



## Press Releases

June 29, 2010

### **MADIGAN SUES COUNTRYWIDE FOR DISCRIMINATION AGAINST AFRICAN AMERICAN AND LATINO BORROWERS**

#### ***Alleges African American and Latino Homeowners Paid More for Their Mortgages than They Should Have***

Chicago—Attorney General Lisa Madigan announced today that she has filed a lawsuit against Countrywide, a subsidiary of Bank of America, for unlawfully discriminating against African American and Latino borrowers in home mortgage sales, in violation of the Illinois Human Rights Act and the Illinois Fairness in Lending Act. The Attorney General filed her complaint in Cook County Circuit Court against Countrywide Financial Corporation; Countrywide Home Loans, Inc.; and Full Spectrum Lending, Inc., an arm of Countrywide that mostly sold subprime loans.

Madigan's complaint alleges that the former mortgage giant steered African American and Latino borrowers into risky subprime mortgages more often than similarly-situated white borrowers. The complaint also alleges that minority borrowers paid more for mortgages across Countrywide's product line, including its prime loans. Significantly, Madigan's analysis of Countrywide loan data found that the racial disparities could not be explained by objective factors, such as borrowers' credit scores or debt-to-income ratios.

At the height of the housing bubble, Countrywide was the largest mortgage lender in the country and in Illinois. Countrywide was also the state's top seller of subprime loans. Bank of America bought Countrywide in 2008.

The failure of millions of higher-cost, or subprime, mortgages nationwide is largely responsible for triggering the ongoing foreclosure crisis and resulting economic recession.

"Countrywide's illegal discriminatory lending practices destroyed the wealth and dreams of thousands of African American and Latino homeowners," Madigan said. "Bank of America needs to be held accountable by taking financial responsibility for cleaning up the devastation of the predatory company that it chose to take over."

Madigan's lawsuit is the result of a two-year investigation of Countrywide's lending policies and practices that were in place during the years directly preceding the collapse of the housing market. The Attorney General issued a fair lending subpoena to Countrywide in March 2008, after a Chicago Reporter study of federally collected mortgage lending data for the Chicago area found that, in 2006, Countrywide Financial Corporation sold higher-cost loans to 50.9 percent of its African American borrowers and 33.8 percent of its Latino borrowers, while only 19.5 percent of the company's white borrowers received high-cost loans.

The Attorney General's investigation included a statistical analysis of data from over 83,000 Countrywide mortgages originated in Illinois from 2005 through 2007. Madigan's office also interviewed former Countrywide employees and mortgage brokers, and spoke with Countrywide borrowers about their home loans.

As outlined in the complaint, Madigan's analysis of Countrywide's loan data found that the odds that African American and Latino borrowers would receive a higher-cost subprime mortgage from Countrywide were three times greater than those of white borrowers. In addition, Madigan's investigation found that Countrywide charged African American and Latino borrowers higher interest rates and fees on loans spanning the company's range of products, including its prime products, as compared with similarly-situated white borrowers.

Madigan's investigation further found that the disparities in Countrywide's subprime sales and loan pricing were the result of Countrywide policies that gave employees and mortgage brokers almost unlimited discretion in the selection and pricing of loans.

"It's disturbingly clear that if you were an African American or Latino borrower who walked into a Countrywide store, you likely paid more for your mortgage than a white borrower," Madigan said. "Countrywide effectively imposed a surcharge on mortgage loans based on race and ethnicity."

The Attorney General's lawsuit asks the court to find that Countrywide engaged in a pattern and practice of discrimination, enter an injunction against Countrywide to permanently prohibit the company from discriminatory acts as described in the complaint, make restitution to all victims of Countrywide's discrimination, pay civil penalties of \$25,000 for each violation of the Illinois Human Rights Act, and order any other relief that the court deems equitable.

Today's filing is the second lawsuit Madigan has brought against Countrywide. In 2008, she filed a consumer fraud lawsuit against the lender for its major role in driving the foreclosure crisis, and in November 2008, she led negotiations that resulted in an \$8.7 billion settlement of that lawsuit with Bank of America.

Today's filing is also the second fair lending lawsuit Madigan has brought against a major mortgage lender. In July 2009, Madigan filed a lawsuit against Wells Fargo for violating the state's fair lending and civil rights laws, becoming the first state attorney general in the nation to sue a federally-chartered lender for its role in creating the foreclosure crisis. The Wells Fargo litigation is ongoing.

### **Countrywide Steered Minority Borrowers to Subprime Loans**

Specifically, Madigan's complaint alleges that Countrywide's retail employees and mortgage brokers had the discretion to choose the type of products offered to borrowers and to manipulate borrowers' financial information that was entered into the company's automated underwriting system. As a result of this discretion, the complaint alleges, minority borrowers were steered into subprime mortgages when they qualified for prime loans.

The Attorney General further alleges that Countrywide failed to institute an adequate system for automatically referring eligible borrowers from subprime to prime. Although the company added an "Uplift" protocol to its underwriting system in 2002 to supposedly prevent prime-eligible borrowers from being placed into subprime loans, Madigan alleges that the Uplift program failed as a safeguard because it depended on a combination of automated underwriting and human discretion. When interviewed by Madigan's office, former Countrywide employees and brokers reported that they had rarely or never seen subprime loans uplifted to prime.

### **Minority Borrowers Paid More for Countrywide Loans**

Madigan's complaint alleges similar abuses of discretion in the pricing of Countrywide's loans. As outlined in the lawsuit, Countrywide provided employees and brokers with rate sheets that spelled out the mortgage interest rates borrowers qualified for, based on certain credit factors. However, Madigan found that Countrywide gave employees and brokers discretion to sell borrowers loans with higher interest rates than those indicated by the rate sheets.

The complaint also alleges that Countrywide's broad discretionary pricing policies allowed employees and brokers to use a number of devices to increase the interest rates on loans. These included manipulating the amount of cash a borrower took out on a refinance, which would increase the loan-to-value ratio, and adding features to the loan such as a prepayment penalty or an adjustable interest rate.

### **Countrywide's Compensation Structure Incentivized the Sale of Subprime and High-Cost Loans**

In addition to Countrywide's discretionary policies, the Attorney General alleges that the company's compensation structure provided employees and mortgage brokers with incentives to steer prime-eligible borrowers into subprime loans and to sell loans with the highest interest rates possible. As cited in the complaint, Countrywide provided those incentives by linking compensation to volume of sales, paying employees more for originating subprime loans, basing compensation in part on the interest rate of the loan, and paying brokers a premium for loans with features associated with subprime mortgages.

### **Countrywide Aggressively Marketed its Loans to Minority Borrowers**

Additionally, Madigan alleges that early in the last decade Countrywide began aggressively marketing its services and products to a so-called "emerging market" of untapped borrowers, namely African Americans and Latinos. Minority borrowers thus became the targets of Countrywide's new marketing strategy at a time when the company's compensation structure was increasingly incentivizing the sale of risky subprime loans. The complaint alleges that as a result of these events, African American and Latino borrowers disproportionately suffered the harmful effects of Countrywide's toxic loans, and these effects were magnified by Countrywide's discretionary product selection and pricing policies.

Illinois homeowners who believe they may be victims of Countrywide's discriminatory lending practices should contact the Attorney General's office via a special e-mail address at [CountrywideDiscrimination@atg.state.il.us](mailto:CountrywideDiscrimination@atg.state.il.us) or by calling the Attorney General's Homeowners Helpline at 1-866-544-7151.

Madigan also reminded homeowners that her Web site, at [www.IllinoisAttorneyGeneral.gov](http://www.IllinoisAttorneyGeneral.gov), provides resources to assist homeowners in crisis including 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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**IN THE CIRCUIT COURT OF COOK COUNTY, STATE OF ILLINOIS  
COUNTY DEPARTMENT - CHANCERY DIVISION**

THE PEOPLE OF THE STATE OF  
ILLINOIS,

Plaintiff,

v.

COUNTRYWIDE FINANCIAL  
CORPORATION, a Delaware  
corporation; COUNTRYWIDE HOME  
LOANS, INC., a New York  
corporation also d/b/a Full Spectrum  
Lending Division; and FULL  
SPECTRUM LENDING, INC. a  
California corporation formerly doing  
business in Illinois;

Defendants.

Case No.

**10CH27929**

**COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF**

NOW COMES the Plaintiff, THE PEOPLE OF THE STATE OF ILLINOIS, by LISA MADIGAN, Attorney General of the State of Illinois, and complains of Defendants COUNTRYWIDE FINANCIAL CORPORATION, a Delaware corporation, COUNTRYWIDE HOME LOANS, INC., a New York corporation also doing business as Full Spectrum Lending, and FULL SPECTRUM LENDING, a California corporation formerly doing business in Illinois, pursuant to the provisions of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, to protect Illinois borrowers from the harmful effects of racial and ethnic discrimination in mortgage lending. All residents of Illinois are

entitled to equal access to credit on terms for which they objectively qualify, regardless of their race or national origin.

1. The Complaint alleges that Defendants COUNTRYWIDE FINANCIAL CORPORATION, COUNTRYWIDE HOME LOANS, INC. and FULL SPECTRUM LENDING, INC. ("Countrywide") engaged in unlawful discrimination under the Illinois Human Rights Act, 775 ILCS 5/1-101 *et seq.*, by engaging in practices that resulted in a disparate impact and disparate treatment of African American and Latino borrowers. The Complaint also alleges that Countrywide utilized lending standards that had no economic basis and were discriminatory in effect in violation of the Illinois Fairness in Lending Act, 815 ILCS 120/3(d).

2. The Office of the Attorney General conducted an investigation into Countrywide's policies and procedures, interviewed witnesses and performed a statistical analysis of data concerning mortgages originated by Countrywide for three years, from 2005 through 2007, in Illinois.

3. Through her investigation, the Attorney General found that Countrywide's discretionary product and pricing policies disparately impacted African American and Latino borrowers. The statistical analysis shows that when comparing similarly-situated borrowers (which takes into account factors regarding borrowers' credit), Countrywide was much more likely to give prime-eligible<sup>1</sup> African American and Latino borrowers risky subprime mortgages than similarly-situated White borrowers. Countrywide also charged African American and Latino borrowers more in interest and fees on certain mortgage products than similarly-situated White borrowers.

4. The Attorney General also found Countrywide intentionally discriminated against African American and Latino borrowers. Countrywide disparately treated these borrowers by

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<sup>1</sup> A "prime-eligible" African American or Latino borrower refers to a borrower with similar credit characteristics to a White borrower who received a prime loan.

disproportionately steering prime-eligible African American and Latino borrowers into subprime mortgages more often than similarly-situated White borrowers. Further, Countrywide disparately treated African American and Latino borrowers by charging them more interest and fees on certain mortgage products than comparable White borrowers. This disparate treatment is demonstrated by significant statistical disparities and the targeted marketing that Countrywide aimed at African American and Latino communities.

5. From 2005 through 2007, Countrywide's conduct caused approximately 6,000 African American and Latino borrowers to be steered into subprime mortgages and or charged higher prices for their mortgages, as compared to similarly-situated White borrowers in Illinois.

6. Countrywide incentivized this discrimination through its compensation structure for its employees and brokers. Countrywide then failed to implement proper controls to protect Illinois borrowers from the results of the incentives it created.

7. In short, Countrywide engaged in unlawful discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/1-101 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*

### **JURISDICTION AND VENUE**

8. This action is brought for and on behalf of THE PEOPLE OF THE STATE OF ILLINOIS, by LISA MADIGAN, Attorney General of the State of Illinois, acting in the public interest, pursuant to the provisions of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, and her common law authority as Attorney General to represent the People of the State of Illinois to restrain the use of unlawful discriminatory acts or practices.

9. Venue for this action properly lies in Cook County, Illinois, pursuant to Section 2-101 of the Illinois Code of Civil Procedure, 735 ILCS 5/2-101, in that the Defendants conducted business in Cook County, Illinois from January 1, 2005 through at least December 31, 2007.

### **PARTIES**

10. Plaintiff, THE PEOPLE OF THE STATE OF ILLINOIS, is represented by and through LISA MADIGAN, Attorney General of the State of Illinois, by virtue of her statutory authority to protect the interests and well-being of the people of the State of Illinois through enforcement of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, and her common law authority.

11. Defendant COUNTRYWIDE FINANCIAL CORPORATION is a Delaware corporation with its principal place of business in Calabasas, California. During the relevant time, Defendant COUNTRYWIDE FINANCIAL CORPORATION was a thrift holding company. It had numerous subsidiaries that originated, purchased, securitized, sold and serviced residential and commercial loans; provided loan closing services such as credit reports, appraisals and flood insurance determinations; conducted fixed income securities underwriting and trading activities; provided property, life and casualty insurance; and managed a captive mortgage reinsurance company. On July 1, 2008, Countrywide Financial Corporation merged with Red Oak Merger Corporation, a subsidiary of Bank of America Corporation. Red Oak Merger Corporation assumed the Countrywide Financial Corporation name.

12. During the relevant time period, Defendant COUNTRYWIDE FINANCIAL CORPORATION emphasized in its annual reports that mortgage banking was its core business. In particular, Defendant COUNTRYWIDE FINANCIAL CORPORATION has stated that the

company was engaged primarily in residential mortgage lending and that Defendant COUNTRYWIDE HOME LOANS, INC. was its primary subsidiary.

13. During the relevant time period, Defendant COUNTRYWIDE FINANCIAL CORPORATION'S primary subsidiary, Defendant COUNTRYWIDE HOME LOANS, INC., engaged in residential lending directly to borrowers through two channels. The first channel was Countrywide-branded retail stores comprised of Consumer Markets, which specialized in prime residential mortgages, and Full Spectrum Lending, which specialized in subprime residential mortgages. The second channel, known as Wholesale Lending, provided loans to borrowers through a network of mortgage loan brokers.

14. Defendant COUNTRYWIDE HOME LOANS, INC. is a New York corporation with its principal place of business in Calabasas, California. Since December 23, 1980, Defendant COUNTRYWIDE HOME LOANS, INC., a wholly-owned subsidiary of Defendant COUNTRYWIDE FINANCIAL CORPORATION, has been a registered foreign corporation in the State of Illinois. Defendant COUNTRYWIDE HOME LOANS, INC. is a licensed Illinois mortgage bank, holding mortgage banker license MB:0000139, which is issued by the Illinois Department of Financial and Professional Regulations, Division of Banking. During the relevant time period, Defendant COUNTRYWIDE HOME LOANS, INC. conducted business in Illinois as Full Spectrum Lending and Countrywide Home Loans, Inc.

15. Defendant FULL SPECTRUM LENDING, INC. was a registered foreign corporation in the State of Illinois from October 3, 1996 through April 28, 2005. FULL SPECTRUM LENDING, INC. was a licensed Illinois mortgage bank, holding mortgage banker license MB.0004910, which was issued by the Illinois Department of Professional Regulations, Division of Banking. Defendant FULL SPECTRUM LENDING, INC. became a division of Defendant



COUNTRYWIDE HOME LOANS, INC. in 2004. In April 2005, FULL SPECTRUM LENDING, INC. withdrew as a registered foreign corporation and began operating in Illinois as Full Spectrum Lending, a division of COUNTRYWIDE HOME LOANS, INC.

16. During the relevant time period, there was a significant overlap in the corporate governance and managing directors of Defendant COUNTRYWIDE FINANCIAL CORPORATION and Defendant COUNTRYWIDE HOME LOANS, INC. For example, between 1999 and 2006, Stanford Kurland was the Chief Executive Officer for Defendant COUNTRYWIDE HOME LOANS, INC. and he was also the Chief Operating Officer for Defendant COUNTRYWIDE FINANCIAL CORPORATION. David Sambol was Defendant COUNTRYWIDE FINANCIAL CORPORATION's executive managing director and chief of mortgage banking and capital markets from January 2004 until April 2006. In 2006, David Sambol became Chairman of the Board and Chief Executive Officer for Defendant COUNTRYWIDE HOME LOANS, INC. Also in 2006, Mr. Sambol served as Defendant COUNTRYWIDE FINANCIAL CORPORATION's Chief Operating Officer until its merger with Bank of America in 2008.

17. There was also overlap between the management of Defendant FULL SPECTRUM LENDING, INC., when it was a separate company, and Defendant COUNTRYWIDE FINANCIAL CORPORATION during the relevant time period. Specifically, Gregory Lumsden was the President and Chief Executive Officer for Defendant FULL SPECTRUM LENDING, INC. from 1998 and continued leading Full Spectrum Lending when it became a division of Defendant COUNTRYWIDE HOME LOANS, INC. He was also a managing director for Defendant COUNTRYWIDE FINANCIAL CORPORATION.

18. During the relevant time period, Defendant COUNTRYWIDE FINANCIAL CORPORATION issued consolidated annual reports and SEC filings with Defendant COUNTRYWIDE HOME LOANS, INC. Additionally, Defendant COUNTRYWIDE FINANCIAL CORPORATION filed a consolidated federal income tax return and a combined state income tax return in California with Defendant COUNTRYWIDE HOME LOANS, INC. and Defendant FULL SPECTRUM LENDING, INC. Defendant COUNTRYWIDE FINANCIAL CORPORATION also issued consolidated earnings statements and balance sheets for itself, Defendant COUNTRYWIDE HOME LOANS, INC. and Defendant FULL SPECTRUM LENDING, INC.

19. During the relevant time period, Defendant COUNTRYWIDE FINANCIAL CORPORATION controlled the policies and operations and profits from the activities of Defendant COUNTRYWIDE HOME LOANS, INC. and Defendant FULL SPECTRUM LENDING, INC. Defendant COUNTRYWIDE FINANCIAL CORPORATION arranged and profited from the securitization and/or sale of loans originated and serviced by Defendant COUNTRYWIDE HOME LOANS, INC. and Defendant FULL SPECTRUM LENDING, INC.

20. Because Defendants acted cooperatively in carrying out the conduct alleged in this Complaint, Defendants COUNTRYWIDE FINANCIAL CORPORATION, COUNTRYWIDE HOME LOANS, INC., and FULL SPECTRUM LENDING, INC. are collectively referred to as "Countrywide" or "Defendants" unless otherwise specified, and each is responsible for the unlawful conduct alleged herein.

21. Any allegation about any acts of Defendants COUNTRYWIDE FINANCIAL CORPORATION, COUNTRYWIDE HOME LOANS, INC., and FULL SPECTRUM LENDING, INC. means that the Defendants engaged in the acts alleged through their officers,

directors, employees, agents and/or representatives while they were acting within the actual or ostensible scope of their authority.

**THE OFFICE OF THE ILLINOIS ATTORNEY GENERAL'S INVESTIGATION  
INTO COUNTRYWIDE'S FAIR LENDING PRACTICES**

22. Countrywide was the largest mortgage lender in Illinois in 2004, 2005, and 2006.
23. During these years, Countrywide Home Loans operated approximately 100 retail branch offices, and its mortgage products were offered by numerous mortgage brokers licensed to do business in Illinois.
24. In addition, Countrywide was also the largest mortgage lender in the Chicago area. In 2006, for example, Countrywide made over 21,000 loans to borrowers in the seven-county Chicago area (Cook, DuPage, Grundy, Kane, Kendall, McHenry and Will Counties).
25. Lenders such as Countrywide, with assets of at least 31 million dollars, that offered mortgages and had offices in a metropolitan statistical area, are required to report data about their mortgages to the federal government and to make it publicly available pursuant to the Home Mortgage Disclosure Act, 42 U.S.C. § 3601 ("HMDA"), and the Federal Reserve Board's implementing Regulation C, 12 C.F.R. § 203.
26. The Federal Reserve Board's Regulation C requires lenders to report price data for higher cost mortgages (commonly known as "high-cost" mortgages). These "high-cost" loans are first-lien mortgages where the annual percentage rate is 3% above the comparable United States Treasury securities yield rate and second-lien mortgages where the annual percentage rate is 5% above the United States Treasury securities yield rate.
27. The purpose of HMDA is to assist in indentifying possible discriminatory lending patterns.

28. According to an analysis of this HMDA data, Countrywide led the way with higher cost<sup>2</sup> loans in Chicago. In 2006 and 2007 Countrywide made more higher cost or subprime loans in Chicago than any other lender.

29. In November 2007, the Chicago Reporter issued an analysis of HMDA loan data for the Chicago Metropolitan Statistical Area (Cook, DeKalb, DuPage, Grundy, Kane, Kendall, McHenry and Will Counties). This analysis demonstrated that in 2006, Countrywide Financial Corporation sold 50.9% of its African American borrowers and 33.8% of its Latino borrowers higher cost loans, as compared to only 19.5% of White borrowers.

30. In 2007, approximately 40.4% of Countrywide's higher cost loans were in predominately African American or Latino communities in the Chicago Metropolitan Statistical Area.

31. Based in part on the Chicago Reporters' HMDA data analysis, on March 6, 2008, the Illinois Attorney General's Office issued an administrative subpoena pursuant to the Consumer Fraud Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.*, and the Illinois Human Rights Act, 775 ILCS 5/10-101 *et seq.*, to Countrywide Home Loans, Inc. to determine whether there were any violations of consumer and civil rights laws.

32. To augment the federally required HMDA data, the Attorney General's subpoena requested, among other things, that Countrywide provide 28 additional data points for each application and mortgage loan. These data points included information such as the borrower's credit score and employment status, debt-to-income ratio, principal amount of the loan compared to the home's appraised value (also called "loan-to-value" or "LTV"), type of mortgage, and whether the mortgage had a prepayment penalty.

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<sup>2</sup> For purposes of this complaint, the term "higher cost" does not refer to the definition in Home Ownership and Equity Protection Act of 1994 (HOEPA), which amended the Truth in Lending Act, 15 U.S.C. § 1601 *et seq.*, but rather to the loans that *trigger* the HMDA reporting requirements.

33. Pursuant to the Attorney General's subpoena, Countrywide provided data and information concerning funded mortgages that it originated from 2005 to 2007 in Illinois from its two retail channels: Consumer Markets and Full Spectrum Lending; and from its broker-lending channel: the Wholesale Lending Division.

34. After receiving loan data from Countrywide, the Attorney General performed statistical analyses. The Attorney General found that Countrywide was much more likely to steer prime-eligible African American and Latino borrowers in Illinois into subprime loans than prime loans when compared to similarly-situated White borrowers. The Attorney General also found that Countrywide made more costly mortgages to African American and Latino borrowers in Illinois when compared to similarly-situated White borrowers.

35. The Attorney General's Office also conducted interviews of former Countrywide employees and brokers and Countrywide borrowers. Additionally, the Attorney General's Office reviewed Countrywide's lending documents and examined subprime lending and discrimination studies.

36. Based on the investigation, the Attorney General had reasonable cause to believe that Countrywide engaged in a pattern and practice of unlawful discrimination against African American and Latino borrowers in Illinois from 2005 through 2007.

37. On June 24, 2009, the Office of the Illinois Attorney General sent a letter to Countrywide with its statistical findings of discrimination.

38. On July 15, 2009, representatives from Countrywide and the Office of the Attorney General met to discuss the Attorney General's findings.

39. On November 17, 2009, the parties met again to discuss the Attorney General's findings and additional analysis done by Countrywide. On December 8, 2009, the parties agreed to

discuss resolving the matter without litigation. On June 2, 2010, the parties met. Ultimately, even with follow-up discussions, the parties could not resolve the matter.

**COUNTRYWIDE'S DISCRETIONARY PRODUCT SELECTION AND PRICING  
POLICIES RESULTED IN MINORITIES BEING STEERED INTO SUBPRIME LOANS  
AND PAYING MORE FOR THOSE LOANS THAN SIMILARLY-SITUATED WHITE  
BORROWERS**

40. After conducting statistical analyses of the loan data provided by Countrywide, the Office of the Attorney General found evidence that Countrywide engaged in lending conduct that disparately impacted and disparately treated African American and Latino borrowers in violation of the Illinois Human Rights Act, 775 ILCS 5/1-101 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*

41. The disparate impact and disparate treatment were the outcome of Countrywide's discretionary product selection and pricing policies (the "policies"), as implemented within and driven by Countrywide's compensation structure.

42. These policies allowed Countrywide's employees and mortgage brokers wide discretion in choosing the type of mortgage products offered to borrowers and manipulating the information for loan applications entered into Countrywide's automated underwriting system. As a result of these discretionary policies, Countrywide's employees and mortgage brokers could steer borrowers into subprime mortgages even if borrowers could have been qualified for prime mortgages.

43. These policies also gave Countrywide's employees and mortgage brokers wide-ranging discretion to increase or decrease the pricing on mortgage products they sold.

44. This discretion allowed Countrywide's employees and mortgage brokers to charge minority borrowers higher rates of interest than similarly-situated White borrowers.

45. In addition, Countrywide brokers had broad discretion in determining what fees to charge borrowers. This allowed Countrywide to charge similarly-situated borrowers different fees.

46. Countrywide failed to properly monitor and control the use of discretion given to its employees and the mortgage brokers to choose mortgage products and price the mortgages.

47. Further, Countrywide's compensation structure incentivized its employees and brokers to steer prime-eligible borrowers into subprime loans and to sell loans at as high an interest rate as possible.

48. Countrywide also engaged in an aggressive marketing campaign that targeted African American and Latino borrowers in Illinois.

49. The effect of Countrywide's discretionary product selection and pricing policies and disparate treatment of African American and Latino borrowers was that, from 2005 through 2007, prime-eligible African American and Latino borrowers in Illinois were more likely to receive subprime mortgages, as opposed to prime mortgages, and African American and Latino borrowers were more likely to pay more for their mortgages than similarly-situated White borrowers.

50. Minority borrowers in Illinois suffered unlawful discrimination under the Illinois Human Rights Act, 775 ILCS 5/3-102(B) and 775 ILCS 5/4-101 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/3(d), due to disparate treatment and disparate impact.

#### Countrywide's Discretionary Product Selection and Pricing Policies

51. Countrywide sold loans directly to Illinois borrowers in two channels: its retail stores, Consumer Markets and Full Spectrum Lending, and through a network of mortgage brokers.

52. Consumer Markets stores, which bore the Countrywide Home Loans name, sold mainly prime mortgages. By contrast, Full Spectrum Lending stores sold exclusively subprime

mortgages until 2004, at which point the stores began to sell prime mortgages, but it still specialized in subprime lending.

53. All applications for Countrywide mortgage products taken at retail stores or by mortgage brokers were sent to Countrywide underwriters for review and approval.

54. Mortgage brokers used Countrywide's website, loan application, price matrices, appraisers, marketing materials, underwriting and loan funding procedures to sell Countrywide mortgages.

55. Countrywide purportedly monitored brokers' marketing, sales, and origination practices for compliance with Countrywide's policies and procedures. Countrywide's Wholesale Lending Division (WLD) account executives were assigned to specific brokers and were charged with overseeing and maintaining Countrywide's relationships with those brokers.

56. Whether borrowers came to Countrywide through retail stores or mortgage brokers, Countrywide purported to use the standardized criteria set forth in its technical manuals and automated underwriting system to determine the loans the borrowers should receive.

57. However, Countrywide gave its employees and the brokers selling its mortgages significant discretion to control the loan application process, and to select the product type, the documentation level, and the price of its loans.

58. Countrywide employees and brokers had wide-ranging discretion in determining whether to offer a borrower a prime or a subprime mortgage product. Although, as described below, Countrywide attempted to use an automated system to provide a check on abuse of this discretion, Countrywide's policies still gave employees and brokers unfettered discretion to decide which type of mortgage to initially offer a borrower.



59. As part of Countrywide's discretionary product selection policy, employees and brokers could select the type of mortgage product a borrower would receive (a prime or a subprime loan) and the documentation type for the loan application for the mortgage.

60. Additionally, Countrywide gave its employees and brokers discretion to manipulate the product a borrower qualified for by changing various terms and features on the loan product. For example, Countrywide employees and brokers had the broad discretion to submit a mortgage loan application as either one with full documentation or one with reduced documentation.

61. Historically, lenders required "full documentation" for mortgage applications. This generally requires written documents, which are verified by the lender's underwriting department, showing the borrower's credit score, income, assets and liabilities and the value of the home securing the loan. In recent years, however, lenders have underwritten some loans with less documentation and, consequently, less verification, of borrowers' income and assets. The various types of reduced documentation loans sold by Countrywide are collectively referred to in this Complaint as "reduced documentation" or "stated documentation" loans.

62. By choosing to use a reduced documentation application instead of a full documentation application, the Countrywide employee or broker could negatively effect whether the borrower qualified for a prime mortgage.

63. As part of its discretionary pricing policy, Countrywide gave its employees and brokers rate sheets to price the interest rates on loans they offered to borrowers.

64. The rate sheets allowed the employees and brokers to look up Countrywide's "par rate." The par rate is the benchmark, risk-based interest rate on a loan product. This provides a reference point for the interest rate at which Countrywide would neither pay a yield spread

premium nor charge a discount point. Typically, each mortgage product had a corresponding par rate for borrowers with certain comparable credit scores and loan-to-value ratios.

65. Countrywide gave employees and brokers discretion to charge similarly-situated borrowers different interest rates on mortgages by allowing them to vary interest rates above or below the par rate reflected on the rate sheets.

66. They also had discretion to change or add features to the loan that would alter its interest rate, such as adding a prepayment penalty or a teaser adjustable interest rate period to the loan.

67. As another example, if the employee or broker chose to increase the amount of “cash-out” paid to the borrower from the loan proceeds at closing, the amount of cash-out would be added to the principal amount of the loan and, thus, increase the loan-to-value ratio on the property. In turn, this increase in loan-to-value ratio would raise the interest rate on the loan.

68. Moreover, except for an ultimate cap on total compensation, brokers had complete discretion in setting the fees they charged to borrowers as long as they remained under the cap. This discretion allowed them to charge different fees to similarly-situated borrowers.

69. Countrywide’s controls to prevent prime-eligible borrowers from being placed in subprime loans were ineffective. Moreover, Countrywide’s policies actually incentivized their employees and brokers to steer borrowers into subprime loans and to charge as high an interest rate as possible on the mortgages they sold.

Countrywide’s Failure to Implement Effective Controls for its  
Discretionary Product Selection and Pricing Policies

70. Countrywide’s ineffective maintenance of internal controls to prohibit steering prime-eligible borrowers into subprime mortgages allowed employees and brokers to discriminate against minority borrowers.

71. Beginning in September 2002, Countrywide implemented the "Uplift" protocol and applied it to its automated underwriting system. Uplift allegedly ensured that borrowers who could qualify for prime mortgages were not placed into subprime mortgages.

72. In practice, this Uplift protocol did not work. Former Countrywide employees and brokers who sold Countrywide loans from 2005 through 2007 reported that they rarely if ever had loans uplifted from subprime to prime.

73. From September 2002 until about October 2006, the Uplift protocol was composed of a mixture of alerts from the automated underwriting system and human discretion. Once a subprime loan application was submitted to the underwriting department at Countrywide from either Full Spectrum Lending or a mortgage broker, Countrywide's subprime underwriters would run the loan information through Countrywide's automated underwriting system: Countrywide Loan Underwriting Expert System ("CLUES").

74. CLUES would then evaluate the application data, identify missing or incomplete information, and generate a CLUES report. The report would tell the underwriter to accept the loan, address a particular error in the application, or notify the underwriter that a prime loan was possible for the borrower.

75. CLUES did not automatically make a referral of a subprime loan application from a prime-eligible borrower to prime underwriting. Nor could the subprime underwriter automatically uplift the loan application to prime. Instead, the subprime underwriter would review the loan with a manager who had the discretion to keep the borrower in a subprime mortgage.

76. If the underwriter's manager decided that the borrower should be offered a prime mortgage, the application would be sent to prime underwriting. There, a prime underwriter

would re-enter the borrower's information in the prime underwriting software and select a prime fixed-rate loan as the proposed product. If a borrower qualified for the prime product, then the prime underwriter would have to talk to a prime underwriting manager about whether the borrower should be offered the prime product.

77. The prime underwriter could not select a product or price that would reduce the broker's compensation from what he would have received for the subprime mortgage. The prime underwriter could not contact the borrower to make any changes to the loan-to-value ratio, loan amount or documentation type. Changes to these factors – which the borrower could have agreed to if notified – could determine whether the borrower was prime-eligible.

78. If the prime manager agreed that the borrower should receive a prime loan, then he or she would refer it to a subprime manager who would contact the Countrywide employee who worked with the mortgage broker to see if the broker would allow a prime mortgage to be offered to the borrower. The broker had the discretion and, given Countrywide's broker incentives, often a motive to decline the prime mortgage.

79. In the Spring of 2006, Countrywide introduced another version of its CLUES in its retail subprime division, Full Spectrum Lending. This program also purported to uplift prime-eligible borrowers to prime loans.

80. Yet, as one Full Spectrum employee who worked at Countrywide until August 2007 stated, Full Spectrum loan officers could delete or omit factors, such as a borrower's assets or equity, which could trigger an uplift from subprime to prime.

81. In March or June 2007, Countrywide implemented the new version of CLUES for brokered loans.

82. However, this program provided underwriters and managers with discretion that allowed employees and brokers to keep minority borrowers in subprime loans.

Full Spectrum's Tangible Benefit Control was Illusory

83. Another attempt to curb the abuses caused by its discretionary product selection and pricing policies, Countrywide's "tangible benefit" requirement, was ineffective.

84. For example, beginning in 2005, Countrywide purported to require that each subprime mortgage originated through Full Spectrum must provide a borrower with a benefit. But the requirement of a benefit was illusory. The tangible benefit worksheet never considered the credit characteristics of the borrower, just the characteristics of the loan. Thus, even a borrower with a higher credit score could receive a "benefit" from a subprime loan.

85. The benefit for a typical refinance mortgage could include: a lower monthly payment, changing the rate from an adjustable rate to a fixed rate, lowering the rate, "cash-out" (converting a home's equity into cash for the borrower) or changing the term of the loan from 30 to 15 years.

86. Countrywide employees could manipulate loan terms to produce a so-called benefit. For example, "cash-out" was often unwanted by the borrower. Employees could increase the amount of "cash-out" to increase the loan to value ratio above the prime limit to steer a borrower to subprime and increase the overall cost of the loan.

87. As long as there was one "benefit," the loan could be approved. Full Spectrum Lending account executives could simply tell their branch managers that there was a benefit, which subprime underwriters would confirm.

88. As this illustrates, from 2005 through 2007, the definition and calculation of "tangible benefit" was expanded to be meaningless.

Countrywide Incentivized its Employees and Brokers to Sell Subprime Loans and Loans with the Highest Interest Rates Possible to Minority Borrowers

89. Countrywide's compensation structure incentivized its employees and brokers to use their discretion to select subprime products and price the loans high which disparately impacted prime eligible African American and Latino borrowers.

*Volume-Based Compensation Incentivized Employees and Brokers to Not Help Prime-Eligible African American and Latino Borrowers Receive Prime Loans*

90. Putting a premium on sales volume meant that Countrywide employees and brokers at every level had no incentive to work with prime-eligible African American or Latino borrowers to try to qualify them for prime loans. Doing so would take more time than placing the borrower in a subprime loan – time that would negatively impact the employees' or broker's compensation.

91. For example, Countrywide paid employees on a tiered bonus system that compensated them more for each tier of sales volume they reached during the month. Once an employee sold enough loans to put him in the next tier for that month, he would earn more on *each* loan he had sold during that month.

92. The pressure on broker account executives – Countrywide employees who dealt with brokers – was even higher. They were paid only on commission and had no base salary. For at least a portion of the relevant time period, these employees were paid on the same tiered volume-based compensation system used for employees.

93. Countrywide's underwriters were also compensated based on the number of loans they underwrote. They were paid a base salary, but a large percentage of their total salary was a bonus payment based on the number of loans underwritten.

94. As an example, the goal for underwriters who reviewed broker files was to approve and process purchase files in 24 hours and refinance files in 48 to 72 hours. One underwriter stated that, for a period of time, she was required to underwrite 25 loan files a day during the week and 25 to 35 loan application files over the weekend.

95. Countrywide's brokers were compensated almost solely on sales volume.

96. Because Countrywide pushed its employees and brokers to sell as many loans as possible through its volume-based compensation structure, it also incentivized its employees and brokers to forego the convoluted Uplift process that would only serve to slow down the processing of loan applications, but might have aided prime-eligible African American and Latino borrowers with receiving prime loans.

*Countrywide Incentivized the Sale of Costly Reduced Documentation Subprime Loans –  
Harming Prime-Eligible African American and Latino Borrowers*

97. Volume-based compensation also created an incentive for Countrywide employees to use reduced documentation underwriting, to the detriment of prime-eligible African American and Latino borrowers.

98. Because the underwriting requirements were different for full and reduced documentation loans, if reduced documentation underwriting was used, African American and Latino borrowers who were qualified for a prime interest rate with full documentation could end up in a subprime loan.

99. Qualifying for a prime loan with reduced documentation required that borrowers have higher credit scores. Although a borrower with a marginal credit score could qualify for a prime product with full documentation, that same borrower might not qualify for the prime product using reduced documentation. If the borrower was not given the option of submitting full documentation, then that borrower would not be eligible for the prime loan.

100. It took as little as 30 minutes to underwrite some reduced documentation loans, and some loans closed the same day the application was taken from the borrower. This enabled Countrywide employees and brokers to close loans quickly and sell more loans, thus making more money.

101. Countrywide imposed virtually no rules that limited the sale of reduced documentation loans to borrowers who had difficulty documenting their income. Countrywide employees and brokers placed borrowers who easily could have documented their income into stated income loan products and many borrowers were unaware of it.

102. Countrywide even encouraged employees and brokers to sell borrowers stated income loan products when borrowers could document their incomes or assets. In fact, Countrywide even had a stated loan application for this very purpose.

103. Reduced documentation underwriting was detrimental for prime-eligible African American and Latino borrowers because it increased the risk of receiving subprime loans.

104. Countrywide also charged borrowers higher rates and fees for reduced documentation loans.

105. For example in 2006, an account executive at Full Spectrum Lending could charge a borrower with a credit score of 680 a par rate of 7.0% for an adjustable rate mortgage if the loan was "full documentation." The par rate went up to 7.625% if the same adjustable rate mortgage was stated income documentation.

106. In short, volume-based compensation meant that Countrywide's employees and mortgage brokers were more likely to place prime-eligible African American and Latino borrowers in subprime loans and borrowers would pay more for those loans.

*Countrywide Incentivized its Employees to Sell Subprime or Costlier Loans*



107. Countrywide varied its compensation structure based on a number of things, including loan type. Because not all loan types were compensated at the same level, employees were incentivized to focus on the loans that would pay more.

108. During the relevant time period, Countrywide paid its employees more for originating subprime loans than for originating prime loans, thus incentivizing them to sell as many subprime loans as they could.

109. In addition, Countrywide employees' compensation levels were directly impacted by the interest rate they applied to the loan. Employees could maximize their compensation on a loan by charging the highest available rate within their discretion, or lose compensation by lowering the rate. This incentivized Countrywide employees to sell as high an interest rate as they could in order to make as much compensation on the loan as possible.

110. Furthermore, at least for a portion of the relevant time period, the limit Countrywide placed on total broker compensation was higher for subprime loans than for prime loans, thus allowing its brokers to make more on subprime loans than on prime loans.

*Countrywide Incentivized Brokers to Sell Loans with High Interest Rates or Risky Features*

111. In addition to the incentives created by volume-based compensation, Countrywide's brokers had another reason to sell subprime loans to prime-eligible African American and Latino borrowers: yield spread premiums.

112. When brokers sell a loan to a borrower that has a higher interest rate than what the borrower qualifies for, the lender pays the broker a "yield spread premium" or YSP. This is considered part of the broker's overall compensation. Although borrowers do not pay this fee directly, they indirectly pay for YSPs in the increased interest rates on their loans.

113. In some cases, Countrywide paid brokers more for subprime loans than for prime loans.

114. Countrywide paid brokers a larger YSP for loans with higher interest rates and risky features such as teaser interest rates and prepayment penalties. Prime loans are traditionally fixed rate mortgages and rarely have prepayment penalties. Subprime loans, however, often have both teaser rates and prepayment penalties.

115. When Countrywide offered larger YSPs for loans with features like a prepayment penalty or teaser rates, it pushed brokers to sell subprime loans, when prime loans may have been more suitable for African American or Latino borrowers.

116. In short, Countrywide's compensation structure incentivized employees and brokers to abuse the discretionary product selection and pricing policies, disparately impacting and treating African American and Latino borrowers.

Countrywide Engaged in Aggressive Marketing to African Americans and Latinos in Illinois

117. Countrywide's aggressive marketing to the emerging markets of middle class African American and Latino borrowers, targeted those borrowers for discriminatory treatment and also magnified the adverse and disparate effect of its discretionary policies to sell subprime mortgages.

118. As early as 1992, Countrywide sought to be the largest mortgage lender to African Americans and Latinos.

119. By 2000, Countywide was the largest lender to African Americans and Latinos, and maintained that dominance of the minority mortgage market through 2007.

120. Countrywide achieved its dominance through its aggressive marketing and services, which included advertising campaigns designed specifically for African Americans and Latinos, creating the Emerging Market Division, and partnering with influential minority politicians, community groups, and real estate brokers.

121. In 1992, Countrywide launched a campaign with the goal of originating \$1.25 billion in mortgages to minorities nationwide.

122. Countrywide's desire to dominate the minority mortgage market led it to continuously increase the amount of loans it wanted to sell to minority borrowers; and by 2005, it had set a goal to originate \$1 trillion in loans to minority borrowers.

123. To meet its origination goal, Countrywide created an "Emerging Markets" Division which solicited minority borrowers through participation in political and nonprofit organizations.

124. By connecting with prominent minority officials and nonprofits, Countrywide gained and fostered credibility and trust in minority communities.

125. For example in 2001, Countrywide joined the Congressional Black Caucus Foundation in launching the Foundation's "With Ownership, Wealth" or WOW initiative, which covered 22 states, including Illinois.

126. Countrywide also sponsored the Congressional Hispanic Caucus Institute's "Hogar" (Home) initiative that was created in 2003 to increase mortgage lending to Latinos.

127. However, Hogar was primarily financed by many subprime lenders, such as Countrywide, Washington Mutual, New Century Financial and Ameriquest Mortgage.

128. In 2006, Countrywide paid Congressional Hispanic Caucus Institute \$50,000 for a line on the caucus' website, special mention in its newsletters, listing on materials and advertising at events.

129. In 2005, Countywide paid \$25,000 to LULAC (the League of United Latin-American Citizens) to become a founding corporate sponsor of LULAC's National Housing Commission.

130. Countrywide courted Latino mortgage brokers and real estate agents, in particular the National Association of Hispanic Real Estate Professionals, which by 2005, had 16,000 members and a chapter in Chicago.

131. Starting in 2003, Countrywide gave money to the National Association of Hispanic Real Estate Professionals every year to attend conferences and forums where the lenders promoted their loan products to brokers.

132. Countrywide also contracted with the National Association of Hispanic Real Estate Professionals to set up local events where Countrywide could pitch loan products directly to brokers and their customers.

133. In addition to partnering with influential minority politicians, community groups and real estate brokers; Countrywide also focused on the Latino market with its "Hispanic Initiative" by increasing its bilingual branch staff members and bilingual branches. It also created Spanish-language marketing materials and sealed an alliance with Univision.com to embed Countrywide's web pages within the Univision website.

134. Aside from these efforts, Countrywide also engaged in an aggressive radio and television advertisement campaign targeted toward African American and Latino borrowers.

135. From 1992 until 2008, Countrywide aired a radio show called "Su Casa Propia con Countrywide" (Your Own Home with Countrywide) on Radio Única in Miami which included top markets such as Chicago.

136. In 2004, Countrywide launched the "Facilitando Sueños" (Facilitating Dreams) advertising campaign to Latinos. As then-Executive Vice-President [name] of Countrywide's Emerging Markets Division stated, this campaign was not merely a translation from existing English-language advertisements, rather, Countrywide crafted messages expressly for the

Hispanic community. The “Facilitando Sueños” aired on Univision, Telemundo, Galavision and CNN en Español.

137. Countrywide extended its advertising to Latinos with its “Lo Dejo en tus Manos” (I leave it in your Hands) reality TV show that aired on Telemundo Chicago from January through March 2005.

138. Countrywide also targeted its advertising to Chicago-area Latinos in print media, partnering with a Spanish language newspaper, La Raza.

139. By targeting its advertising to African Americans and Latinos, sponsoring radio and television programs, and advertising in Spanish print media and partnering with minority politicians and nonprofits Countrywide dominated the minority mortgage market.

140. Countrywide’s aggressive solicitation campaign targeted minority borrowers for unlawful discriminatory treatment and fueled the adverse and disparate effect of its discretionary policies.

Analysis of Data Reveals Unlawful Discrimination Against  
African American and Latino Borrowers

141. Analysis of the data provided by Countrywide demonstrates the disparate impact its discretionary product selection and pricing policies had on African American and Latino borrowers, as well as its intentional discrimination against those borrowers. The Office of the Attorney General analyzed loan data provided by Countrywide to determine if the policies disparately impacted African American and Latino borrowers in two ways. First, the Office of the Attorney General examined whether Countrywide was more likely to steer or place prime-eligible African American and Latino borrowers into subprime mortgages, as compared to similarly-situated White borrowers. Then, the Office of the Attorney General examined whether Countrywide charged African American and Latino borrowers more within loan products, as compared to similarly-situated White borrowers.

142. To compare similarly-situated borrowers for both steering and pricing analysis, the Office of the Attorney General sorted borrowers into groups with the following matching characteristics:

- loan product (type of loan);
- negative amortization;
- loan documentation (did the loan require documentation from the borrower such as income or assets or was it reduced documentation);
- occupancy status;
- loan term;
- self-employment status;
- refinance cash-out indicator; and
- prepayment penalty.

Then the borrowers were sorted into groups based on similar factors:

- FICO (a credit score);
- loan-to-value ratio,
- debt-to-income ratio;
- conformity with the GSE loan size limits;
- the Countrywide channel originating the loan; and
- purpose of the loan.

By using these 14 factors to group similarly-situated borrowers, the Office of the Attorney General accounted for the neutral factors that Countrywide used in selecting types of mortgages and pricing for Illinois borrowers.<sup>3</sup>

*From 2005 to 2007, Countrywide was more likely to steer prime-eligible African American and Latino borrowers into subprime mortgages when compared to similarly-situated White borrowers.*

143. The Office of the Attorney General examined the odds that similarly-situated borrowers received subprime mortgages, rather than lower cost 30-year fixed rate mortgages.

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<sup>3</sup> The results of the analyses conducted by the Office of the Attorney General are conservative estimates of the harm caused by Countrywide's unlawful discrimination. The Office's analyses controlled for certain credit factors that could have been manipulated by Countrywide employees and brokers, such as loan application documentation type, loan to value ratio and cash-out. As discussed above, changes to these variables – which could have been done without borrowers' knowledge or permission – could have impacted both the price of the loan they received and the type of loan for which they purportedly qualified. Further analyses may reveal a broader population of harmed borrowers.

144. If factors unrelated to race or ethnicity such as credit score, loan-to-value, or debt-to-income ratios were the determinate in the type of loan a borrower received, then the odds that prime-eligible African American or Latino borrowers received subprime mortgages would be the same as for similarly-situated White borrowers.

145. This analysis revealed that during 2005 through 2007, in Illinois, Countrywide was more likely to steer prime-eligible African American and prime-eligible Latino borrowers into higher cost subprime mortgages rather than lower cost prime 30 year fixed rate mortgages, when compared with similarly-situated White borrowers.

146. African American and Latino borrowers had three times the odds of receiving a higher-cost subprime mortgage, rather than the lower cost prime 30 year fixed rate mortgages, as compared to similarly-situated White borrowers.

147. The differences in the odds that minority borrowers received subprime mortgages as compared to similarly-situated White borrowers could not be explained by objective factors such as FICO (credit) scores, loan-to-value and-debt-to income ratios, and were statistically significant at a 95% confidence level.

148. These disparate results indicate that because of race or ethnicity, Countrywide's discretionary product selection and pricing policies caused African American and Latino borrowers to disproportionately receive subprime mortgages.

149. In other words, the higher odds ratios for minority borrowers indicates that Countrywide's discretionary product selection and pricing policies resulted in African Americans and Latinos being steered into subprime mortgages, as compared to similarly-situated White borrowers in Illinois.

150. This statistical evidence supports a strong inference that Countrywide disparately treated African American and Latino borrowers as compared to similarly-situated White borrowers from 2005 through 2007 in Illinois.

*From 2005 through 2007, Countrywide charged African Americans and Latinos more than similarly-situated White borrowers for some types of mortgages.*

151. The Office of the Attorney General also examined whether similarly-situated borrowers paid different costs for loan products, included prime, based on their race or ethnicity.,

152. During this same time period, Countrywide charged minority borrowers more for some prime and subprime mortgage products as compared to similarly-situated White borrowers.

There were significant price disparities for a number of loan products based on borrowers' race and national origin that were not explained by objective factors.

153. When African American borrowers were compared to similarly-situated White borrowers, statistically significant cost differences were observed for one loan product, the NonConf Fixed 30 EC, using a 95% confidence level.

154. "NonConf" means that it is a nonconforming mortgage. Nonconforming mortgages, while not necessarily subprime, are not eligible for sale to Fannie Mae or Freddie Mac and may penalize a borrower with higher fees or rates. This particular product has a fixed rate. The "EC" designation means it is an expanded criteria loan, a loan that is not quite as good as prime and not quite as bad as subprime.

155. When Latino borrowers were compared to similarly-situated White borrowers using a 95% confidence level, statistically significant cost differences were observed for six loan products: Nonconf Fixed 30 EC (non conforming fixed rate expanded criteria), NonConf Fixed 30 EC 10 10/20 (expanded criteria), NonConf ARM LIBOR 6m 3/27 B/C 1.5-1.5, 7-45 Day



(subprime), Conf Fixed 30 F&E No Doc (fast and easy no documentation loan), NonConf ARM LIBOR 5/1 EC 5-2-5 (expanded criteria), and Conf Fixed 30 House America (niche product).

156. These statistically significant product pricing results indicate that Countrywide's discretionary product and pricing policies resulted in minority borrowers paying more for subprime, prime and expanded criteria mortgages from 2005 through 2007 as compared to similarly-situated White borrowers.

157. This statistical evidence supports a strong inference that Countrywide disparately treated African American and Latino borrowers as compared to similarly-situated White borrowers from 2005 through 2007 in Illinois.

158. From 2005 through 2007, Countrywide's discretionary product and pricing policies caused approximately 6,000 African American and Latino borrowers to be steered into subprime mortgages and/or charged higher prices for their mortgages, as compared to similarly-situated White borrowers in Illinois.

### **STATUTORY PROVISIONS**

159. The Illinois Human Rights Act, 775 ILCS 5/3-101, contains the following relevant definitions:

(B) Real Estate Transaction. "Real estate transaction" includes the sale, exchange, rental or lease of real property. "Real estate transaction" also includes the brokering or appraising of residential real property and the making or purchasing of loans or providing other financial assistance:

(1) for purchasing, constructing, improving, repairing or maintaining a dwelling;  
or

(2) secured by residential real estate.

160. The Illinois Human Rights Act, 775 ILCS 5/3-102, provides that:

It is a civil rights violation for an owner or any other person engaging in a real estate transaction, or for a real estate broker or salesman, because of unlawful discrimination or familial status, to

...

(B) Terms. Alter the terms, conditions or privileges of a real estate transaction or in the furnishing of facilities or services in connection therewith;

161. The Illinois Human Rights Act, 775 ILCS 5/1-103(Q), defines "unlawful discrimination" as the following:

(Q) Unlawful Discrimination. "Unlawful discrimination" means discrimination against a person because of his or her race, color, religion, national origin, ancestry, age, sex, marital status, order of protection status, disability, military status, sexual orientation, or unfavorable discharge from military service as those terms are defined in this Section.

162. The Illinois Human Rights Act, 775 ILCS 5/4-101, also contains the following relevant definitions:

...

(B) Financial Institution. "Financial institution" means any bank, credit union, insurance company, mortgage banking company or savings and loan association which operates or has a place of business in this State.

(C) Loan. "Loan" includes, but is not limited to, the providing of funds, for consideration, which are sought for: (1) the purpose of purchasing, constructing, improving, repairing, or maintaining a housing accommodation as that term is defined in paragraph (C) of Section 3-101; or (2) any commercial or industrial purposes.

(D) Varying Terms. "Varying the terms of a loan" includes, but is not limited to, the following practices:

(1) Requiring a greater down payment than is usual for the particular type of a loan involved.

(2) Requiring a shorter period of amortization than is usual for the particular type of loan involved.

(3) Charging a higher interest rate than is usual for the particular type of loan involved.

(4) An under appraisal of real estate or other item of property offered as security.

163. The Illinois Human Rights Act, 775 ILCS 5/4-102, provides that:

It shall be a civil rights violation for any financial institution, on the grounds of unlawful discrimination, to:

(A) Denial of Services. Deny any person any of the services normally offered by such an institution.

(B) Modification of Services. Provide any person with any service which is different from, or provided in a different manner than, that which is provided to other persons similarly-situated.

(C) Loan Terms. Deny or vary the terms of a loan.

(D) Property Location. Deny or vary the terms of a loan on the basis that a specific parcel of real estate offered as security is located in a specific geographical area.

(E) Consideration of Income. Deny or vary the terms of a loan without having considered all of the regular and dependable income of each person who would be liable for repayment of the loan.

(F) Lending Standards. Utilize lending standards that have no economic basis and which constitute unlawful discrimination.

164. Section 104 of the Illinois Human Rights Act, 775 ILCS 5/10 - 104, provides as follows:

(A) Standing, venue, limitations on actions, preliminary investigations, notice, and Assurance of Voluntary Compliance.

(1) Whenever the Illinois Attorney General has reasonable cause to believe that any person or group of persons is engaged in a pattern and practice of discrimination prohibited by this Act, the Illinois Attorney General may commence a civil action in the name of the People of the State, as *parens patriae* on behalf of persons within the State to enforce the provisions of this Act in any appropriate circuit court. Venue for this civil action shall be determined under Section 8-111(B)(6). Such actions shall be commenced no later than 2 years after the occurrence or the termination of an alleged civil rights violation or the breach of a conciliation agreement or Assurance of Voluntary Compliance entered into under this Act, whichever occurs last, to obtain relief with respect to the alleged civil rights violation or breach.

(2) Prior to initiating a civil action, the Attorney General shall conduct a preliminary investigation to determine whether there is reasonable cause to believe that any person or group of persons is engaged in a pattern and practice of discrimination declared unlawful by this Act and whether the dispute can be resolved without litigation. In conducting this investigation, the Attorney General may:

(a) require the individual or entity to file a statement or report in writing under oath or otherwise, as to all information the Attorney General may consider necessary;

(b) examine under oath any person alleged to have participated in or with knowledge of the alleged pattern and practice violation; or

(c) issue subpoenas or conduct hearings in aid of any investigation.

...

(5) The Illinois Attorney General may commence a civil action under this subsection (A) whether or not a charge has been filed under Sections 7A-102 or 7B-102 and without regard to the status of any charge, however, if the Department or local agency has obtained a conciliation or settlement agreement or if the parties have entered into an Assurance of Voluntary Compliance no action may be filed under this subsection (A) with respect to the alleged civil rights violation practice that forms the basis for the complaint except for the purpose of enforcing the terms of the conciliation or settlement agreement or the terms of the Assurance of Voluntary Compliance.

(6) If any person fails or refuses to file any statement or report, or obey any subpoena, issued pursuant to subdivision (A)(2) of this Section, the Attorney General will be deemed to have met the requirement of conducting a preliminary investigation and may proceed to initiate a civil action pursuant to subdivision (A)(1) of this Section.

(B) Relief which may be granted.

(1) In any civil action brought pursuant to subsection (A) of this Section, the Attorney General may obtain as a remedy, equitable relief (including any permanent or preliminary injunction, temporary restraining order, or other order, including an order enjoining the defendant from engaging in such civil rights violation or ordering any action as may be appropriate). In addition, the Attorney General may request and the Court may impose a civil penalty to vindicate the public interest:

(a) for violations of Article 3 and Article 4 in an amount not exceeding \$25,000 per violation, and in the case of violations of all

other Articles in an amount not exceeding \$10,000 if the defendant has not been adjudged to have committed any prior civil rights violations under the provision of the Act that is the basis of the complaint;

...

(2) A civil penalty imposed under subdivision (B)(1) of this Section shall be deposited into the Attorney General Court Ordered and Voluntary Compliance Payment Projects Fund, which is a special fund in the State Treasury. Moneys in the Fund shall be used, subject to appropriation, for the performance of any function pertaining to the exercise of the duties of the Attorney General including but not limited to enforcement of any law of this State and conducting public education programs; however, any moneys in the Fund that are required by the court or by an agreement to be used for a particular purpose shall be used for that purpose.

165. Additionally, Section 2(a) of the Illinois Fairness in Lending Act, 815 ILCS 120/2(a) defines "Financial Institution" as:

any bank, credit union, insurance company, mortgage banking company, savings bank, savings and loan association, or other residential mortgage lender which operates or has a place of business in this State.

166. Section 3 of the Illinois Fairness in Lending Act, 815 ILCS 120/3, provides in relevant part that:

No financial institution, in connection with or in contemplation of any loan to any person, may:

...

(d) Utilize lending standards that have no economic basis and which are discriminatory in effect.

167. Section 5 of the Illinois Fairness in Lending Act, 815 ILCS 120/5(c), provides in relevant part that:

An action to enjoin any person subject to this Act from engaging in activity in violation of this Act may be maintained in the name of the people of the State of Illinois by the Attorney General or by the State's Attorney of the county in which the action is brought. This remedy shall be in addition to other remedies provided for any violation of this Act.

## COUNT I

### **Defendants Violated Section 3 of the Illinois Human Rights Act with Discretionary Product Selection and Pricing Policies that Disparately Impacted African American and Latino Borrowers**

168. The allegations contained in Paragraphs 1 through 167 of the Complaint are re-alleged and incorporated herein by reference.

169. Defendants made loans to Illinois borrowers secured by residential real estate and therefore engaged in residential real estate-related transactions, as defined in the Illinois Human Rights Act, 775 ILCS 5/3-101(B)(2).

170. Defendants altered the terms, conditions or privileges of real estate transactions or the furnishing of facilities or services in connection with real estate transactions because of unlawful discrimination.

171. Defendants' discretionary product selection and pricing policies had a disparate impact on African American and Latino borrowers in Illinois by:

- a. Placing prime-eligible African American and Latino borrowers into subprime mortgage loans more often than similarly-situated White borrowers; and
- b. Placing African American and Latino borrowers in more expensive mortgage loans than similarly-situated White borrowers.

172. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies.

173. Defendants' acts, practices and policies violate the Illinois Human Rights Act, 775 ILCS 5/3-102(B), and constitute a pattern and practice of discrimination.

### PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for the following relief:

- A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/3-101 *et seq.*;
- B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;
- C. An order requiring Defendants to make restitution to all borrowers who were affected by the above-mentioned unlawful acts and practices in the origination of Countrywide residential mortgage loans;
- D. An order imposing a civil penalty in a sum not to exceed \$25,000 against any Defendant for each violation of the Illinois Human Rights Act; and
- E. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

### COUNT II

#### **Defendants Violated Section 3 of the Illinois Human Rights Act with Disparate Treatment of African American and Latino Borrowers**

174. The allegations contained in Paragraphs 1 through 167 of the Complaint are re-alleged and incorporated herein by reference.

175. Defendants made loans to Illinois borrowers secured by residential real estate and therefore engaged in residential real estate-related transactions, as defined in the Illinois Human Rights Act, 775 ILCS 5/3-101(B)(2)

176. Defendants altered the terms, conditions or privileges of real estate transactions or the furnishing of facilities or services in connection with real estate transactions because of unlawful discrimination.

177. Defendants intentionally discriminated against African American and Latino borrowers in Illinois through disparate treatment in that:

- a. African American and Latino borrowers applied for mortgages and were eligible for prime mortgages;
- b. Defendants gave prime-eligible African American and Latino borrowers subprime mortgages, which have less favorable terms than similarly-situated White borrowers; and
- c. Defendants granted prime mortgages to similarly-situated White borrowers

178. Defendants intentionally discriminated against African American and Latino borrowers in Illinois through disparate treatment in that:

- a. African American and Latino borrowers applied for mortgages and were eligible for less expensive mortgages;
- b. Defendants charged African American and Latino borrowers more for some mortgages than similarly-situated White borrowers; and
- c. Defendants charged similarly-situated White borrowers less for their mortgages.

179. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies.

180. Defendants' acts, practices and policies violate the Illinois Human Rights Act, 775 ILCS 5/3-102(B), and constitute a pattern and practice of discrimination.



### **PRAYER FOR RELIEF**

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/3-101 *et seq.*;

B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;

C. An order requiring Defendants to make restitution to all borrowers who were affected by the above-mentioned unlawful acts and practices in the origination of Countrywide residential mortgage loans;

D. An order imposing a civil penalty in a sum not to exceed \$25,000 against any Defendant for each violation of the Illinois Human Rights Act; and

E. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

### **COUNT III**

#### **Defendants Violated Section 4 of the Illinois Human Rights Act with Discretionary Product Selection and Pricing Policies that Disparately Impacted African American and Latino Borrowers**

181. The allegations contained in Paragraphs 1 through 167 of the Complaint are re-alleged and incorporated herein by reference.

182. Defendants are financial institutions that made mortgages and operated in Illinois, as defined in the Illinois Human Rights Act, 775 ILCS 5/4-101(B) and (C).

183. Defendants, on the grounds of unlawful discrimination, provided services to African American and Latino borrowers in a different manner or that differed from those provided to similarly-situated White borrowers, thereby violating the Illinois Human Rights Act, 775 ILCS 5/4-102(B).

184. Defendants on the grounds of unlawful discrimination, varied the terms of residential mortgage loans for African American and Latino borrowers, thereby violating the Illinois Human Rights Act, 775 ILCS 5/4-102(C).

185. Defendants' discretionary product selection and pricing policies disparately impacted African American and Latino borrowers in Illinois, by:

- a. Providing prime-eligible African American and Latino borrowers subprime mortgage loans more often than similarly-situated White borrowers; and
- b. Providing African American and Latino borrowers more expensive mortgage loans than similarly-situated White borrowers.

186. By utilizing lending standards that have no economic basis and constitute unlawful discrimination, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(F).

187. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies.

188. Defendants' actions violate the Illinois Human Rights Act, 775 ILCS 5/4-102(B), (C), and (F), and constitute a pattern and practice of discrimination.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/4-101 *et seq.*;

B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;

C. An order requiring Defendants to make restitution to all borrowers who were affected by the above-mentioned unlawful acts and practices in the origination of Countrywide residential mortgage loans;

D. An order imposing a civil penalty in a sum not to exceed \$25,000 against any Defendant for each violation of the Illinois Human Rights Act; and

D. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

#### **COUNT IV**

##### **Defendants Violated Section 4 of the Illinois Human Rights Act with Disparate Treatment of African American and Latino Borrowers**

189. The allegations contained in Paragraphs 1 through 167 of the Complaint are re-alleged and incorporated herein by reference.

190. Defendants are financial institutions that made mortgages and operated in Illinois, as defined in the Illinois Human Rights Act, 775 ILCS 5/4-101(B) and (C).

191. Defendants, on the grounds of unlawful discrimination, provided services to African American and Latino borrowers in a different manner or that differed from those provided to similarly-situated White borrowers, thereby violating the Illinois Human Rights Act, 775 ILCS 5/4-102(B).

192. Defendants, on the grounds of unlawful discrimination, varied the terms of residential mortgage loans for African American and Latino borrowers, thereby violating the Illinois Human Rights Act, 775 ILCS 5/4-102(C).

193. Countrywide intentionally discriminated against African American and Latino borrowers in Illinois through disparate treatment in that:

- a. African American and Latino borrowers applied for and were eligible for prime mortgages;
- b. Countrywide gave prime-eligible African American and Latino borrowers subprime mortgages with less favorable terms than similarly-situated White borrowers; and
- c. Countrywide granted prime mortgages to similarly-situated White borrowers.

194. In the course of engaging in residential real estate-related transactions, Defendants disparately treated African American and Latino borrowers in Illinois in that:

- a. African American and Latino borrowers applied for and were qualified for mortgages;
- b. Defendants charged African American and Latino borrowers more for some mortgage products than similarly-situated White borrowers; and
- c. Defendants charged similarly-situated White borrowers less for their mortgage products.

195. By utilizing lending standards that have no economic basis and constitute unlawful discrimination, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(F).

196. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies.

197. Defendants' actions violate the Illinois Human Rights Act, 775 ILCS 5/4-102(B), (C), and (F), and constitute a pattern and practice of discrimination.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/4-101 *et seq.*;

B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;

C. An order requiring Defendants to make restitution to all borrowers who were affected by the above-mentioned unlawful acts and practices in the origination of Countrywide residential mortgage loans;

D. An order imposing a civil penalty in a sum not to exceed \$25,000 against any Defendant for each violation of the Illinois Human Rights Act; and

E. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

**COUNT V**

**Defendants' Violations of the Illinois Fairness in Lending Act**

198. The allegations contained in Paragraphs 1 through 167 of the Complaint are re-alleged and incorporated herein by reference.

199. Defendants are financial institutions as defined by the Illinois Fairness in Lending Act, 815 ILCS 120/2(a).

200. As described above, Defendants utilized lending standards that have no economic basis and are discriminatory in effect, in violation of the Illinois Fairness in Lending Act, 815 ILCS 120/3(d).

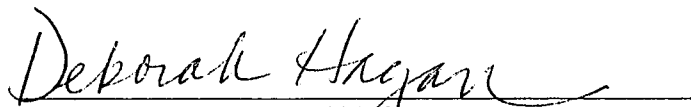
**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff respectfully prays for the following relief:

- A. A finding that Defendants have violated the Illinois Fairness in Lending Act;
- B. An order permanently enjoining Defendants from engaging in acts or practices that violate the Illinois Fairness in Lending Act including, but not limited to, the unlawful acts and practices specified above; and
- C. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

Respectfully submitted,

LISA MADIGAN, IN HER OFFICIAL  
CAPACITY AS ATTORNEY GENERAL OF  
ILLINOIS,

  
DEBORAH HAGAN, Chief  
Consumer Protection Division

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