

## **FEDERAL JURY FINDS BANK LIABLE FOR REVERSE REDLINING**

On June 27, 2016, a New York federal jury found that a bank and its affiliated mortgage company violated the Fair Housing Act, the Equal Credit Opportunity Act, and the New York City Human Rights Law by intentionally marketing to African-American and Hispanic homeowners predatory loans with default interest rates of 18 percent.

In 2011, eight homeowners filed suit in the Eastern District of New York, claiming that between 2004 and 2009 the bank “aggressively originated” no income refinancing loans with unfavorable terms to them because they were minority borrowers.

According to the 2014 amended complaint, the bank marketed NINA (No Income No Assets) loans to homeowners with low credit scores but substantial equity in their houses. When issuing these loans, the bank did not consider the homeowners’ ability to repay but valued the loan based on the home’s equity. Homeowners could be charged an interest rate of 18 percent if they were late by 30 days in making a single payment.

The homeowners alleged they were purposely targeted for these loans because of their poor credit and resulting likelihood of default, and that this practice had a disparate impact on African-American and Hispanic borrowers. Specifically, the complaint stated that “[s]ince black and Latino individuals are disproportionately represented among persons with low credit scores, [the bank’s] marketing of these abusive loans to this population ensured that the loans would have their greatest impact on minority homeowners.” The jury found that the bank’s practices constituted violations of the federal fair lending laws and the New York state law.

Six of the plaintiffs were awarded a combined \$950,000 in damages, while the jury found that the remaining two homeowners waived their claims upon modifying their loans and were not eligible for damages. The bank has asserted its plan to appeal the decision.

Legal Services NYC, who represented several of the homeowners, stated that the case marks the first time a jury has held a bank liable for reverse redlining.

Lenders that offer loans to consumers with impaired credit should consider evaluating their practices for potential reverse redlining risk.