MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE: October 28, 2002

TIME: 11:00 a.m.

LOCATION: Board Room

ATTENDANCE:

Mr. Greenspan, Chairman
Mr. Ferguson, Vice Chairman
Mr. Gramlich
Ms. Bies
Mr. Olson
Mr. Bernanke
Mr. Kohn

Office of the Secretary

Ms. Johnson, Secretary
Mr. Frierson, Deputy Secretary
Ms. Shanks, Assistant Secretary
Mrs. Beattie, Assistant to the Secretary
Ms. Key, Manager, Minutes Section
Mrs. Hamilton, Technical Writer

Office of Board Members

Mr. Hambley, Deputy Congressional Liaison
Mr. Skidmore, Special Assistant to the Board

Legal Division

Mr. Mattingly, General Counsel
Mr. Alvarez, Associate General Counsel
Mr. Ashton, Associate General Counsel
Ms. O'Day, Associate General Counsel
Ms. Wheatley, Assistant General Counsel

Division of Research and Statistics

Mr. Ettin, Deputy Director
Mr. Kwast, Associate Director
Mr. Canner, Senior Adviser

Division of Banking Supervision and Regulation

Mr. Spillenkothen, Director
Mr. Biern, Senior Associate Director
Mr. Hoffman, Associate Director
Ms. Cross, Deputy Associate Director

Division of Consumer and Community Affairs

Ms. Smith, Director
Mr. Loney, Deputy Director
Ms. McNulty, Assistant Director

Other supporting staff

Federal Reserve Bank

Federal Reserve Bank of New York
Mr. Hodgetts, Senior Vice President
Mr. Hill, Assistant Vice President

CITIGROUP INC., New York, New York -- Application to acquire Golden State Bancorp Inc. and its subsidiary, California Federal Bank, and to indirectly acquire Citibank (West), FSB (in formation), all in San Francisco, California.

Approved.
Issuance of order authorized.
October 28, 2002.

At today's meeting the Board considered a proposal by Citigroup Inc. to acquire Golden State Bancorp and to merge its subsidiary, California Federal Bank, into Citibank (West), FSB, a newly formed Citigroup subsidiary savings association. Relevant documentation showed that System and New York State examiners were conducting an examination of CitiFinancial Credit Company, a subprime lending subsidiary of Citigroup that was alleged to have engaged in abusive lending and insurance sales practices. The examination had identified practices that might violate certain consumer laws and regulations, but the examination's findings had not been completed.

In the ensuing discussion, the staff responded to questions from Board members on the issues raised by the examination, Citigroup's record of complying with commitments to resolve similar issues in past applications, and whether the issues presented a risk to the reputation of the entire organization. It was noted that examination findings to date were not of a magnitude to warrant denial of the application and, furthermore, that if violations of law were substantiated later, they could be addressed in the supervisory process. In addition, it was noted that Citigroup had implemented initiatives identified in previous commitments. However, enhancements to some of these initiatives now appeared to be warranted, and Citigroup had been responsive to the need to enhance the initiatives. It was also noted that the supervisory assessment of overall risk at Citigroup took into account reputational risk to the entire organization, that any reputational risk in this case was not widespread, and that there was no indication of a material breakdown in managerial control of the whole organization. Board members also confirmed with the staff that the proposed quarterly reports by Citigroup would assist in monitoring and reviewing the implementation of Citigroup's initiatives, enhancements, and compensation systems and that information from the Securities and Exchange Commission to date did not indicate a systemic problem warranting denial of the application.

Chairman Greenspan observed that the potential compliance issues in this proposal required the Board to make realistic judgments in balancing its responsibilities related to the economy and the regulation of financial institutions. He noted that risk taking by financial institutions was an important aspect of the economy's vitality but that risk taking might inevitably impinge on laws and sound banking practices applicable to financial institutions. Chairman Greenspan concluded that the potential compliance problems identified at the Citigroup subsidiaries did not rise to a level that would warrant a denial or delay of the application.

Vice Chairman Ferguson commented that although the Board had the authority to deny an application based on noncompliance with applicable law, he did not favor denial or delay of the Citigroup proposal in light of several considerations. He noted that no final determination had been made on the alleged violations and that even if they were substantiated, the violations appeared to be concentrated in CitiFinancial, which was a relatively small part of the Citigroup organization, and were not emblematic of Citigroup's management. Vice Chairman Ferguson also noted that supervisory efforts had been appropriately focused on addressing compliance issues at CitiFinancial.

Governor Gramlich noted the progress made by Citigroup in addressing concerns about the subprime lending practices at Associates First Capital Corporation and Associates Corporation of North America, which Citigroup had acquired in

November 2000, as weighing in favor of approving the proposal. He also suggested that the order include a statement that the Board would continue to examine the activities of CitiFinancial and CitiFinancial Mortgage Company and Citigroup's implementation of its initiatives and enhancements, including CitiFinancial's compensation and compliance systems.

Governor Bies supported Governor Gramlich's suggestion, noting that such language would underscore the importance of addressing compliance issues to senior Citigroup management and System supervisory staff.

Governor Olson commented that loan pricing rather than loan denials had become an important consideration in fair-lending-law matters and emphasized the importance of determining the extent to which loan pricing policies reflected the thinking of Citigroup's senior management.

Governor Bernanke noted the public benefits associated with the proposal and stated his preference for using the Board's supervisory process to address potential compliance issues.

Governor Kohn commented that the proposed commitments and conditions were helpful in addressing potential compliance problems and noted that the Board's order should acknowledge them in a straightforward manner.

Thereupon, the Board approved the proposal, with the understanding that the Board members' views would be reflected in the order.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

Background: Staff memoranda, October 21 and 22, 2002.

Implementation: Press release and order, October 28, 2002.