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MADIGAN SUES WELLS FARGO FOR DISCRIMINATORY AND DECEPTIVE MORTGAGE LENDING PRACTICES

Illinois Attorney General Alleges Lender Steered African-Americans, Latinos Into Subprime Loans

Chicago—Attorney General Lisa Madigan today filed a lawsuit in Cook County Circuit Court against one of the nation's largest mortgage lenders and servicers. The complaint alleges that Wells Fargo and Company; Wells Fargo Bank, N.A., also doing business as Wells Fargo Home Mortgage; and Wells Fargo Financial Illinois, Inc., illegally discriminated against African American and Latino homeowners by selling them high-cost subprime mortgage loans while white borrowers with similar incomes received lower cost loans.

"As a result of its discriminatory and illegal mortgage lending practices, Wells Fargo transformed our cities' predominantly African-American and Latino neighborhoods into ground zero for subprime lending," said Madigan. "The dreams of many hardworking families have ended in foreclosure due to Wells Fargo's illegal and unfair conduct."

Madigan's lawsuit, which is the result of an investigation into possible violations of fair lending and consumer fraud laws, cites marked disparities in Wells Fargo's lending data. In 2005, according to an analysis of Chicago-area data, approximately 45 percent of Wells Fargo's African-American borrowers and 23 percent of the lender's Latino borrowers received a high-cost mortgage. That same year, only about 11 percent of the lender's white borrowers received high-cost mortgages. The trend continued in 2006, with approximately 58.5 percent of Wells Fargo's African-American borrowers and 35 percent of its Latino borrowers in the Chicago area receiving high-cost mortgages, compared with only 16 percent of white borrowers. In 2007, approximately 49 percent of Wells Fargo's African-American borrowers and 25 percent of Latino borrowers were sold a high-cost loan in the Chicago area, compared with only 15 percent of white borrowers.

The lawsuit also follows a recent *Chicago Reporter* analysis of mortgage data submitted by Wells Fargo to the federal government. That study found that, in 2007, Wells Fargo sold high-cost, subprime loans more often to its highest-earning African-American borrowers in Chicago than to its lowest-earning white borrowers. According to the study, in 2007, about 34 percent of African Americans earning \$120,000 or more received high cost mortgages from Wells Fargo in the Chicago metro area, while less than 22 percent of white borrowers earning less than \$40,000 received high-cost mortgages from the lender.

"These disparities indicate that something is very wrong with Wells Fargo's mortgage lending," said Madigan. "They strongly suggest that the predictor of whether a borrower would receive a high-cost home loan from Wells Fargo was race, not income."

Madigan's complaint alleges that Wells Fargo established highly discretionary lending policies and procedures with weak oversight that permitted Wells Fargo's employees to steer African-Americans and Latinos into subprime loans. As cited in the complaint, Wells Fargo's discretionary policies and procedures included a compensation structure that rewarded employees for placing borrowers into high-cost mortgages.

The complaint also alleges that Wells Fargo targeted African-American borrowers for the sale of high-cost loans by hosting a series of "wealth building" seminars in cities throughout the country, including Chicago.

Madigan noted that high-cost, subprime loans of the kind sold by Wells Fargo are defaulting and going into foreclosure in record numbers, and are largely responsible for triggering the worst economic recession in recent memory. The Attorney General's complaint comes as the home foreclosure crisis continues to affect hundreds of thousands of homeowners in Illinois and across the nation. Illinois saw almost 69,000 foreclosure filings in the first half of 2009, up nearly 30 percent from the first half of 2008. In Cook County alone, it is anticipated that mortgage foreclosure filings will top 52,000 by the year's end, compared with 43,876 in 2008.

"By targeting African-American's for the sale of its highest-cost and riskiest loans, Wells Fargo drained wealth from families and neighborhoods and added to the stockpile of boarded-up homes that are an open invitation to criminals," Madigan said.

Additionally, the lawsuit alleges that Wells Fargo Financial Illinois, a subsidiary of Wells Fargo and Company that primarily originated subprime loans, engaged in unfair and deceptive business practices by misleading Illinois borrowers about their mortgage terms, misrepresenting the benefits of refinancing, and repeatedly refinancing loans, also known as loan flipping, without any real benefit to consumers. Also, Wells Fargo Financial used deceptive mailings and marketing tools to confuse borrowers as to which division of Wells Fargo and Company they were doing business with - prime or subprime. As a result, borrowers believed they were doing business with Wells Fargo Home Mortgage, which offered mainly prime loans, when in fact they were dealing with Wells Fargo Financial, a predominantly subprime lender.

The complaint alleges violations of the Illinois Human Rights Act, the Illinois Fairness in Lending Act, and the Illinois Consumer Fraud and Deceptive Business Practices Act, and asks the court to rescind all contracts entered into between Wells Fargo and Illinois consumers by the use of methods and practices declared unlawful and to grant full restitution to the consumers. In addition, the lawsuit asks the court to impose civil penalties for the violations, permanently enjoin Wells Fargo from conducting the alleged illegal activity, and order Wells Fargo to pay court costs and attorneys' fees.

Madigan has investigated Countrywide Home Loans, the nation's largest mortgage lender and servicer, and found evidence that the lender violated fair lending laws. Madigan has provided the results of her analysis to Countrywide and is waiting for the lender's response. In November, 2008, Madigan negotiated a ground-breaking, national \$8.4 billion settlement in a predatory lending lawsuit against Countrywide. The settlement established the first mandatory loan modification program in the country and now serves as a model for other lenders and the federal government for how to help homeowners stay in their homes and stabilize communities.

Illinois homeowners who believe they may be victims of Wells Fargo's discriminatory and deceptive lending practices can contact the Attorney General's office via a special e-mail address at wellsfargosuit@atg.state.il.us or by calling Attorney General Madigan's **Homeowners' Referral Helpline** at 1-866-544-7151 for assistance.

Madigan also reminded homeowners that her Web site at www.IllinoisAttorneyGeneral.gov, provides resources to assist homeowners in crisis including access to her Illinois Mortgage Lending Guide, a resource manual containing step-by-step instructions for those struggling to make their loan payments and a list of HUD-certified counseling agencies that offer default counseling services. Homeowners who do not have easy access to the Internet should call the Attorney General's Helpline, to quickly receive the guide by mail.

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