Lasting Effects: The Next Generation of Fair Housing Enforcement

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Detroit

- Green dot = African American
- Orange dot = Hispanic
- Brown dot = All Others
- Red dot = Asian

1 dot = 1 person

Legend:
Los Angeles, CA
Chicago, IL

- African American
- Hispanic
- Asian
- White
- All Others

1 dot = 1 person
New York City, NY
Washington, DC and MD Metropolitan Area

- African American
- Hispanic
- Asian
- White
- All Others

1 dot = 1 person
Miami, FL

- Green dot = African American
- Orange dot = Hispanic
- Red dot = Asian
- Blue dot = White
- Brown dot = All Others
- 1 dot = 1 person
St. Louis

- = African American
- = Hispanic
- = Asian
- = White
- = All Others
1 dot = 1 person
Falling Gas Prices Deny Russia a Lever of Power

By ANDREW E. KRAMER

MOSCOW — As energy markets shrink, the same tactics that the Kremlin used to build Gazprom, the giant energy company, into a fearsome economic and political power that could restore Russian influence in the world are now backfiring, slashing both its profits and its influence.

Throughout his eight years as president of Russia, Vladimir V. Putin pursued the strategic goal of dominating natural gas supplies to Europe and the pipelines that deliver them. His success was underscored in January, when for the second time in three years a pricing dispute with Ukraine disrupted the flow of natural gas, leaving hundreds of thousands in Eastern Europe shivering in the deep winter cold.

But in his zeal to monopolize gas supplies, Mr. Putin, who is now Russia’s prime minister, committed Gazprom to long-term contracts with Central Asian countries for gas at a cost far in excess of current world prices. Now that the world economic crisis has sharply curtailed demand, Gazprom is struggling to appease its supplies with declining world demand. In effect, a strategy that made business and political sense in a time of high and seemingly ever-rising prices is threatening to create years of losses and declining influence, if energy prices fail to rebound.

"It’s an extraordinary turnaround from what everybody was expecting," said Jonathan P. Stern, the director of natural gas research at the Oxford Institute for Energy Studies.

Demand for Gazprom’s natural gas will plunge by about 60 billion cubic meters this year, according to Mr. Stern — about equal to the amount the company is contractually committed to import from the former Soviet states.

The turnaround for Gazprom has been as swift as it has been devastating to the company’s business model. As recently as last September, Mr. Putin, as prime minister, flew to Tashkent, Uzbekistan, to wrap up a deal that consolidated Russia’s strategic gains after the war in Georgia.

On a stretch of 145th Street in Jamaica, Queens, 8 of 50 homes face foreclosure. "We are being pillaged," a city councilman said.
Blacks and Latinos Are Hit Hardest as New York Foreclosures Rise

Race and Foreclosure  Default filings by lenders are highest in minority areas, where high-cost subprime lending was common before 2007.

Black Middle-Class Areas Feel the Pain
Mostly black middle-income census tracts in the region have higher foreclosure rates than mostly white areas and lower-income, mostly black areas. Tracts at least 75 percent black that had a median borrower income between $100,000 and $150,000, for instance, had a 4.4 percent default rate.

2008 foreclosure rate by tract characteristics

<table>
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<tr>
<th>PCT. OF POP. THAT IS BLACK</th>
<th>MEDIAN INCOME OF BORROWERS, 2006</th>
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<tr>
<td></td>
<td>Under $50k</td>
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<tr>
<td>0-5%</td>
<td>0.3</td>
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Mayor and City Council of Baltimore v. Wells Fargo
City of Memphis and Shelby County v. Wells Fargo
Memphis

- = African American
- = White
- = Hispanic
- = Asian
- = All Others
1 dot = 1 person

- Wells Fargo Foreclosure Filings 2000-2009
- Percent African American Households 2007
  Claritas Estimate By Census Block Group
  - 20% or Less
  - 20.1% - 40%
  - 40.1% - 60%
  - 60.1% - 80%
  - Over 80%
  - Insufficient Data
Memphis: Wells Fargo High Cost Purchase and Refinance Loans (2004-2008)
Suit Accuses Wells Fargo of Steering Blacks to Subprime Mortgages in Baltimore

By MICHAEL POWELL

As she describes it, Beth Jacobson and her fellow loan officers at Wells Fargo Bank "rode the stagecoach from hell" for a decade systematically singling out blacks in Baltimore and suburban Maryland for high-interest subprime mortgages.

These loans, Baltimore officials have claimed in a federal lawsuit against Wells Fargo, trapped hundreds of homeowners into foreclosure and cost the city tens of millions of dollars in taxes and city services.

Wells Fargo, Ms. Jacobson said in an interview, saw the black community as fertile ground for subprime mortgages, as working-class blacks were hungry to be part of the nation's homeownership mania. Loan officers, she said, pushed customers who could have qualified for prime loans into subprime mortgages.

Another loan officer stated in an affidavit filed last week that employees referred to blacks as "mud people" and to subprime lending as "ghetto loans.

"We just went right after them," said Ms. Jacobson, who is white and said she was once the bank's top-producing subprime loan officer nationally. "Wells Fargo mortgage had an emerging-markets unit that specifically targeted black churches, because it figured church leaders had a lot of influence and could convince congregants to take out subprime loans.

Ms. Jacobson's account and that of the other loan officer who gave an affidavit, Tony Paschal, both of whom have left Wells Fargo, provide the first detailed accounts of deliberate racial steering into subprimes by one of the nation's top banks.

The toll taken by such policies, Baltimore officials argue, is terrible. "We have qualified for the city as part of the suit last week show Foreclosed homes on Barclay Street in Baltimore, left, and another on North Brice Street, which shares a downed fence with a house still lived in. The city is suing Wells Fargo Bank over its mortgage lending practices in black neighborhoods."
MAYOR AND CITY COUNCIL OF BALTIMORE, Plaintiff,
v. WELLS FARGO BANK, N.A. and WELLS FARGO FINANCIAL LEASING, INC., Defendants.

No. 1:08-cv-00062-BEL

DECLARATION OF ELIZABETH M. JACOBSON

1. I, Elizabeth M. Jacobson, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. In 1998, I was hired by Wells Fargo Home Mortgage as a "Home Mortgage Consultant" or loan officer. I worked for Wells Fargo Home Mortgage ("Wells Fargo") until December, 2007. After a period of time, I was promoted to Sales Manager.

3. For much of the time that I worked for Wells Fargo my office was located in Federalsburg, Maryland. I worked directly with loan applicants to make subprime loans. The geographic area that I covered was known as Region 12. This area included Northern Virginia, Baltimore, and Prince George's County, among other places. Much of my business came from referrals from Wells Fargo loan officers who were on the prime

1. I, Tony Paschal, hereby attest that I am over the age of 18 years and that I am competent to testify with respect to the matter below.

2. Between September, 1997 and September, 2007, during two separate periods of employment and for a total of eight years, I worked as a home mortgage consultant, or loan officer, in the Annandale, Virginia office of Wells Fargo Home Mortgage ("Wells Fargo").

3. My first period of employment with Wells Fargo was from September, 1997 to June, 1999. I was initially hired by Norwest Mortgage which merged with Wells Fargo in the middle of 1998. As a loan officer in Wells Fargo's Sales and Marketing section, my duties included contacting existing Wells Fargo borrowers in forty-eight (48) states to solicit them to refinance their home mortgage loan. Other Wells Fargo loan
Declarations Reveal Targeting

- African-American zip codes
- African-American churches
- Assigned employees based on race
- Marketing group expressly created based on race to target African-American neighborhoods
- “Mud people”; “Ghetto loans”; “N-word”; “Subprime capitol”; “those people have bad credit”; “don’t pay their bills”
- Marketing software with designation for African American “language”
Steering

- Prime borrowers put in costly subprime loans
- Financial incentives
- Employees had substantial discretion
- Employees reprimanded for failing to steer
- Paschal and Jacobson saw files
- With access to loan files, Jacobson could identify African-American borrowers improperly steered
Methods of Steering

- “Stated income” loans given to those with documentation
- Told borrowers not to make down payment
- Told borrowers to cash-out home equity
- Falsified loan applications
- Told customers loan rates “locked”
- Did not mention lower cost products
- Lied about prepayment penalties
- Qualified borrowers based on “teaser rate”
- “Filters” evaded
- Senior managers knew
Foreclosures Causing Loss of Equity in Communities of Color

- From 2000 to 2008, foreclosures stripped between $164 billion and $213 billion of equity from communities of color\(^1\)

- Between 2009 and 2012, the crisis will strip $194 billion of equity from African-American communities and $177 billion from Latino communities\(^2\)

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\(^1\) Rivera, et al. (2008)
\(^2\) Center for Responsible Lending (2010)
Wealth Gaps Rise to Record Highs Between Whites, Blacks, and Hispanics

### Median Net Worth of Households, 2005 and 2009 (in 2009 dollars)

**2009**
- Whites: $113,149
- Hispanics: $6,325
- Blacks: $5,677

### Percentage Change in Median Net Worth of Households, 2005 to 2009

- Whites: -16%
- Hispanics: -66%
- Blacks: -53%

Source: Pew Research Center tabulations of Survey of Income and Program Participation data

Pew Research Center
Foreclosures Result in Re-segregation

The Impact of Residential Mortgage Foreclosure on Neighborhood Change and Succession

Yanmei Li¹ and Hazel A. Morrow-Jones²

Abstract

Many factors contribute to neighborhood change and succession, one being residential mortgage foreclosures. Limited attention has been paid to how residential mortgage foreclosures in a neighborhood are related to households’ socioeconomic status and mobility decisions, and thus, to overall neighborhood change. We use sheriff’s foreclosure sales data in Cuyahoga County between 1983 and 1989 to predict changes in neighborhood indicators from 1989 to 2000, controlling for various neighborhood and census place indicators and their changes. Results suggest that higher foreclosure rates are positively related to changes in percentage black population, female headship rate, median household income, and unemployment rate. We thus conclude that foreclosures speed up the housing filtering process, and racial and economic turnover of residents. Our results will enable planners and policy makers to understand the transitional process of these neighborhoods so that they can be stabilized in the years following concentrated foreclosures.

Keywords

foreclosure, neighborhood change, housing policy, seemingly unrelated regression (SUR), neighborhood stabilization

As a result of policy incentives and innovative financial products promoting homeownership in the United States, millions have pursued and achieved the American dream of owning a home. In 1960 the homeownership rate was 46.5 percent, and in 2006 the rate had increased to 68.8 percent (U.S. Census Bureau 2008). Although there are geographical, racial, and ethnic disparities, the achievements in homeownership rates are very impressive.

But since the 1980s the rate of mortgage foreclosures has climbed and become higher than rates in any of proceeding fifty years (Elmer and Seelea 1998). The percentage of foreclosure starts for all mortgages jumped from 0.26 percent in 1986 to 0.55 percent in the second quarter of 2007 (U.S. Department of Housing and Urban Development [HUD] 2007). Alarmingly, many of the mortgage foreclosures are related to subprime loans that were generated in the late 1990s. In 1998, the total past-due rate of all mortgage loans was 4.74 percent, but the rate was 16.87 percent for subprime loans. By 2006, the rates had changed to 5.12 and 14.82 percent, respectively. The foreclosures have profound impacts on homeowners, lenders, real estate investors, neighborhoods, and the overall local economy and, thus, call for comprehensive policy initiatives to stabilize neighborhoods and alleviate negative impacts of foreclosures (Kingsley, Smith, and Price 2009; Immergut and Price 2009a, 2009b; Malack 2008, 2009). There has been some academic research exploring the impact of foreclosures (Baxter and Laura 2000, Immergut and Smith 2006a, 2006b; Lin, Rosenblatt, and Yao 2009; Schaez, Been, and Ellen 2008), but little has focused on how foreclosures relate to neighborhood change. According to previous research the impact of mortgage foreclosure on the neighborhoods in which foreclosed properties are located is very significant (Harding, Rosenblatt, and Yao 2009; Immergut and Smith 2006a, 2006b; Laura 1994; Laura and Baxter 1990; Baxter and Laura 2006; Lin, Rosenblatt, and Yao 2009; Schaez, Been, and Ellen 2008). Baxter and Laura (2000) found important impacts of foreclosures on racial transition, property value change, and the general...
Re-segregation and Foreclosures

- Concentrated foreclosures in communities of color:
  - Create barriers to mobility
  - Discourage new business investment
  - Accelerate flight of higher-income families
Effects of Segregation

- **Negative effects on education**
  - Drop-out rates, test scores, teacher quality, literacy, college education rates

- **Negative effects on health**
  - Access to health care, mortality and infant mortality rates, disease, mental health, addiction, teen pregnancy

- **Other negative effects**
  - Access to employment opportunities/earnings, incarceration rates (juvenile and adult), aggressive behavior in children, voter participation

Costs to Municipalities are Recorded and Quantifiable

- Vacancies require City to
  - Board property
  - Clean
  - Stabilize
  - Clear debris
  - Repair water damage
  - Potentially demolish property

- Police Department calls
- Fire Department calls
- City has calculated costs for each activity; records in database
- Costs of responding to code violations and police and fire calls at each vacant property capable of precise measurement
3622 Edmonson, Baltimore

- Boarded 5 times
- Cleaned 11 times
- Total spent on boarding and cleaning since June 2006: $2626.13
Source: National Vacant Properties Campaign (2005)
Wells Fargo settles bias suit for $175M

City of Baltimore to get $7.5 million, 1,000 area residents $2.5 million

BY LUKE BROADWATER
The Baltimore Sun

About 1,000 Baltimore-area residents are expected to receive thousands of dollars each under a landmark $25 million settlement between the U.S. Department of Justice and Wells Fargo over accusations of discriminatory lending practices.

Under the terms of the deal announced Thursday, Wells Fargo also will provide $25 million to the city of Baltimore, which federal officials credited with first raising issues of discrimination related to the bank's subprime mortgages.

The city alleged that Wells Fargo steered minorities into subprime loans, gave them less favorable rates than white borrowers and foreclosed on hundreds of Baltimore homes, creating blight and higher public safety costs. Wells Fargo is the largest residential home mortgage originator in the United States.

"Baltimore got the ball rolling," said Assistant Attorney General Thomas E. Perez, who heads the Department of Justice's civil rights division. "The federal government heard you and the federal government followed up."

The deal is the second-largest fair-lending settlement in the department's history, said Perez, a former Maryland labor secretary.

The settlement provides $25 million in payments to borrowers nationwide, in- cluding $10 million to Baltimore and other cities in the $25 million settlement.
Baltimore v. Wells Fargo Settlement

- $4.5 million in direct down payment assistance to qualifying Baltimore homebuyers
- $3 million for Baltimore to use for priority housing and foreclosure-related initiatives
- $425 million in prime mortgage loans in Baltimore over the next 5 years, $125 million of which will be in low and moderate income neighborhoods
- Additional downpayment assistance from $50 million DOJ fund
- More than 1,000 Baltimore borrowers will receive direct payments from $125 million fund
Morgan, et al. v. Richmond School of Health & Technology
RSHT

- 2 campuses, both majority African-American
- Programs
  - Practical Nursing
  - Medical Assistant
  - Surgical Technology
  - Pharmacy Technician
  - Massage Therapy
  - Medical Billing & Coding
  - Radiologic Technology
- Costs: $10,000 - $28,000
- Duration of Programs: 9-19 months
Fraud in Obtaining Loans

- W-2 forms altered
- Signatures of students forged, cut and pasted
- Attendance records and grades altered
- Signatures on high school transcripts forged
- Graduates’ employment statuses falsified
Sham Education

- Teachers not qualified, not showing up to class
- Courses do not prepare for licensing and certification exams
- Failure to place students in externships
- Promised certification in Community Home Health, which does not exist
- Lack of necessary materials, equipment, and textbooks
Purpose: Milk Government for Loans

- Failing students kept enrolled by altering grades
- Teachers pressured to pass students

*Administrators regularly pressured me to change grades so that students would not fail out . . . I had to hand in my grade book at the end of each module and I know that after I handed it in, some students’ grades were changed from failing to passing. This allowed RSHT to continue to earn money from the students because it kept the students from failing out of the school.*

— Tiana Branch Declaration
Targeting Minority Communities

- Richmond MSA: 30.1% African-American
- African-American, > 25, and highest degree = H.S. diploma: 33.3% African-American
- RSHT: 75% African-American
Marketing

- Flyers
- Door to door
- BET
- Hip hop stations
- “On the bus line”
- Target food stamp recipients
- Open houses
Suit alleges fraud at for-profit school

Class action says Henrico-based RSHT ‘is a sham’

BY KARIN KAPSIDELIS
Richmond Times-Dispatch

Many Morgan enrolled in a nine-month program that she thought would provide her with the certification necessary to start a home health-care business. Now, she owes more than $10,000 in federal student loans for a certification that she found does not exist in Virginia.

Amanda Smith owes $20,000 but does not have the surgical technician license she expected to earn at the same Henrico County for-profit health and technology school RSHT. The school never provided her with the clinical externships necessary for her to get her license and the higher-paying job she needed to pay back the loans, she said.

The two women are plaintiffs in a class-action lawsuit filed last week in U.S. District Court in Washington against RSHT, formerly known as Richmond School of Health and Technology. The suit alleges that the school targets poor and minority students and enriches itself through the loans it receives from the U.S. Department of Education.

RSHT owner Margaret Knight, who founded the school in 1997, vows to fight and says the allegations are unfounded. The school, with campuses in Chester and Henrico, is accredited and in compliance.

RSHT lawsuit

Read the class-action complaint against the school.
At TimesDispatch.com, search: local news.
For-profit college settles class-action lawsuit

Mary Beth Mallea, USA TODAY 7:06 p.m. EDT July 26, 2013

Former students say school offered a sham education

- For-profit college agrees to pay $5 million
- 4,000 students could be eligible for award

filed by eight former students who said the training they received was a sham.

The agreement, approved late Thursday in the U.S. District Court for the Eastern District of Virginia, settles claims that Chester Career College, formerly known as Richmond School of Health and Technology, targeted minorities for enrollment and did not provide them an adequate education. The complaint, filed in 2011, also estimated that the college has received approximately $5 million a year in federal student loan programs.

"In other words, the federal government funded (the school's) scheme," says John Relman, of Relman, Dane & Colfax, a Washington, DC law firm that represented the plaintiffs. Relman says more than 4,000 former students may be eligible to receive funds from the settlement.

In resolving the lawsuit, the School did not admit any wrongdoing.

A statement put out by the plaintiff's attorneys says that "in addition to $5 million in monetary relief, the settlement provides for continued reporting by the School regarding its students' success and career placement. These measures will improve and strengthen the School as it continues its mission of educating, graduating and assisting in the employment of hundreds of students in various medical fields in and around Richmond."
Structural Racism
Structural Racism

- **What:**
  A practice that exploits historic discrimination and spatial segregation for private or political gain

- **Why:**
  Profits and power can be extracted more easily from underserved communities made vulnerable by decades of historic discrimination and segregation
Structural Racism

- Harms:
  - Strips equity from minority/underserved communities
  - Creates new barriers to integration
  - Perpetuates segregation
Redlining refers to the practice of denying credit to neighborhoods or communities because of the racial or ethnic make-up of those areas.

Reverse redlining refers to the practice of extending credit on unfair terms to neighborhoods or communities because of the racial or ethnic make-up of those areas.

Steering refers to the practice of directing customers to particular products because of race or ethnicity of customer, or denying customer access to advantageous products because of race or ethnicity.

All violate the FHA. From standpoint of law, these violations are no different from outright denial of credit because of race, or the decision to charge a higher price because of ethnicity.
Commonly accepted by regulators and advocates that:

- Lack of access to prime credit in communities of color created vacuum in which predatory lenders flourished.

- Combination of redlining and reverse redlining contributed to foreclosure crisis and 2008 economic crash.
New York Accuses Evans Bank of Redlining

By JESSICA SILVER-GREENBERG  SEPTEMBER 2, 2014 12:01 AM  86 Comments

Drawn in thick marker along the map of upstate New York, the line snaked down the Niagara River and zigzagged east to outline a swath of Buffalo and its surrounding neighborhoods.

But one area of the city — neighborhoods in east Buffalo, where more than 75 percent of the city’s African-American population lives — was explicitly excluded, cut off from access to mortgage credit.

That map, ringed by a line, is at the center of a sweeping investigation by the New York attorney general, Eric T. Schneiderman, into whether banks are “redlining” — deliberately choking off mortgage lending to predominantly minority communities.

Mortgage lending is critical, the authorities say, to bolster homeownership — a cornerstone of upward mobility — in minority communities still trying to dig out from the recession. Denied access to credit, state and federal authorities warn, minority communities are helpless to address problems like boarded-up homes, foreclosures and blight that have long ravaged neighborhoods.

Reverse redlining comes first, making it difficult for minority communities to obtain loans, except at high rates. Once those loans sour, though, minority communities are left in a credit drought.
FHA and the Power of Disparate Impact

Two ways to establish violation:

- **Disparate Treatment**: Refers to intentional differential treatment of members of a protected class. An example is a guideline or rule that recommends the rejection of an application for credit from anyone identified as Hispanic.

- **Disparate Impact**: Models or neutral rules may have a disproportionate adverse impact on members of protected classes. The fact that a model or rule has a disparate impact on members of a protected group does not, in and of itself, violate fair lending laws, provided the model or rule is supported by a valid business justification. But business justification is not enough. Fair lending laws also require that where alternatives can be found that reduce impact without sacrificing validity or predictiveness, those alternatives must be implemented.