

MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE: March 16, 2005

TIME: 11:30 a.m.

LOCATION: Board Room

ATTENDANCE:

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

Office of the Secretary

Ms. Johnson, Secretary
Mr. Frierson, Deputy Secretary
Ms. Shanks, Associate Secretary
Mrs. Beattie, Assistant to the Secretary
Mrs. Hamilton, Technical Writer
Mr. Hiratsuka, Technical Writer

Office of Board Members

Ms. Smith, Director
Mr. Skidmore, Special Assistant to the Board

Legal Division

Mr. Alvarez, General Counsel
Mr. Ashton, Deputy General Counsel
Ms. O'Day, Deputy General Counsel
Ms. Robinson, Assistant General Counsel

Division of Research and Statistics

Mr. Ettin, Deputy Director
Mr. Kwast, Associate Director

Division of Banking Supervision and Regulation

Mr. Spillenkothen, Director
Mr. Hoffman, Deputy Director
Mr. Biern, Senior Associate Director
Ms. Cross, Associate Director
Mr. Miles, Assistant Director
Mr. Martinson, Senior Adviser

Division of Consumer and Community Affairs

Ms. Braunstein, Director
Mr. Loney, Deputy Director
Ms. McNulty, Senior Advisor
Ms. Price, Assistant Director

Other supporting staff

Federal Reserve Bank

Federal Reserve Bank of New York
Mr. Rutledge, Executive Vice President
Mr. Hill, Vice President

CITIGROUP INC., New York, New York -- Application to acquire First American Bank, SSB, Bryan, Texas, immediately after its conversion to a national bank.

**Approved.
Issuance of order authorized.
March 16, 2005.**

Citigroup had applied to acquire First American Bank after it converted to a national bank, relocated its main office to Dallas, and changed its name to Citibank Texas, National Association. During today's consideration of the application, the Board discussed deficiencies in Citigroup's compliance and internal controls, measures the company had taken to address these matters, and the steps it was continuing to take to resolve compliance issues and to strengthen its compliance risk-management structure and practices.

Vice Chairman Ferguson confirmed with the staff that the compliance problems were related to Citigroup's nonbanking subsidiaries and that Citigroup's success in managing its U.S. retail banking operations was expected to enhance compliance at First American Bank. Vice Chairman Ferguson also requested more information about how close Citigroup was to satisfactorily resolving deficiencies in its compliance and internal controls. It was noted that Citigroup had demonstrated the willingness and ability to take corrective actions and was in the process of implementing various initiatives designed to strengthen compliance and enhance oversight. The results of these efforts, however, were not yet evident in practice.

Governor Bies emphasized the importance of Citigroup allocating sufficient resources to effect changes in its compliance infrastructure and of providing a timetable that could be used to measure progress. It was noted that Citigroup had significantly increased funding for its compliance risk-management programs and had provided a detailed timetable for completing structural changes and increasing compliance staff in the near term. Governor Bies commented that the Board should closely monitor Citigroup's implementation of the plan for enhancing its compliance programs and its progress in meeting the plan's schedule.

Governor Olson observed that the Board's action on this proposal could become a benchmark for assessing managerial resources under the Bank Holding Company Act, and he asked for more information about when an applicant's compliance deficiencies would warrant delaying or denying a proposal. It was noted that delay or denial of a proposal from such an applicant might be appropriate if it represented a significant expansion that would increase the company's compliance risk or divert its management's attention from addressing existing compliance deficiencies.

Governor Bernanke asked about the newly identified irregularities at CitiFinancial, a nonbanking lending subsidiary of Citigroup. It was noted that any adverse effect of these problems on the proposal was substantially mitigated by the fact that Citigroup had self-identified the irregularities and was taking corrective action. Governor Bernanke also suggested that the Board specifically address the issue of expansion by Citigroup while its plan to enhance compliance was being implemented.

Governor Kohn indicated that until the compliance deficiencies were corrected, any Citigroup proposal would likely involve managerial considerations, and he agreed that the Board should be explicit about expansion by Citigroup during the plan's implementation period. In addition, Governor Kohn discussed with the staff the supervisory options available to ensure that Citigroup adhered to its timetable for implementing its compliance improvement plan.

At the conclusion of the discussion, it was agreed that the order would convey the Board's expectation that Citigroup will not undertake significant expansion during the implementation period for its plan to enhance its compliance programs. Thereupon, the

Board approved Citigroup's proposal to acquire First American Bank.

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

Background: Staff memoranda, March 9 and 10, 2005.

Implementation: Press release and order, March 16, 2005.