



Department of Justice



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Northern District of California

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**JUSTICE DEPARTMENT REACHES SETTLEMENT WITH WELLS FARGO RESULTING IN MORE THAN \$175
MILLION IN RELIEF FOR HOMEOWNERS TO RESOLVE FAIR LENDING CLAIMS**

***African-American and Hispanic Borrowers Who Qualified for Loans and Were Charged Higher Fees or
Rates or Were Improperly Placed into Subprime Loans Are Eligible for Compensation***

San Francisco – The Department of Justice today filed the second largest fair lending settlement in the department's history to resolve allegations that Wells Fargo Bank, the largest residential home mortgage originator in the United States, engaged in a pattern or practice of discrimination against qualified African-American and Hispanic borrowers in its mortgage lending from 2004 through 2009, United States Attorney Melinda Haag and the Department of Justice announced.

The settlement provides \$125 million in compensation for wholesale borrowers who were steered into subprime mortgages or who paid higher fees and rates than white borrowers because of their race or national origin. Under today's consent decree, Wells Fargo will also institute a borrower assistance program that provides \$50 million in direct payments for down-payment assistance to residents of eight areas in the U.S. that experienced significant harm as a result of Wells Fargo's conduct. One of these areas includes three cities in the Northern District of California – San Francisco, Oakland and Fremont – which based on the Justice Department's estimates of the number of victims could receive \$3 million in home buyer assistance that will help approximately 2,100 victims.

Additionally, Wells Fargo has agreed to conduct an internal review of its retail mortgage lending and will compensate African-American and Hispanic retail borrowers who were placed into subprime loans when similarly qualified white retail borrowers received prime loans. Compensation paid to any retail borrowers identified in the review process will be in addition to the \$125 million to compensate wholesale borrowers who were victims of discrimination.

“The department’s action makes clear that we will hold financial institutions accountable, including some of the nation’s largest, for lending discrimination,” said Deputy Attorney General James M. Cole. “An applicant’s creditworthiness, and not the color of his or her skin, should determine what loans a borrower qualifies for. With today’s settlement, the federal government will ensure that African-American and Hispanic borrowers who were discriminated against will be entitled to compensation and borrowers in communities hit hard by this housing crisis will have an opportunity to access homeownership.”

“This settlement, and the assistance it will bring to the victims in the Northern District of California, demonstrates the Justice Department’s commitment to equality,” U.S. Attorney Haag said. “The Department is working to ensure the rights of each and every American.”

The settlement, which is subject to court approval, was filed today in the U.S. District Court for the District of Columbia in conjunction with the department’s complaint, which alleges that between 2004 and 2008, Wells Fargo discriminated by steering approximately 4,000 African-American and Hispanic wholesale borrowers, as well as additional retail borrowers, into subprime mortgages when non-Hispanic white borrowers with similar credit profiles received prime loans. All the borrowers who were allegedly discriminated against were qualified for Wells Fargo mortgage loans according to Wells Fargo’s own underwriting criteria.

The United States also alleges that, between 2004 and 2009, Wells Fargo discriminated by charging approximately 30,000 African-American and Hispanic wholesale borrowers higher fees and rates than non-Hispanic white borrowers because of their race or national origin rather than the borrowers’ credit worthiness or other objective criteria related to borrower risk.

“By reaching a settlement in this case, African-American and Hispanic wholesale borrowers who received subprime loans when they should have received prime loans or who paid more for their loans will get swift and meaningful relief,” said Thomas E. Perez, Assistant Attorney General for the Civil Rights Division. “As one of the largest mortgage lenders in the country, Wells Fargo’s commitment to conduct an internal review of its retail lending and compensate African American and Hispanic retail borrowers who may have been improperly placed in subprime loans is significant. We will continue to work aggressively to ensure that all qualified borrowers have access to credit on an equal basis.”

The United States’ complaint alleges that African-American and Hispanic wholesale borrowers paid more than non-Hispanic white wholesale borrowers, not based on borrower risk, but because of their race or national origin. Wells Fargo’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 alleges that Wells Fargo was aware the fees and interest rates it was charging discriminated against African-American and Hispanic borrowers, but the actions it took were insufficient and ineffective in stopping it.

The United States’ complaint also alleges that, as a result of Wells Fargo’s policies and practices, qualified African-American and Hispanic wholesale 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 wholesale borrowers in subprime loans, also known as “steering,” occurred because it was the bank’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, Wells Fargo gave mortgage brokers discretion to request exceptions to the underwriting guidelines, and Wells Fargo’s employees had discretion to grant these exceptions.

This is the second 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 2008, the complaint alleges, Wells Fargo harmed those qualified African-American and Hispanic borrowers. Subprime loans generally carried higher-cost terms, such as prepayment penalties and adjustable interest rates that started with low initial teaser rates, and then increased significantly after two or three years, often making the payments unaffordable and leaving the borrowers at a much higher risk of default or foreclosure.

The department began its investigation into Wells Fargo’s lending practices in 2009 and received a referral in 2010 from the Office of the Comptroller of the Currency (OCC) which conducted its own parallel investigation of Wells Fargo’s lending practices in the Baltimore and Washington, D.C. metropolitan areas. The OCC found that there was reason to believe that Wells Fargo engaged in a pattern or practice of discrimination in these metro areas on the basis of race or color, in violation of the FHA and ECOA.

This case was prosecuted by the Fair Lending Unit in the Civil Rights Division’s Housing and Civil Enforcement Section. Since the attorney general established the unit in early 2010, it has filed a complaint in or resolved 19 matters. By way of contrast, from 1993 to 2008, the department filed or resolved 37 lending matters, an average of a little more than two cases per year.

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.

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.

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 Wells Fargo'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 Wells Fargo and have questions about the settlement may email the department at wellsfargo.settlement@usdoj.gov.

Further Information:

A copy of this press release may be found on the U.S. Attorney's Office's Web site at www.usdoj.gov/usao/can.

Electronic court filings and further procedural and docket information are available at <https://ecf.cand.uscourts.gov/cgi-bin/login.pl>.

Judges' calendars with schedules for upcoming court hearings can be viewed on the court's Web site at www.cand.uscourts.gov.

All press inquiries to the U.S. Attorney's Office should be directed to Jack Gillund at (415) 436-6599 or by email at Jack.Gillund@usdoj.gov.

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