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Lending Discrimination by Countrywide ^[1]

JUSTICE DEPARTMENT REACHES \$335 MILLION SETTLEMENT TO RESOLVE ALLEGATIONS OF LENDING DISCRIMINATION BY COUNTRYWIDE FINANCIAL CORPORATION

More than 200,000 African-American and Hispanic Borrowers who Qualified for Loans were Charged Higher Fees or Placed into Subprime Loans

WASHINGTON – The Department of Justice today filed its largest residential fair lending settlement in history to resolve allegations that Countrywide Financial Corporation and its subsidiaries engaged in a widespread pattern or practice of discrimination against qualified African-American and Hispanic borrowers in their mortgage lending from 2004 through 2008.

The settlement provides \$335 million in compensation for victims of Countrywide's discrimination during a period when Countrywide originated millions of residential mortgage loans as one of the nation's largest single-family mortgage lenders.

The settlement, which is subject to court approval, was filed today in the U.S. District Court for the Central District of California in conjunction with the department's complaint which alleges that Countrywide discriminated by charging more than 200,000 African-American and Hispanic borrowers higher fees and interest rates than non-Hispanic white borrowers in both its retail and wholesale lending. The complaint alleges that these borrowers were charged higher fees and interest rates because of their race or national origin, and not because of the borrowers' creditworthiness or other objective criteria related to borrower risk.

The United States also alleges that Countrywide discriminated by steering thousands of African-American and Hispanic borrowers into subprime mortgages when non-Hispanic white borrowers with similar credit profiles received prime loans. All the borrowers who were discriminated against were qualified for Countrywide mortgage loans according to Countrywide's own underwriting criteria.

"The department's action against Countrywide makes clear that we will not hesitate to hold financial institutions accountable, including one of the nation's largest, for lending discrimination," said Attorney General Eric Holder. "These institutions should make judgments based on

applicants' creditworthiness, not on the color of their skin. With today's settlement, the federal government will ensure that the more than 200,000 African-American and Hispanic borrowers who were discriminated against by Countrywide will be entitled to compensation."

The settlement resolves the United States' pricing and steering claims against Countrywide for its discrimination against African Americans and Hispanics.

The United States' complaint alleges that African-American and Hispanic borrowers paid more than non-Hispanic white borrowers, not based on borrower risk, but because of their race or national origin. Countrywide's business practice allowed its loan officers and mortgage brokers to vary a loan's interest rate and other fees from the price it set based on the borrower's objective credit-related factors. This subjective and unguided pricing discretion resulted in African American and Hispanic borrowers paying more. The complaint further alleges that Countrywide was aware the fees and interest rates it was charging discriminated against African-American and Hispanic borrowers, but failed to impose meaningful limits or guidelines to stop it.

"Countrywide's actions contributed to the housing crisis, hurt entire communities, and denied families access to the American dream," said Thomas E. Perez, Assistant Attorney General for the Civil Rights Division. "We are using every tool in our law enforcement arsenal, including some that were dormant for years, to go after institutions of all sizes that discriminated against families solely because of their race or national origin."

The United States' complaint also alleges that, as a result of Countrywide's policies and practices, qualified African-American and Hispanic borrowers were placed in subprime loans rather than prime loans even when similarly-qualified non-Hispanic white borrowers were placed in prime loans. The discriminatory placement of borrowers in subprime loans, also known as "steering," occurred because it was Countrywide's business practice to allow mortgage brokers and employees to place a loan applicant in a subprime loan even when the applicant qualified for a prime loan. In addition, Countrywide gave mortgage brokers discretion to request exceptions to the underwriting guidelines, and Countrywide's employees had discretion to grant these exceptions.

This is the first time that the Justice Department has alleged and obtained relief for borrowers who were steered into loans based on race or national origin, a practice that systematically placed borrowers of color into subprime mortgage loan products while placing non-Hispanic white borrowers with similar creditworthiness in prime loans. By steering borrowers into subprime loans from 2004 to 2007, the complaint alleges, Countrywide harmed those qualified African-American and Hispanic borrowers. Subprime loans generally carried higher-cost terms, such as prepayment penalties and exploding adjustable interest rates that increased suddenly after two or three years, making the payments unaffordable and leaving the borrowers at a much higher risk of foreclosure.

The settlement also resolves the department's claim that Countrywide violated the Equal Credit Opportunity Act by discriminating on the basis of marital status against non-applicant spouses of borrowers by encouraging them to sign away their home ownership rights. The law allows married individuals to apply for credit either in their own name or jointly with their spouse, even

when the property is owned by both spouses. For applications made by married individuals applying solely in their own name between 2004 and 2008, Countrywide encouraged non-applicant spouses to sign quitclaim deeds or other documents transferring their legal rights and interests in jointly-held property to the borrowing spouse. Non-applicant spouses who execute a quitclaim deed risk substantial uncertainty and financial loss by losing all their rights and interests in the property securing the loan.

In addition, the settlement requires Countrywide to implement policies and practices to prevent discrimination if it returns to the lending business during the next four years. Countrywide currently operates as a subsidiary of Bank of America but does not originate new loans.

The department's investigation into Countrywide's lending practices began after referrals by the Board of Governors of the Federal Reserve and the Office of Thrift Supervision to the Justice Department's Civil Rights Division in 2007 and 2008 for potential patterns or practices of discrimination by Countrywide.

Today's announcement is part of efforts underway by President Obama's Financial Fraud Enforcement Task Force (FFETF). President Obama established the interagency FFETF to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. For more information on the task force, visit www.StopFraud.gov [2].

A copy of the complaint and proposed settlement order, as well as additional information about fair lending enforcement by the Justice Department, can be obtained from the Justice Department website at www.justice.gov/fairhousing [3].

The proposed settlement provides for an independent administrator to contact and distribute payments of compensation at no cost to borrowers whom the Justice Department identifies as victims of Countrywide's discrimination. The department will make a public announcement and post contact information on its website once an administrator is chosen. Borrowers who are eligible for compensation from the settlement will then be contacted by the administrator. Individuals who believe that they may have been victims of lending discrimination by Countrywide and have questions about the settlement may email the department at countrywide.settlement@usdoj.gov [4].

Printed: August 14, 2020

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