

**UNITED STATES OF AMERICA**  
**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**WASHINGTON, D.C.**

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In the Matter of	)	
	)	
<b>CITIGROUP INC.</b>	)	Order to Cease and Desist
New York, New York	)	and Order of Assessment
	)	of a Civil Money Penalty
and	)	Issued Upon Consent
	)	
<b>CITIFINANCIAL CREDIT COMPANY</b>	)	
Baltimore, Maryland	)	
	)	
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**WHEREAS**, in recognition of their common goals to ensure compliance with all applicable laws, rules and regulations by Citigroup Inc., New York, New York (“Citigroup”), a bank holding company as defined in the Bank Holding Company Act, 12 U.S.C. § 1841 (“BHC Act”), and the Federal Deposit Insurance Act, 12 U.S.C. § 1813 (“FDI Act”), and its non-bank subsidiary, CitiFinancial Credit Company, Baltimore, Maryland (“CitiFinancial”), and to ensure effective management of the financial, operational, legal, reputational and compliance risks of CitiFinancial, Citigroup, CitiFinancial, and the Board of Governors of the Federal Reserve System (“Board of Governors”) have mutually agreed to enter into this combined Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent (the “Order”);

**WHEREAS**, the Federal Reserve Bank of New York (the “Reserve Bank”) conducted an examination of CitiFinancial to assess the implementation of certain lending initiatives that were announced by Citigroup in November 2000, which have been substantially implemented;

**WHEREAS**, the examination was conducted pursuant to the terms of the Board of Governors’ order approving the acquisition of European American Bank, Uniondale, New York by Citigroup, Citigroup Holdings Company and Citicorp in July 2001, which terms were reiterated in the order approving the acquisition of Golden State Bancorp Inc. and California Federal Bank, both of San Francisco, California, by Citigroup in October 2002;

**WHEREAS**, during the course of that examination, the Reserve Bank reviewed CitiFinancial’s lending practices in 2000 and 2001 and found information indicating that there are violations and deficiencies that CitiFinancial must take immediate action to correct. Specifically, the Reserve Bank alleges the following violations and deficiencies. First, CitiFinancial is alleged to have failed to comply with Section 202.7(d)(1) of Regulation B of the Board of Governors (“Regulation B”), 12 C.F.R. § 202.7(d)(1) (implementing the requirements of the Equal Credit Opportunity Act (“ECOA”), 15 U.S.C. § 1691 et seq.), which prohibits a creditor from requiring the signature of a spouse or other person (“co-applicant”) on a credit instrument if the applicant qualifies based on his or her own creditworthiness. These alleged violations occurred in connection with attempts to increase joint insurance sales through an increased volume of co-applicant loans. Second, CitiFinancial is alleged to have engaged in unsafe and unsound practices under 12 U.S.C. § 1818(i)(2)(B) in connection with CitiFinancial’s underwriting and

lending practices with respect to certain loans subject to the Home Ownership and Equity Protection Act of 1994, 15 U.S.C. § 1639 et seq. (“HOEPA”) and Regulation Z of the Board of Governors (“Regulation Z”), 12 C.F.R. Part 228. Third, CitiFinancial is alleged to have engaged in unsafe and unsound practices under 12 U.S.C. § 1818(i)(2)(B) relating to CitiFinancial’s actions to mislead examiners in connection with interviews of CitiFinancial employees conducted by examiners;

**WHEREAS**, Citigroup and CitiFinancial have acknowledged the deficiencies and the need for immediate corrective action and, during the course of the examination, CitiFinancial has taken several actions necessary to implement a comprehensive remediation program that addresses examiner concerns;

**WHEREAS**, the Board of Governors is assessing a civil money penalty against CitiFinancial for alleged violations of Regulation B associated with improperly requiring the signature of a co-applicant on credit instruments, alleged unsafe and unsound practices in connection with underwriting and lending practices in connection with loans subject to HOEPA, and alleged actions to mislead examiners in connection with their interviews of CitiFinancial employees;

**WHEREAS**, CitiFinancial has agreed to provide restitution to borrowers for the alleged Regulation B violations and alleged unsafe and unsound practices relating to underwriting and lending practices during the relevant time periods in accordance with the provisions of this Order;

**WHEREAS**, the civil money penalty assessed by this Order is in the amount of \$70,000,000, and this amount may be reduced by an amount of up to \$20,000,000 to the extent that actual restitution payments are made; and

**WHEREAS**, on May \_\_, 2004, the boards of directors of Citigroup and CitiFinancial, at duly constituted meetings, adopted resolutions:

A. Authorizing and directing \_\_\_\_\_ and \_\_\_\_\_ to enter into this Order on behalf of Citigroup and CitiFinancial, respectively, and consenting to compliance by Citigroup and CitiFinancial and each of their institution-affiliated parties, as defined in Sections 3(u) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1813(u) and 1818(b)(3), with each and every applicable provision of this Order;

B. Waiving the issuance of a notice of charges and a notice of assessment of a civil money penalty on any and all matters set forth in this Order;

C. Waiving a hearing for the purpose of taking evidence on any and all matters set forth in this Order;

D. Waiving any and all rights to contest the issuance of a cease and desist order or an assessment of a civil money penalty by the Board of Governors pursuant to 12 U.S.C. § 1818;

E. Waiving any and all rights to judicial review of this Order; and

F. Waiving any and all rights to challenge or contest the validity, effectiveness, terms or enforceability of the provisions of this Order.

**NOW, THEREFORE**, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and without this Order constituting an admission of any allegation made or implied by the Board of Governors in connection with this matter, and solely for the purpose of settling this

matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony and pursuant to the aforesaid resolutions:

**IT IS HEREBY ORDERED**, pursuant to sections 8(b) and 8(i) of the FDI Act, 12 U.S.C. §§ 1818(b) and (i), that:

**COMPLIANCE WITH LAWS AND REGULATIONS**

1. CitiFinancial, and each of its institution-affiliated parties, shall cease and desist from practices and policies that violate Section 202.7(d)(1) of Regulation B, and from unsafe and unsound practices in connection with CitiFinancial's underwriting and lending activities.

2. CitiFinancial, and each of its institution-affiliated parties, shall not, directly or indirectly, violate Section 202.7(d)(1) of Regulation B of the Board of Governors and shall be in compliance with all applicable consumer protection laws, rules and regulations.

**RESTITUTION PROGRAM**

3. CitiFinancial shall take actions, consistent with sound banking practices, to correct alleged violations of Regulation B and alleged deficiencies with respect to underwriting and lending practices relating to Regulation Z, including the following:

a. Within 45 days of this Order, CitiFinancial shall submit to the Reserve Bank a written plan acceptable to the Reserve Bank to address the alleged Regulation B violations and Regulation Z deficiencies (the "Restitution Plan").

b. The Restitution Plan shall include, but not be limited to, the methodology and scope of review that CitiFinancial will use to comply with the requirements below, a schedule for timely completion of the Restitution Plan, and periodic reports to the

Reserve Bank throughout the implementation of the Restitution Plan. CitiFinancial shall immediately implement the Restitution Plan upon the Reserve Bank's approval of the Restitution Plan.

c. Under the Restitution Plan, within 90 days of the date CitiFinancial makes the restitution payments required herein, CitiFinancial shall provide the Reserve Bank with a Restitution Summary Report, providing the total amount of restitution payments paid to borrowers.

**A. Regulation B Restitution**

4. Regulation B Restitution shall be made available to borrowers who purchased joint credit insurance in connection with a co-applicant loan from CitiFinancial or any one of its U.S. retail branch network subsidiaries during the period from January 1, 2001 through December 31, 2002, subject to certain limited exclusions and the other terms of the Restitution Plan.

5. Regulation B Restitution shall consist of a refund of the differential between the cost of a joint and single insurance policy, plus any interest paid thereon.

**B. Regulation Z Restitution**

6. Regulation Z Restitution shall be made available to borrowers whose personal loans from CitiFinancial or its subsidiaries were refinanced by CitiFinancial or any one of its U.S. retail branch network subsidiaries to an "EquityPlus" loan covered by HOEPA as a permitted exception to CitiFinancial's Ability to Pay ("ATP") ratio policy during the 36 month period preceding December 31, 2002, subject to certain limited exclusions and the other terms of the Restitution Plan.

7. Regulation Z Restitution shall include: a refund of all points and fees charged to the borrower at origination of the EquityPlus loan, plus the amount of interest charged thereon; a refund of the difference between the interest paid by the borrower and the amount that would have been paid at the reduced interest rate after refunding all points and fees; a reduction in the borrower's interest rate to the reduced interest rate for the remainder of the loan; and the release of the security interest on the loan.

**REMEDIAL MEASURES**

8. Within 30 days of this Order, Citigroup shall designate and appoint a qualified senior CitiFinancial officer, or committee, acceptable to the Reserve Bank, for the purpose of coordinating, supervising, monitoring and overseeing the implementation of the remedial measures required in this Order.

**A. Compliance**

9. Within 30 days of this Order, Citigroup and CitiFinancial shall submit to the Reserve Bank an acceptable joint written program designed to document remedial steps they have taken and will take to ensure and maintain compliance with all applicable consumer protection laws and regulations to which CitiFinancial is subject. At a minimum, the program shall describe and include:

a. Escalation protocols adopted by Citigroup and CitiFinancial that ensure that material compliance issues can and will be reported to appropriate senior management of CitiFinancial outside of the business line, and that appropriate corrective action is take;

b. procedures for the regular submission to CitiFinancial's board of directors and to Citigroup's audit committee, or its equivalent, of formal written reports of

compliance issues that will include proposed remedial measures and a timetable for implementation of those measures;

c. Citigroup's program for regular and rigorous testing of CitiFinancial branches' compliance with CitiFinancial's policies and procedures and with all applicable consumer protection laws and regulations; and

d. mechanisms for the review and revision of all written manuals, including CitiFinancial's On-Line Manual, and other materials to ensure ongoing compliance with all applicable consumer protection laws and regulations.

**B. Audit**

10. Citigroup shall document remedial steps it has taken and will take to revise, and ensure that it has revised, its management structure and procedures regarding the internal audit function relating to the activities of CitiFinancial.

11. Within 60 days of this Order, Citigroup shall submit to the Reserve Bank an acceptable internal audit program designed to, at a minimum:

a. Provide that the internal audit function dedicated to CitiFinancial is fully consistent with the standards, policies, procedures and practices of Citigroup, and is independent of the business line;

b. provide for a comprehensive assessment of all auditable risks, including legal and reputational risks and the effectiveness of internal controls;

c. establish expectations for audit frequencies and audit scopes;

d. provide for comprehensive budgeting and the allocation of sufficient resources to fully implement the audit plan;

e. provide a tracking mechanism for audit findings, with procedures and processes to ensure that identified issues are fully resolved prior to being removed from the tracking system;

f. provide that CitiFinancial management respond in writing in a timely manner to audit findings that identify weaknesses or inadequacies in the compliance program;

g. provide that CitiFinancial senior management must establish a process to monitor the status and ensure effective follow-up of corrective action taken to address weaknesses identified by audit and compliance personnel, and establish procedures to validate that appropriate remedial action has occurred;

h. establish a protocol for the reporting of audit issues to management inside and outside of the business line that includes the regular submission to CitiFinancial's board of directors and to Citigroup's audit committee, or its equivalent, of formal written reports of audit findings, proposed remedial measures, and a timetable for the implementation of those measures; and

i. provide for the escalation of audit issues based on the severity or time outstanding to ensure that issues receive the appropriate level of management attention.

**C. Training**

12. Within 30 days of this Order, Citigroup and CitiFinancial shall submit to the Reserve Bank an acceptable joint written training program designed to document steps to enhance training, and to ensure and maintain compliance by CitiFinancial with all applicable consumer protection laws, rules and regulations. At a minimum, the written training program shall include the following:

- a. A program of required comprehensive training sessions for all CitiFinancial employees to ensure employees are knowledgeable about, and in compliance with, all applicable consumer protection laws, rules and regulations. This training must include, without limitation:
  - i. training related to Section 202.7(d)(1) of Regulation B to ensure, among other things, that employees do not require the signature of a co-applicant, or the assumption of a co-applicant, on an individual loan without first determining whether the applicant qualifies for the loan based on his or her own creditworthiness and informing the applicant of his or her option to apply individually; and
  - ii. training to ensure, among other things, that employees are not making defensive loans to borrowers based on a borrower's collateral to better secure CitiFinancial's position without regard for the borrower's ability to pay.
- b. All training shall be conducted by competent and qualified personnel, knowledgeable in all aspects of the applicable laws, rules and regulations.
- c. All CitiFinancial personnel shall receive the training required by paragraph 12(a) at least once a year and all newly hired personnel shall receive such training immediately upon being hired.
- d. All material covered in the training required by paragraph 12(a) shall be contained in a training manual. All training materials, including CitiFinancial's On-Line Manual, shall be updated on a regular basis to ensure that all personnel have the most current and up to date information.
- e. All compliance training shall be coordinated with training related to insurance sales practices in connection with each CitiFinancial loan product to ensure that

all insurance sales practices are in compliance with all applicable laws, rules and regulations.

**D. Internal Controls**

13. Within 30 days of this Order, Citigroup and CitiFinancial shall submit to the Reserve Bank acceptable joint written policies and procedures designed to improve internal controls at CitiFinancial. The policies and procedures shall, at a minimum:

a. Set forth specific criteria under which exceptions to CitiFinancial's credit qualifications, including but not limited to ATP score minimums, may be made by CitiFinancial employees if exceptions are allowed to CitiFinancial's credit qualification criteria, and this exception policy shall be made a part of CitiFinancial's training and other appropriate materials;

b. require CitiFinancial employees to document adequately their reasons for granting any requests for exceptions to CitiFinancial's credit qualification criteria;

c. provide documentation of the revision to CitiFinancial's "tangible benefits test" to eliminate "curing a delinquency" as one of the benefits justifying the upgrade of a borrower's personal loan to a real estate secured high cost loan;

d. require that any changes to an applicant's credit history be explained in the notes section of the electronic loan file for that applicant and be approved by a branch, district or regional manager;

e. document steps they have taken and will take to ensure revisions to CitiFinancial's compensation structure so that the structure includes adequate disincentives at both the branch and management level for violating any applicable consumer protection laws, rules or regulations; and

f. enhance all management information systems to ensure that branch employees cannot circumvent the controls built into those systems, including but not limited to the controls for calculating an applicant's ATP score, and to ensure that the systems are in full compliance with all applicable consumer protection laws, rules and regulations.

**E. Interactions With Regulatory Authorities**

14. Within 30 days of this Order, CitiFinancial shall submit to the Reserve Bank acceptable written policies and procedures for participation by CitiFinancial personnel in all regulatory matters at CitiFinancial. The policies and procedures shall, at a minimum:

a. Underscore the importance of full and honest cooperation with regulatory authorities by all employees, including, in particular, supervisory employees; and

b. provide for consistent document retention policies and procedures and ensure that such policies and procedures are complied with throughout the CitiFinancial organization

**APPROVALS AND PROGRESS REPORTS**

15. The programs, plans, policies and procedures required by paragraphs 3 through 14 of this Order shall be submitted to the Reserve Bank for review and approval. Acceptable programs, plans, policies and procedures shall be submitted to the Reserve Bank within the time periods set forth in this Order. Citigroup and CitiFinancial shall, where applicable, adopt the approved programs, plans, policies and procedures within 10 days of approval and then shall fully comply with them and the Restitution Plan. During the term of this Order, the approved programs, plans, policies and procedures shall not be amended or rescinded without the prior written approval of the Reserve Bank.

16. Within 60 days following this Order, and within 45 days of the last business day of every calendar quarter thereafter, Citigroup and CitiFinancial shall jointly submit a written progress report to the Reserve Bank. The progress report shall detail the actions taken to comply with each provision of this Order and the results of those actions. The Reserve Bank, at its discretion, may require additional progress reports if necessary. Such reports may be discontinued when the Reserve Bank, in writing, releases Citigroup and CitiFinancial from making further reports.

**ASSESSMENT OF CIVIL MONEY PENALTY**

17. CitiFinancial is hereby assessed a civil money penalty (“CMP”) in the sum of \$70,000,000 to be paid to the Board of Governors as follows:

a. \$50,000,000 shall be paid at the time of the execution of this Order by wire transfer of immediately available funds to the Federal Reserve Bank of New York, ABA No. 021001208, to the attention of Thomas C. Baxter, Jr., General Counsel and Executive Vice President. The Federal Reserve Bank of New York, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of Treasury, pursuant to Section 8(i) of the FDI Act.

b. Pursuant to Section 8(i)(F) of the FDI Act, to the extent that the restitution payments required pursuant to paragraphs 4 through 7 above are redeemed or otherwise accepted, the Board of Governors shall remit the civil money penalty of \$70,000,000 assessed by this Order by an amount of up to \$20,000,000.

c. CitiFinancial will make restitution to all borrowers identified pursuant to paragraph 4 through 7 above. Although the amount available for restitution will exceed

\$50,000,000, in no event, however, shall the Board of Governors remit the assessed \$70,000,000 CMP below \$50,000,000.

18. At the end of the 120-day period following the date that CitiFinancial provides the Reserve Bank with the Restitution Summary Report described in paragraph 3(c) above, CitiFinancial shall pay any unremitted balance of the assessed CMP plus interest calculated from the date of execution of this Order at the rate set forth in 28 U.S.C. § 1961. Payment shall be made by wire transfer of immediately available funds to the Federal Reserve Bank of New York, ABA No. 021001208, to the attention of Thomas C. Baxter, Jr., General Counsel and Executive Vice President. The Federal Reserve Bank of New York, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of Treasury, pursuant to Section 8(i) of the FDI Act.

**NOTICES**

19. All communications regarding this Order shall be sent to:

Mr. Brian Peters  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY 10045

Citigroup Inc.  
Michael S. Helfer, Esq.  
399 Park Avenue  
New York, NY 10043

**MISCELLANEOUS**

20. The provisions of this Order shall be binding, where applicable, on Citigroup and CitiFinancial and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

21. Each provision of this Order shall remain in effect and enforceable until stayed, modified, terminated or suspended in writing by the Board of Governors.

22. Notwithstanding any provision of this Order, the Board of Governors may, at its sole discretion, grant written extensions of time to Citigroup and CitiFinancial to comply with any provision of this Order. The Board of Governors delegates to the Reserve Bank its authority to grant, in the Reserve Bank's sole discretion, written extensions of time to comply with the provisions of this Order.

23. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any federal or state agency from taking any further action affecting Citigroup or CitiFinancial, or any of their current or former institution-affiliated parties, as defined in Sections 3(u) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1813(u) and 1818(b)(3).

By order of the Board of Governors of the Federal Reserve effective this \_\_\_ day of May 2004.

**CITIGROUP INC.**  
New York

**CITIFINANCIAL CREDIT CO.**  
Baltimore, MD

By: \_\_\_\_\_

By: \_\_\_\_\_

**BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM**

By: \_\_\_\_\_