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Citigroup Settles FTC's Predatory Lending Suit for \$215 Million

NEW YORK, Sept. 19 (LendingIntelligence.com) — In the largest consumer protection settlement in the [Federal Trade Commission's](#) history, [Citigroup Inc.](#) has agreed to pay \$215 million to settle predatory and abusive lending charges against one of its subsidiaries, Associates First Capital Corp.

Citigroup acquired Associates for \$27 billion in November 2000, and merged it into a subsidiary, CitiFinancial Credit Co. The settlement is contingent on approval of the federal district court in Atlanta and approval of a related settlement in a class-action lawsuit currently pending in California.

In March 2001, the FTC sued Associates alleging it had violated the FTC Act through deceptive marketing practices that induced consumers to refinance existing debts into home loans with high interest rates and fees, and to purchase high-cost credit insurance.

Specifically, the complaint charged that Associates engaged in deceptive practices designed to induce borrowers unknowingly to purchase optional credit insurance products, a practice known as "packing."

These insurance products were intended to cover the borrower's loan payments in various circumstances, such as death or illness, and the premiums were added to the principal amount of the loan. If the consumer noticed that the credit insurance products were being added to the loan, Associates' employees used various tactics to discourage them from removing the insurance, the complaint alleged. The complaint also charged Associates with additional deceptive practices and law violations.

The settlement announced today resolves the FTC's lawsuit. If approved, the settlement will provide \$215 million to consumers

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who bought credit insurance in connection with loans made by Associates between December 1, 1995 and November 30, 2000. The class action settlement will provide an additional \$25 million to consumers whose Associates mortgage loans were refinanced, or "flipped," by Associates during the same time period.

The FTC's settlement also requires CitiFinancial to provide annual reports to the Commission detailing its practices with respect to the sale and marketing of credit insurance and other add-on products, and the progress and status of steps taken to improve these practices. In addition, for three years, CitiFinancial must maintain documents relating to the sale and marketing of loans, credit insurance, and add-on products, and steps taken to improve these practices.

In a statement responding to the decision, U.S. Rep. John J. LaFalce (D-NY) said, "Unfortunately, predatory lending practices continue to occur in many communities nationwide and numerous reforms agreed to in the past by lenders have never been fully implemented. Other lenders should see this settlement with Citigroup as an indication that it may be time for them to review their lending practices to ensure that they are not predatory or abusive."

Shares of Citigroup [NYSE: C] were trading down 3.74%, at \$28.02, as of 3:00 p.m. ET.

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