From: "Wenz, Robert F" <robert.f.wenz@citigroup.com> on 01/15/2004 07:10:33 PM
Subject: FRB Currency Recirculation Policy

Ms. Jennifer J. Johnson,

Citibank, N.A. has not operated an in-house vault operation since July, 2001. At that time it outsourced all vault activities for its New York Bank to an armored carrier. In other U.S. markets, where Citibank enjoys a retail branch operation resulting from acquisitions, all cash processing support is provided either via a correspondent bank or an armored carrier relationship, which had pre-existed from the acquired banks. Citibank enjoys this method of handling cash processing as it significantly reduces risk within our institution.

We continue to weigh the advantages and disadvantages of the three alternatives discussed in the Recirculation Policy issued last October and all three; teller, vendor, or Federal Reserve Bank processing, remain under consideration. At this time we are in discussion with our armored carriers and correspondent banks to determine costs for central processing within their vaults. The implementation of this policy will cause Citibank to re-consider current relationships once our supporting vendors determine their pass along costs. In addition, the use of current teller staffing raises a concern over the impact on service levels and an incremental increase in staffing may not be practical, due to the wide distribution of our cash network. It should also be noted, as many major financial institutions will agree, that the larger percentage of notes required for circulation are of the $20 denomination and that the major vehicle for distribution is the ATM, which requires a method of fitness sorting more sophisticated than teller handling.

Citibank has implememented cash optimization in most marketplaces, which has inherently increased recycling at the branch level. However, we intend to participate in the Custodial Inventory Proof-of Concept Program in markets where our vault process is supported by armored carriers, to determine whether such a program is beneficial to the bank. Such results depend upon the willingness and abilities of our vendors as well as their cost structure.

I believe that virtually all known approaches to recirculation have been addressed by the Cash Customer Advisory Council, in conjunction with the Cash Products Office, with the custodial inventory process being the most advantageous to depository institutions, in that it permits recycling on an institutional level, while minimizing Fed recycling fees. However, its true advantages or disadvantages will not be known until cost estimates can be provided by our vendors.

The application of a standard de minimis exemption of 1,000 bundles to all depository institutions provides a disproportionate advantage to smaller DIs, as discussed by the Cash Customer Advisory Council. Such an exemption should be applied as a percentage of the DIs net cash requirements.

Many of the questions proposed in the Recirculation Policy, to generate comments, have been addressed by the Cash Customer Advisory Council. However, it should be clear to the Board, that the program will place an additional burden of expense on depository institutions directly or indirectly. Armored carriers will also be impacted as a result of major capital investment requirements, if they wish to remain competative and survive in an industry which already exists with a low margin of profit, pushed to the breaking point by higher insurance costs caused by current day risks. Again, if DIs attempt to recirculate on the branch level, lower customer service results can also be anticipated. In addition, as already noted, lower quality notes, resulting from human sorting will find their way to the ATMs resulting in increased maintenance costs and disgruntled customers.

Robert F. Wenz, Vice President
CBNA Currency Management Office
1 Court Square
Floor 10, Zone 4
Long Island City, New York 10043
Phone 718.248.4080
Fax 718.248.0828
Email: Robert.F.Wenz@Citigroup.com