Presenter Info

Amy Nelson, Executive Director
Fair Housing Center of Central Indiana
615 N. Alabama Street, Suite 426
Indianapolis, IN 46204
Phone: 317-644-0673 x1001
Email: anelson@fhcci.org
Web: www.fhcci.org
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The information today is not legal advice. For legal advice, please consult an attorney.
Segregation in Indianapolis Metro

• According to analysis conducted by Brown University and Florida State University of most segregated cities, Indianapolis was ranked #11 with a 64.5 white-black dissimilarity score in 2011
• Milwaukee, Chicago, New York and Detroit made up top 4
• See: http://www.businessinsider.com/most-segregated-cities-in-america-2011-3?op=1
Why Does it Matter?

- Where you lives determines:
  - Infrastructure Issues (access to public water, paved roads, presence of sidewalks, accessible sidewalks)
  - School Options
  - Access to Jobs
  - Access to Transportation Options
  - Health (including access to health care options, trails, parks, etc.)
  - Exposure to Crime
  - Wealth Building Ability
  - Lending/Banking Services (see redlining cases)
  - Business Development (including whether your local grocery store will have fresh fruits/vegetables, etc.)
• Historic patterns of discrimination in communities of color began with redlining practices (such as the gov’t supported Home Owner’s Loan Corp), then stripping wealth by pushing predatory refinancing/home improvement loans on seniors, then marketing more predatory loans in ARMS, no doc and interest only loans — unsustainable loans in African American and Latino communities.

• 2009 - Significant increases in foreclosures across America and disproportionate number of foreclosures in African American and/or Latino neighborhoods.
Predatory Lending

- *Predatory Lending is the use of fraud, lies or other deceptive tactics to get borrowers into loans they cannot afford or repay.*
- Dependent upon state laws, anyone in the housing industry found guilty of an act which is dishonest, fraudulent or improper, or violates licensing laws, could result in any real estate or other license being suspended, revoked or result in fines. This includes steering persons to an agency known to be violating such laws.
- Other violations could also occur under fair housing laws.
Examples of Predatory Lending

- Selling properties for much more than they are worth using false appraisals or amount borrowed is more than the value of the property (at time of loan)
- Encouraging borrowers to lie about their income, expenses, or cash available for downpayment
- Knowingly lending more money than a borrower can afford to repay
- Charging high interest rates to borrowers based on a protected class status and not their credit history
- Charging fees for unnecessary or nonexistent products and services
- Pressuring borrowers to accept higher risk loans which may include balloon payments, interest only payments and steep pre-payment penalties
• Targeting vulnerable borrowers for cash-out refinance offers when they know borrowers are in need of cash due to medical, unemployment or debt problems

• “Stripping” homeowners’ equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower

• Lender or broker approached borrower first

• Using high pressure sales tactics to sell home improvements and then finance them at high interest rates

• Encouraging borrower to leave some items blank

• Charging more than once for same service, backdating documents, padding fees, etc.
Does Indianapolis Have a Problem?

Percent Non-White Population by Census Tract and Number of Loan Originations

(2010 Race Data and 2004-2011 Loan Originations)
Percent Non-White Population by Census Tract and **Number of High Cost Loan Originations**

(2010 Race Data and 2004-2011 Loan Originations)
Why Do Lenders Give Predatory Loans?

- Financial Incentive - Brokers are paid to originate loans – not to ensure they perform
- Lenders sell loans after origination so are not concerned about performance
- Servicers don’t originate loans so have no input into who gets a loan
- Private companies who buy loans do not always monitor underwriting policies
Why Do Borrowers Accept Predatory Terms or Loans?

- Ignorance – most borrowers do not know or understand the loans they are being offered
- Fear – homeowners in financial trouble may believe they have no other options
- Confusion – borrowers may believe they are being given one loan, when really they are given another
- Fraud – some lenders lie about loan terms, have been found to alter documents, etc.
Likely Targets for Predatory Loans

- Elderly homeowners
- Homeowners with disabilities
- Lower Income households
- Homeowners in financial trouble
- Persons of color, non-English speakers, new immigrants
- People with limited literacy
- People with limited financial literacy
Post Foreclosure Crisis Misconceptions

- According to the National Fair Housing Alliance, only 10% of subprime loans went to first time home buyers - rest were people going from one house to another
- A lower credit score and lower income does not necessarily mean you are a bad loan risk
Post Foreclosure Crisis Misconceptions

- People did not just take out more than they could afford – fair housing cases have shown that race and national origin played a role in type of loan received.
- In fact, through discovery in fair housing lawsuits, it was found that some lenders specifically targeted persons of color through deceptive practices and steered them into loans with predatory terms despite qualifying for better loans.
- Some DOJ cases have found that AA and Latino applicants with high FICO scores were still steered toward predatory loans while white applicants were not.
US/City of Baltimore & Memphis v. Wells Fargo

• Alleged WF discriminated against African-American and Latino borrowers between 2004-2009 and alleged that black and Hispanic residents were more likely to be placed in a subprime loan than their white counterparts even if they qualified for a better loan. A form of “reverse redlining.”

• “Reverse redlining” refers to the practice of targeting residents in certain geographic areas for credit on unfair terms due to the racial or ethnic composition of the area. In contrast to “redlining,” which is the practice of denying prime credit to specific geographic areas because of the racial or ethnic composition of the area, reverse redlining involves the targeting of an area for the marketing of deceptive, predatory or otherwise deleterious lending practices.
According to employee testimonies:

- **Did Not Target White Churches:** Targeted African-American churches and their congregations for subprime loans. They did not target white churches – “[w]hen it came to marketing, any reference to ‘church’ or ‘churches’ was understood as code for African-American or black churches.”

- **Steered Away from White Neighborhoods:** “Heard employees in the MORE division comment that Howard County was not good for subprime loans because it has a predominantly white population.”

- **Required Black Employees Present at Black Churches:** Assigned employees to make presentations at churches on the basis of race. During a conference call with subprime loan officers and branch managers about making presentations to black churches in Baltimore, the loan officers were told that only employees “of color” could attend. A white employee was later told that she could come, but only if she “carried someone’s bag.”

- **Chose Employees by Race for Other Presentations:** One such event was a “‘wealth building’ seminar” designed to promote subprime products in 2005 in Greenbelt, MD, where the audience was expected to be predominantly African-American. A white employee was told that she was “too white” to appear before the audience at the seminar.
• **Targeted Materials:** Tailored its subprime marketing materials on the basis of race. It devised software to print out subprime promotional materials in different languages, one of which was called “African American” by Wells Fargo. WF did not remove the African-American “language” option until an employee complained.

• **Name Calling:** Subprime loan officers described African-American and other minority customers by saying “those people have bad credit” and “those people don’t pay their bills,” and by calling minority customers “mud people” and “niggers.” They referred to loans in minority communities as “ghetto loans.”

• **Steering:** Agents were instructed by management to refer AA borrowers who could have qualified for more advantageous prime or FHA loans to the subprime unit.

• **Source:** [http://www.relmanlaw.com/docs/Baltimore-Complaint.pdf](http://www.relmanlaw.com/docs/Baltimore-Complaint.pdf)
Settlement reached in 2012 for at least $175 million.

Under its agreement with the Cities, Wells Fargo will provide $4.5 million in direct down payment assistance to qualifying homebuyers and provide an additional $3 million for the Cities to use for priority housing and foreclosure-related initiatives.

Wells Fargo also committed to making $425 million in prime mortgage loans in Baltimore and Memphis over the next five years, $125 million of which will be in low and moderate income neighborhoods.

Baltimore and Memphis will also participate in DOJ’s national settlement. Under that settlement, Wells Fargo will pay at least $125 million in compensation to minority borrowers who were overcharged or steered into subprime loans.
**US v. Countrywide**

- DOJ found that Countrywide loan officers and brokers charged higher fees and rates to more than **200,000 minority borrowers** across the country than to white borrowers who posed the same credit risk.
- They also steered more than **10,000 minority borrowers** into costly subprime mortgages when white borrowers with similar credit profiles received regular loans.
- Lending data showed that Countrywide ended up charging Hispanics and African-Americans more, on average, than white applicants with similar credit histories.
- For example, Countrywide employees charged Hispanic applicants in Los Angeles an **average of $545 more** in fees for a $200,000 loan than they charged non-Hispanic white applicants with similar credit histories. Independent brokers processing applications for a Countrywide loan **charged Hispanics $1,195 more.**
• Countrywide also allowed its brokers and employees to steer applicants who qualified for regular mortgages into a riskier and more expensive subprime loan.

• The odds of a minority applicant being steered into such a loan were more than twice as high as those for a non-Hispanic white borrower with a similar credit rating. About two-thirds of the victims were Hispanic and one-third were black.

• Agreed to pay $335 million to settle allegations. Victims will receive between several hundred and several thousand dollars, with larger amounts going to those who were steered into subprime mortgages despite qualifying for regular loans.
Pending Cases – Los Angeles

- City of Los Angeles v. Wells Fargo & Citigroup: Alleging the companies engaged in mortgage discrimination that led to a wave of foreclosures in minority communities during the housing crash.
- Alleges a "continuing pattern of discriminatory mortgage lending practices" in Los Angeles that violate the federal Fair Housing Act. They claim the lenders at first refused to grant mortgages in minority neighborhoods — a practice known as redlining — and later targeted black and Hispanic neighborhoods for predatory loans, known as reverse redlining.
Pending Cases – Cook County

• Cook County filed a federal lawsuit against HSBC North American Holdings, Inc., alleging that the mortgage lender and servicer engaged in unfair lending practices that led to foreclosures and hit minority communities particularly hard.
• Cook County is seeking to hold HSBC financially responsible for the harm done to communities as a result of what it alleges were HSBC's discriminatory and predatory lending practices.
• Similar to case against same lender in Atlanta.
FHCCI Predatory Lending Project

- Recruited IU and UI students to assist on project
- Retrieved foreclosures in Indy/Marion County racially identifiable census tracts
- Students pulled the mortgage in place prior to foreclosure and reviewed for evidence of any predatory terms (ARMs, prepayment penalties, balloon payments)
- Over 2,200 mortgages were evaluated
- Still analyzing results...
- Report likely to be released in May 2014 on findings.
Reminders & How You Can Help Fight Housing Discrimination!

• Refer people who may be victims of housing discrimination to our office
• Volunteer for our testing program
• Contact us with questions or training opportunities!
• Visit our website for more information
• Sign up for our e-newsletter
• Thank you for attending!

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