November 6, 2020

Chairman John Dugan
c/o Corporate Secretary
Citigroup Inc.
388 Greenwich Street
New York, New York 10013

Dear Chairman Dugan:

In light of recent high profile police killings of Black people, the ensuing nationwide protests against racial injustice, and companies' responses to these events, we urge the board of Citigroup Inc. ("Citi") to conduct and disclose the results of a racial equity audit that would identify, prioritize, and remedy the adverse impacts of the company's policies and practices on non-white stakeholders and communities of color. The board should engage a variety of key stakeholders in undergoing this audit and evaluating the specific topics to be addressed, including civil rights organizations, employees, and customers.

As outlined further below, we believe that this disclosure would demonstrate concrete steps that the company has taken to address racial injustice and unequal treatment not only in its own workplace, but also within the community that it serves. Citi, like many other issuers, has made a public statement supporting Black Lives Matter and racial justice. While these statements are informative to investors, the meaning is lost without concrete action and introspection by company leadership.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long term shareholder value. These funds have over $250 billion in assets under management and are substantial Citi shareholders.

The Banking Industry's Role in Reinforcing Racial Inequality Raises Concern

The current reckoning on racial injustice facing the financial industry is not new, with the industry playing a significant role in the economic inequality facing communities of color. White households on average hold 10 times the wealth of Black households, which is largely attributable to institutionalized racism within the U.S. financial system. The driving factor for this inequality in wealth distribution is lenders failing to issue mortgages to minorities. By way of example, for every $1 loaned out to finance residential properties in white neighborhoods in Chicago from 2012-2018, a mere 12 cents was invested in Black neighborhoods, despite anti-discrimination laws that were passed in the 1960's that bar such practices, known as "redlining."[1]

Mortgage issuances are just one concern, however. Black and Hispanic banking customers have also been reported to face higher monthly checking account fees than white customers. According to a recent survey, Black and Hispanic customers reported paying $12 and $16 per month, respectively, for

[1] Jennifer Tescher, *American Banker*, "Bankers need to walk the walk on equality," June 9, 2020, *available at* https://www.americanbanker.com/opinion/bankers-need-to-walk-the-walk-on-equality.

overdraft penalties and ATM surcharges, versus $5 per month for white customers.[2] A 2018 study by *New America* reinforced these findings, noting that Black and Hispanic communities face higher costs associated with opening accounts, higher maintenance fees, and larger minimum deposit requirements than their white counterparts.[3] Given that checking accounts effectively operate as a mechanism to participate more actively in the economy, these requirements redirect income and reduce the economic power of people of color, who also typically earn less than white customers. In light of the current pandemic and the significant spike in unemployment, these requirements threaten to reverse years of gains in the number of households having access to a bank account.

Further, there is a trend within the financial industry to not only charge more to communities of color, but exit those markets entirely effectively creating "banking deserts." In fact, more bank branches have been closed in predominantly Black neighborhoods, even wealthy ones, than any other community broken down by race. The lack of mainstream banking makes communities of color even more vulnerable as they are forced to resort to predatory financial alternatives, such as payday lenders and check cashing services that often charge significantly more fees than traditional banks.

The lack of bank branches not only impacts personal banking, but commercial banking that is based very much on the relationship between business owners and financial advisors. A 2018 Federal Reserve study noted that "banks without a local branch were much less likely to originate small business loans in that community."[4] Minority owned businesses continue to struggle with access to capital, much of which is restricted by the industry's low approval rates for funding small businesses within communities of color. The Federal Reserve has reported that more than half of Black-owned businesses that applied for a loan were rejected, twice the rate of a white owned business.[5] A study by *The Portland Business Journal* found that the four largest banks, including Citi, made 91% fewer Small Business Administration 7(a) loan guarantees to Black owned businesses in 2019 than in 2007.[6]

These trends have only been exacerbated further as a result of the coronavirus pandemic, with white-owned businesses receiving 83% of the first-round of loans authorized through the Paycheck Protection Program ("PPP"), from April 1-17, 2020, according to *Bloomberg*.[7] Although this gap narrowed once a second tranche of funding was released on April 27, the damage had already been done. Between February and April 2020, over 41% of Black-owned businesses and 32% of Hispanic-owned businesses

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[2] Kristopher J. Brooks, *CBS News*, "Blacks and Latinos say they pay higher bank fees, research suggests, they're right," January 16, 2020, *available at* https://www.cbsnews.com/news/minorities-report-paying-higher-banking-fees-than-white-people-bankrate-survey-says/.

[3] Jacob Faber & Terri Friedline, New America, *The Racialized Costs of Banking*, June 2018, *available at* https://d1y8sb8igg2f8e.cloudfront.net/documents/The_Racialized_Costs_of_Banking_2018-06-20_205129.pdf, p. 4-5.

[4] Zach Fox, et. al, *S&P Global*, "Bank Branch Closures Take Greatest Toll on Majority Black Areas," July 25, 2019, p. 5.

[5] Gene Marks, *The Guardian*, "Black owned firms are twice as likely to be rejected for loans. Is this Discrimination?," January 16, 2020, *available at* https://www.theguardian.com/business/2020/jan/16/black-owned-firms-are-twice-as-likely-to-be-rejected-for-loans-is-this-discrimination.

[6] Matthew Kish & Malia Spencer, *Portland Business Journal*, "One System, (Un)equal Access," October 15, 2020, *available at* https://www.bizjournals.com/portland/news/2020/10/15/unequal-access-how-the-us-financial-system-is.html?b=1602790745%5E21787983.

[7] Jason Grotto et.al., *Bloomberg*, "White America Got a Head Start on Small-Business Virus Relief," June 30, 2020, *available at* https://www.bloomberg.com/graphics/2020-ppp-racial-disparity/?sref=cdlcj118.

went out of business due to the pandemic. Only 17% of white-owned businesses were forced to close during the same period.

Finally, not only has the financial industry's external practices adversely impacted communities of color, but its internal practices reflect little progress in achieving racial equity within the industry's workforce and leadership teams. The House Financial Services Committee recently held a hearing on workforce diversity within the banking industry, noting that at "megabanks," like Citi, just under 10% of the workforce was Black. More alarming still was the fact that a mere 19% of executive senior level positions at all banks that reported back to the Committee were held by ethnic or racial minorities.[8] In order to better evaluate their full impact on communities of color, financial institutions must review their human capital management practices in relation to employees of color.

Citi's External and Internal Practices Raise Concerns Regarding Racial Inequality

We believe a racial equity audit would particularly benefit Citi given its controversial business record in communities of color and support of charitable causes that have come under scrutiny. Citi recently announced a $1 billion initiative to close the racial wealth gap in response to the Black Lives Matter protests in June 2020. Specifically, the company announced that it would commit $50 million to minority owned businesses, $100 million to minority depository institutions ("MDIs"), and $550 million to support homeownership for people of color. Simply pledging funds, however, is not enough to bridge the gap between decades of discrimination and the lack of wealth creation within Black and Brown communities.

While providing funding to communities of color may appear beneficial at first glance, these initiatives do not address the inequality in Citi's own lending practices and product offerings. For example, in 2019, the Treasury Department's Office of the Comptroller of Currency assessed a $25 million fine against Citi for failing to offer all eligible customers mortgage discounts and credits, "adversely affecting some customers based on their race, color, national origin or sex."[9] Additionally, the company was ordered to reimburse $24 million to its customers due to failures and control weaknesses. This does not even include the numerous fines levied against Citi by the Consumer Financial Protection Bureau from 2015-2018 amounting to over $1 billion related to failing to adjust credit card rates, failing to appropriately execute mortgage adjustment in the event of forbearances, and misleading marketing related to unnecessary add-ons for credit cards. Such practices are concerning given that it is unclear to us what steps Citi has taken to remedy these issues in the context of its recent financial pledge.

Additionally, though Citi has supported community organizations that foster the development of Black and Brown communities, the company has also supported the very same law enforcement institutions that are now being criticized for discrimination and excessive force against Black and Brown communities. Soon to be former Vice Chair of Citi, Ray McGuire, has served as a trustee for the New York City Police Foundation board. Critics see such foundations to operate as a subversive means of

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[8] House of Representatives, Financial Services Committee, *Diversity and Inclusion: Holding America's Large Banks Accountable*, February 2020, *available at* https://docs.house.gov/meetings/BA/BA13/20200212/110498/HHRG-116-BA13-20200212-SD003-U1.pdf (see Figure 5 and 6).

[9] Ben Lane, *Housing Wire*, "Citibank to pay $25 million for violating the Fair Housing Act," March 19, 2019, *available at* https://www.housingwire.com/articles/48467-citibank-to-pay-25-million-for-violating-the-fair-housing-act/.

funding equipment outside the public eye, including surveillance tools that are used by police departments against communities of color. We hope that this proposed audit would address Citi's relationships with police foundations.

We also note that Citi has long imposed a $12 monthly fee on basic checking, which can only be waived with a qualifying direct deposit and qualifying bill payment per statement period or maintenance of more than $1,500 average monthly balance. As noted above, such efforts divert minority customers' economic power into maintaining minimum balances or paying fees instead of building wealth.

The impact of the bank's policies on Black owned businesses can also be seen in its inequitable distribution of PPP funding to minority and women owned business. A recent House of Representatives' report found that Citi instituted a policy of only accepting applications for funding from clients with an existing banking relationship, despite *its own internal assessment* that recognized "a policy of not taking non-customers might create heightened risk of disparate impact on minority and women-owned businesses." In fact, when asked about this decision, Citi's Head of Retail Banking stated that the company believed it was better to address the needs of minority owned businesses through community development financial institutions ("CDFIs") and MDIs.[10] We struggle to understand the logic of this assessment given that most CDFIs and MDIs were blocked from even participating in the first round of PPP. As shareholders, we wonder how committed Citi could be to minority owned small businesses when its actions reflect an apparent disregard of the practical effects of its policies.

Lastly, we note that Citi, like many of its peers, appears to be lagging in its own hiring, development, and retention of employees of color. The company discloses that over 45.8 % of its workforce are people of color, yet there is only one Black executive within its C-suite, according to a study by Stanford University. Citi's 2019 ESG report indicates that within a broader categorization of "executive senior level officials," there are no Black women and only 1.8% of the positions are filled with Black men. Further down the talent pipeline, Black men and women only represent 2.3% and 3.1% of first/mid-level managers. We question how Citi is addressing its promotion criteria and retention of employees of color as it attempts to create a sustainable, diverse management talent pool.

Conclusion:

Implementation of any next steps by Citi to address racial injustice and economic inequality requires careful study of how its products and services have contributed to this imbalance. An audit that involves consultation with a variety of stakeholders, including employees and community groups, will provide a framework for this analysis. We note that due to the shareholder proposal filing deadline, we have also filed a shareholder proposal related to our request. If you would like to discuss our concerns, please contact my colleague Tejal K. Patel, Corporate Governance Director, at tejal.patel@ctwinvestmentgroup.com.

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[10] House Select Subcommittee on the Coronavirus Crisis, *Underserved and Unprotected: How the Trump Administration Neglected the Neediest Small Businesses in the PPP*, October 2020, *available at* https://coronavirus.house.gov/sites/democrats.coronavirus.house.gov/files/PPP%20Report%20Final%20%283%29.pdf, p. 7 and 8.

Sincerely,

Dieter Waizenegger
Executive Director