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Citi Settles FTC Charges for Subprime Lending

United States: Federal Trade Commission (FTC)

Federal Trade Commission
Protecting America's Consumers

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Citigroup Settles FTC Charges Against the Associates Record-Setting $215 Million for Subprime Lending Victims

In the largest consumer protection settlement in FTC history, Citigroup Inc. will pay $215 million to resolve Federal Trade Commission charges that Associates First Capital Corporation and Associates Corporation of North America (The Associates) engaged in systematic and widespread deceptive and abusive lending practices. Citigroup acquired The Associates in November 2000, and merged The Associates' consumer finance operations into its subsidiary, CitiFinancial Credit Company. 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. If approved, the FTC and class action settlements together will provide $240 million in redress to consumers throughout the United States and its territories.

"The Commission will not tolerate the fleecing of subprime borrowers through deceptive lending practices such as the packing of unwanted credit insurance on consumers' loans," said Timothy J. Muris, Chairman of the FTC. "As a result of this settlement, as many as two million consumers will receive significant monetary relief in the form of cash refunds or reduced loan balances. I am pleased that Citigroup has agreed to remedy the grave injury caused by The Associates and that Citigroup has announced new measures at CitiFinancial aimed at preventing these kinds of problems. If fully implemented, these are positive steps in an industry that for too long has been plagued by deception and abuse. We will be looking to ensure that the law is obeyed."

Subprime lending refers to the extension of loans to persons who are considered to be higher risk borrowers. The Associates was one of the nation's largest "subprime" lenders. In 1999, the total dollar amount of all outstanding loans in The Associates' U.S. consumer finance portfolio was approximately $30 billion.

In March 2001, the FTC sued The Associates in the United States District Court for the Northern District of Atlanta (Judge Jack Camp) alleging that 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. The complaint also named as defendants Citigroup and CitiFinancial, as successors to The Associates.

The complaint charged that The 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 ("single-premium credit insurance"). If the consumer noticed that the credit insurance products were being added to the loan, The Associates' employees used various tactics to discourage them from removing the insurance, the complaint alleged. The complaint also charged The Associates with additional deceptive practices and law violations.

The settlement announced today resolves the Commission's lawsuit. If approved, the settlement will provide $215 million in redress to consumers who bought credit insurance in connection with loans made by The Associates over a five-year period 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 The Associates during the same time period. Together, these settlements will provide $240 million in consumer redress for Associates borrowers.

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.

Today the Commission filed the settlement in the Atlanta federal court for preliminary approval. The settlement will not become final until the class action settlement is approved in final form by the California court. This process may take several months.

In the next several weeks, consumers will receive a notice of the settlement in the mail that will explain how they can participate in the redress program. Consumers who have already received full premium refunds, or who have released their claims in connection with other settlements, will not be eligible for redress. Under the program, eligible consumers with closed loans (loans that have been paid off or refinanced) will receive their refund by check, and those with currently open loans will receive their refund through a reduction in the outstanding balance of their loan. To participate in the redress, consumers with open loans must agree to cancel their credit insurance.

The Commission's toll-free consumer hotline regarding the settlement is 1-877-862-0886. Consumers who have changed their address recently may provide updated contact information by calling the hotline. The Commission also will have a Web page dedicated to the settlement at www.ftc.gov/theassociates. At this time, it is not necessary for consumers to take any action other than watching their mail over the next several weeks for notice of the settlement.

Today the FTC also has issued a consumer alert, "Credit Insurance, Is It For You" to help borrowers decide if credit insurance, which is usually optional, is right for them. Credit insurance protects the loan on the chance that you can't make your payments, but it can be expensive. Before agreeing to buy credit insurance, consumers should know how much the premium is, whether it is financed as part of the loan, and how much lower their monthly loan payments would be without the credit insurance. Consumers also should review their loan papers carefully to make sure they do not include unwanted credit insurance.

NOTE:
A stipulated final judgment and order is for settlement purposes only and does not constitute an admission by the defendant of a law violation. Consent judgments have the force of law when signed by the judge.

Copies of the complaint and stipulated final judgment and order and publications for consumers are available from the FTC's web site at
http://www.ftc.gov
and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at http://www.ftc.gov. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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Related Documents:

"CITIGROUP SETTLES FTC CHARGES AGAINST THE ASSOCIATES"

Subprime Lending Cases (since 1998)

FTC v. Associates First Capital Corpoation, Associates Corporation of North America, Citigroup Inc., and Citifinancial Credit Company (Northern District of Georgia, Atlanta Division). Civil Action No. 1:01-CV-00606-JTC

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