opportunity to speak before you today to discuss how FCRA, and particularly the affiliate sharing provisions, impacts our ability to operate efficiently and serve our over 200 million customer accounts.

As one of the largest diversified financial services companies in the United States, Citigroup has extensive experience with FCRA and has a significant interest in seeing that it continues to operate successfully. Citigroup currently serves customers in all fifty states and over 100 countries. Citigroup has long been a leader in using the information available through the credit reporting system to provide credit opportunities to customers at all income levels through a diverse range of financial products and services, including credit cards, mortgages, consumer finance, student loans, and auto loans. We also offer non-credit products, including retail banking, private banking, life insurance and annuities, asset management, and investment products.

Today, I want to emphasize the importance that Citigroup attributes to making permanent the national standards contained in FCRA. FCRA provides a national framework for the credit reporting system, which has been shown to work well and to provide substantial economic benefits to consumers, including affordable and convenient credit, wide credit availability, and prevention of fraud and identity theft.

FCRA appropriately balances consumer protections with the crucial need for creditors to have access to a uniform national database on which to make credit decisions. FCRA also facilitates the free flow of information that allows modern financial services companies to work efficiently. It is essential, therefore, that Congress act to preserve all of the provisions of this uniform national framework that are scheduled to expire at the end of this year.

While Citigroup believes that maintaining national uniform standards for all seven of the expiring provisions of FCRA is crucial, I will focus my testimony on the topic of today's hearing - information sharing among affiliates - and why preserving the uniform national standards for affiliate sharing is critical to our continued ability to serve our customers well.

Reasons for Affiliate Structure

From a technical perspective, Citigroup is, indeed, a financial services holding company comprised of approximately 1,900 legal entities. However, the majority of these entities are established or retained for legal, regulatory, or tax purposes. For example, in the insurance agency and mortgage businesses, state registration requirements make it prudent and convenient to be separately incorporated in most states for licensing purposes. Additionally, many of our affiliates do business only with government or corporate entities or exist solely to house certain assets. Only a small number of these entities actually transact business with customers, and all of them are limited by the Gramm-Leach-Bliley Act ("GLB") to the provision of financial services in one of three lines of business – banking, insurance, and securities. For the customers who conduct business with us, the existence of these affiliates is invisible and irrelevant. Therefore, when viewed from the customer's perspective, Citigroup is a single provider of financial services.

How We Share Information To Better Serve Our Customers and Run Our Business More Efficiently

Information sharing among affiliates is an ingrained part of how we meet our customers' needs and expectations on a daily basis. The process is so seamless that customers are often unaware of the connection between the free flow of information and the significant benefits they receive.

- **Affiliate sharing is necessary for effective credit underwriting and credit monitoring, which are at the heart of the national credit reporting system.** The sharing of information among affiliates enhances the ability of lenders to accurately assess credit risk, thereby reducing their overall risk of loss. Citigroup is able to use the credit information and transaction histories that we collect from affiliates to create internal credit scores and models that help determine a customer's eligibility for credit. This information supplements credit reports and FICO scores to paint the most accurate picture possible of a customer. For example, CitiMortgage underwriters have access to information from affiliates that includes a customer's deposit, loan, and brokerage account balances, as well as the customer's payment history and available lines of credit. This allows our credit analysts to verify the customer's creditworthiness quickly and efficiently, minimizing the burden on the customer associated with providing this documentation.

Sharing of credit information and transaction histories also allows us to extend credit to traditionally underserved populations and reduces costs for those with better credit histories. The quality, quantity, and timeliness of customer credit information available through affiliate sharing greatly reduces the opportunities for mistakes in the granting of credit to the benefit of customers and lenders.

Affiliate sharing is also important for credit monitoring. Many of our credit card customers have multiple cards with us and those cards will often be issued by more than one affiliate. We can order a single credit report to monitor credit behavior across all cards, leading to increased efficiencies and lower costs. This cross-affiliate monitoring allows us to reach out to customers who are starting to have problems and offer appropriate assistance.

➢ **Sharing information among affiliates greatly assists in the prevention and detection of identity theft and fraud.** Although some have argued that sharing information increases opportunities for identity theft, our experience is that information sharing among affiliates actually reduces identity theft. Through affiliate sharing, we are able to maintain an internal fraud database, which helps prevent the opening or maintenance of fraudulent accounts. This kind of information sharing also allows us to alert customers to potential fraud or identity theft at an earlier stage. The sooner we detect the fraud, the sooner we can notify the customer, minimizing the effect on the victim. Finally, sharing information among affiliates makes it easier to assist law enforcement to build a strong case for prosecution.

Additionally, Citigroup has policies and procedures in place to reduce the threat of internal misuse of this information. For example, most of our businesses have internal fraud investigation units; access to sensitive information is given to employees only on a ”need to know” basis; we have policies concerning the handling of sensitive information by our employees; and we separate certain key responsibilities among employees to reduce the potential for fraud.

➢ **Affiliate sharing allows us to provide “one stop” shopping for our customers in a way that is seamless and consistent with our customers' expectations.** Affiliate sharing allows companies like Citigroup to better serve our customers' diverse financial needs through affiliates that have appropriate products and services. Consumers who choose to do business with Citigroup expect easy access to the full array of financial products we offer. Our customers want and expect the convenience of having “one stop” shopping for all of our products – banking, insurance, home mortgage, credit cards, and securities. They also expect the ability to access information about all of their accounts on one statement, with one phone call, or on one web site. For example, customers who use our Financial Centers can link their checking account from Citibank, N.A., credit card account from Citibank South Dakota, mortgage account from CitiMortgage, and brokerage account from Citicorp Investment Services, Inc.

Additionally, consolidated relationships allow customers to move money seamlessly between accounts and to pay their Citibank credit card balances at any Citibank ATM, as well as on the Internet, simply by making a transfer between accounts. The amount will be credited that same day, which allows customers to avoid additional interest and late fees. Customers can also execute trades and transfer money from their checking account to their investment-linked money market products online.

Affiliate sharing also allows us to provide seamless service for our customers. Customers do not view us as different legal entities, but instead as a single source of multiple financial products. When a Citibank customer who has an account in Connecticut (through our federal thrift – Citibank FSB) enters a Citibank branch in New York (our national bank – Citibank, N.A.) to cash a check or open another account, the customer expects to be recognized and receive the same level of service. The legal distinction between the two affiliated Citibanks is not relevant to the customer and it should not affect his or her ability to obtain products and services.

➢ **Affiliate Sharing Provides Customers with Pricing Discounts and Products Tailored to Their Needs.** For customers who have multiple account relationships with us, the sharing of information between affiliates allows us to provide financial benefits in the form of relationship pricing and special offers. For example, many customers benefit from no-fee checking through Citibank, N.A. or Citibank FSB based upon their total combined balances in their mortgage from CitiMortgage, credit card from Citibank South Dakota, and investments through Citicorp Investment Services, Inc. The combined balance also permits customers to receive better rates on investment products. After recent acquisitions, we reached out to customers to help them link their accounts for this benefit. We could not have done that without the ability to share information across affiliates.

Sharing information among affiliates also permits us to service our customers on an individualized or tailored basis. Information about our experience with a particular customer can be used among our affiliates to provide the customer with more suitable products and services. For example, customers with a Smith Barney brokerage account are eligible for a mortgage from CitiMortgage without a down payment by directly pledging securities in their account as collateral. This allows the customer to avoid having to sell at what may be an inopportune time and to continue to receive the interest or dividends on the securities. Similarly, a customer who maintains a high balance on a Citibank credit card may be informed that he can reduce the interest rate he is paying and possibly get tax benefits by transferring the balance to a secured home equity loan through an affiliate bank.

In the absence of affiliate sharing, Citigroup would know decidedly less about our customers' financial needs, making it more difficult to identify and service those needs.

FCRA Contains the Appropriate Balance

In 1996, Congress struck the appropriate balance between consumer protection and business needs by allowing customers to opt out of having certain information shared among affiliated entities, but continuing to allow information about a company's own experiences with a customer to be shared freely among affiliates. This national standard has worked well for seven years. The FCRA national standard is particularly reasonable now that the business of providing financial services, especially lending, is no longer restricted by state borders, which means that consumers have the same opportunities for credit, regardless of where they live.

Given the fact that 16 percent of the U.S. population moves every year, and that many of our customers work in one state and live in another, have vacation houses in different states, or attend college in a different state for part of the year, it would be a significant technical challenge to determine the appropriate treatment of customer information in the face of inconsistent state laws.

Our experience has shown that opt outs provide our customers with all the choice they need to control the use of their personal information. Citigroup has been providing customers with the ability to opt out of information sharing, in one form or another, for over fifteen years. Citigroup businesses have significantly different opt out rates depending on a variety of factors, including products and services offered and the length and nature of the customer relationship. This significant variation demonstrates that opt outs work. Our customers are making informed choices about the kinds of information they want to share, and the kinds they do not.

However, the majority of our customers still prefer the free flow of information that results in enhanced products and services. Opt ins function as de facto prohibitions on information sharing, particularly for existing customers. They do not promote customer choice -- rather, they eliminate it.

Conclusion

If different states were allowed to pass laws governing the exchange of information among affiliates, it would significantly disrupt our seamless, nationwide system of serving our customers. It could lead to a never-ending process as states and localities impose different regimes. Compliance with this patchwork of laws would be extremely burdensome and costly for lenders, and ultimately for consumers.

We believe that Congress must act this year to make permanent the uniform standards established under FCRA. It has created more competition in the financial services industry and allowed companies to better serve their customers through more widely available, affordable, and convenient credit.

Thank you again for the opportunity to appear before this Committee. I would be pleased to answer any questions you may have.