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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NATIONAL ASSOCIATION FOR
THE ADVANCEMENT OF
COLORED PEOPLE (NAACP), on
Behalf of Itself and All Others
Similarly Situated, as well as on
Behalf of the General Public and
Acting in the Public Interest,

Plaintiff,

vs.

Wells Fargo Bank, N.A., and
Wells Fargo Home Mortgage, Inc.

Defendants.

CASE NO. SACV 07-0794

**ORIGINAL CLASS ACTION
COMPLAINT FOR:**

- 1. VIOLATIONS OF THE FAIR
HOUSING ACT;**
- 2. VIOLATION OF THE EQUAL
CREDIT OPPORTUNITY ACT;**
- 3. VIOLATIONS OF THE CIVIL
RIGHTS ACT, 42 U.S.C. §§ 1981, 1982**

JURY TRIAL DEMANDED

1 Plaintiff, on behalf of itself and a Class consisting of all its members and based
2 upon information and belief, states as follows:

3 4 **INTRODUCTION**

5 1. The National Association for the Advancement of Colored People (the
6 “NAACP”) brings this action in its representative capacity and as a class action seeking
7 injunctive and other relief against numerous mortgage lenders who are engaged in
8 institutionalized, systematic racism in connection with its members’ purchase of
9 residential mortgage loans. The pervasiveness of this discrimination has been
10 documented in numerous empirical studies that all confirm that African-Americans are
11 substantially more likely to receive higher-rate residential mortgage loans than
12 Caucasian borrowers *with the same qualifications*.

13 2. Defendants Wells Fargo Bank, N.A. and Wells Fargo Home Mortgage, Inc.
14 have engaged in disparate treatment of African Americans, and have adopted facially
15 neutral policies and practices that have a disparate discriminatory impact on African
16 Americans in residential mortgage lending.

17 3. With respect to the Defendant lenders, the Class is comprised of African
18 Americans: (a) who received subprime mortgage loans even though they qualified for
19 more favorable conventional mortgage loans in the prime market or (b) whose loans
20 were approved based upon the low initial interest rate but who would not qualify based
21 upon the interest rate that would be charged when the rate was scheduled to adjust
22 upward within the first four years of the loan.

23 4. It is beyond dispute that the African American community has long been
24 the victim of discriminatory banking practices. Generations of African Americans have
25 been deprived the opportunity to participate in the American dream by banks that
26 refused to give them mortgage loans simply because of the color of their skin, or placed
27 them in unfavorable loans that decimate them financially.

1 5. Wells Fargo Bank, N.A. and Wells Fargo Home Mortgage, Inc. target the
2 African American community by capitalizing on their relative lack of experience in
3 dealing with banking institutions and mortgage loans. Upon information and belief,
4 Wells Fargo Bank, N.A. and Wells Fargo Home Mortgage, Inc. are aware of the African
5 American community's susceptibility to predatory lending practices, but nonetheless
6 engage in policies and procedures that they know will result in African Americans being
7 steered toward less favorable loans.

8 6. Indeed, in 2006, the Center for Responsible Lending, a non-profit research
9 organization, found that even when income and credit risk were accounted for, African
10 Americans were *still* 31% to 34% more likely to receive higher rate subprime loans, and
11 that the disparities between them and Caucasians with the same risk factors were "large
12 and statistically significant."

13 7. In another study, the National Community Reinvestment Coalition
14 determined that lending institutions in six major metropolitan areas engaged in
15 "pervasive discriminatory and predatory practices", including making high cost
16 subprime loans to higher-qualified African-Americans 54% of the time, compared to
17 23% of the time for Caucasians, even when Caucasian applicants were similarly, and
18 often *less*, qualified.

19 8. Similarly, the Federal Reserve Board concluded that African Americans
20 were more likely to pay higher prices for mortgages than their Caucasian counterparts.
21 The United States Inspector General cited that report as showing "significant"
22 differences, making it "clear" that African Americans were "much more likely to get
23 higher-priced loans" than Caucasians. For example, a 2006 study by ACORN showed
24 that African Americans were 3.6 times more likely than whites to be put into a subprime
25 purchase loan and 6.1 times more likely to be refinanced into such a loan.

26 9. These statistical disparities are not mere happenstance, but instead result
27 from the systematic and predatory targeting of African Americans, as well as facially

1 neutral lending policies and practices that have a disparate adverse impact on African
2 Americans.

3 10. As described below, Wells Fargo Bank, N.A. and Wells Fargo Home
4 Mortgage, Inc. have engaged in disparate treatment by issuing the Class mortgage loans
5 under less favorable terms than equally situated Caucasians. In addition, Defendants
6 have instituted specific, identifiable policies and practices that have a disparate adverse
7 impact on African Americans.

8 11. The NAACP brings this class action seeking declaratory, monetary and
9 injunctive relief based upon the Fair Housing Act, the Equal Credit Opportunity Act and
10 the Civil Rights Act.

11 **THE PARTIES**

12 12. Plaintiff National Association for the Advancement of Colored People
13 (“NAACP”) is the nation’s oldest civil rights organization. Its history and
14 accomplishments are well known. Its mission includes ensuring economic equality and
15 eliminating racial hatred and discrimination, including racial discrimination in housing.
16 The NAACP is a non-profit and non-partisan organization, headquartered in Baltimore,
17 Maryland.

18 13. The NAACP, individually and on behalf of its members, has been injured
19 by the Defendants complained of herein. The NAACP has representational standing to
20 pursue this claim as a class action on behalf of its members. Its request for injunctive
21 and declaratory relief does not require participation of the members, even though the
22 members have standing to seek this same relief in their own right. In fact, the members,
23 or any one of them, are in real and imminent danger of suffering immediate or threatened
24 injury as a result of these predatory lending policies, which said members could directly
25 pursue. Also, the interests the NAACP seeks to protect are germane to its stated purpose
26 of ensuring economic equality and eliminating racial hatred and discrimination,
27 including racial discrimination in housing. Finally, although seeking injunctive and

1 declaratory relief for a class of its members, the NAACP also has standing to sue in its
2 own right because Defendants' discriminatory mortgage lending policies and practices
3 tend to frustrate the association's mission, reduce contributions and divert its resources,
4 including through investigation, advocacy and counseling, and litigation costs.

5 14. Members of the NAACP have been injured in fact by Defendant as
6 complained herein.

7 15. Defendant Wells Fargo Bank, N.A. is legally chartered in Sioux Falls,
8 South Dakota, with its principal place of business in San Francisco, California. Wells
9 Fargo Home Mortgage, Inc. is a subsidiary of Wells Fargo Bank, N.A., with its principal
10 place of business in Des Moines, Iowa. Wells Fargo Bank, N.A. and Wells Fargo Home
11 Mortgage, Inc., which do business throughout California and the United States, are
12 herein referred to as "WELLS FARGO" or "Defendants".

13 **JURISDICTION AND VENUE**

14 16. This is an action for violation of 42 U.S.C. § 3601 *et seq.* (Fair Housing
15 Act), 15 U.S.C. § 1691 *et seq.* (Equal Credit Opportunity Act) and 42 U.S.C. § 1981 *et*
16 *seq.* (Civil Rights Act). This Court has original jurisdiction over this action pursuant to
17 28 U.S.C. § 1331 (federal question).

18 17. Venue is proper in the Central District of California pursuant to 28 U.S.C.
19 § 1391(b) and (c) because Defendants are corporations subject to personal jurisdiction in
20 this district.

21 **CLASS ACTION ALLEGATIONS**

22 18. The NAACP brings this action as a class action pursuant to Federal Rule of
23 Civil Procedure 23(a) and (b)(2) on behalf of the NAACP, its members and the members
24 of the Class described below.

25 19. Excluded from the Class are Defendants, their officers, directors and
26 employees, members of their immediate families and each of their legal representatives,
27 heirs, successors or assigns, and any entity in which Defendants have or have had a

1 controlling interest; members of the Plaintiff organization who are not African-
2 American; and any judge, justice, or judicial officer presiding over this matter and the
3 members of their immediate families and judicial staff.

4 20. This class action is comprised of the following: African Americans who
5 were sold subprime mortgage loans from WELLS FARGO even though they qualified
6 for more favorable conventional mortgage loans from WELLS FARGO, and African
7 Americans who would not qualify under WELLS FARGO's loan guidelines if WELLS
8 FARGO had evaluated the loan under the anticipated adjusted rates during the first four
9 years of the loan, rather than the low initial or "teaser" interest rate.

10 21. This action is properly maintainable as a class action as to each Class
11 member because:

12 22. Numerosity: The members of the Class for whose benefit this action is
13 brought are dispersed throughout the state and nationwide, and are so numerous that
14 joinder of each members of the Class is impracticable.

15 23. Typicality: The NAACP has representative standing to bring the class
16 action for the relief requested, its interests do not conflict with the interests of any
17 members of the Class, and was subject to the same discriminatory treatment and policies
18 and procedures that resulted in a disparate and discriminatory impact on the members of
19 the Class.

20 24. Common Questions of Law and Fact Predominate: The questions of law
21 and fact common to the members of the Class predominate over any questions affecting
22 individual members of the Class. Among the questions of law and fact common to the
23 Class are:

- 24 a. The nature and scope of Defendants' policies and procedures
25 relating to the marketing of subprime residential mortgage
26 products to consumers;
27

- 1 b. Whether Defendants have subjected their African American
2 consumers and members of the NAACP to disparate adverse
3 treatment by imposing terms and conditions for residential
4 mortgage loans that resulted in their paying more for their loans
5 than similarly situated Caucasian customers;
- 6 c. Whether Defendants marketed and/or determined the type of loan,
7 interest rate, duration or other terms of a loan based in whole or in
8 part on the race of the applicants;
- 9 d. Whether Defendants unlawfully steered applicants to less
10 favorable credit products than they qualified for on the basis of
11 race;
- 12 e. Whether Defendants' policies and practices of providing financial
13 incentives to mortgage brokers to steer consumers to subprime
14 residential mortgage products in lieu of prime residential mortgage
15 products, while at the same time having a policy and practice of
16 not providing a meaningful review of residential mortgage loan
17 applications to determine if the applicant qualifies for prime
18 residential mortgage products, constitutes facially neutral policies
19 that create a disparate discriminatory impact against African
20 Americans;
- 21 f. Whether Defendants discriminated against the Class by providing
22 them with subprime residential mortgage loans when they qualify
23 for prime residential mortgage loans offered by the Defendants or
24 one of their related entities;
- 25 g. Whether Defendants have a statutory obligation to evaluate the
26 ability of each applicant to repay the loan based on the interest rate
27

1 during the life of the loan and not only on the initial or “teaser”
2 rate;

- 3 h. Whether Defendants’ policies and practices of evaluating each
4 applicant’s ability to repay a loan based *only* on the initial rate and
5 not the rate that will be adjusted upward constitutes facially neutral
6 policies that create a disparate discriminatory impact against
7 African Americans;
- 8 i. Whether Defendants have any legitimate business reason for the
9 aforementioned policies and practices that can be achieved by
10 alternative means that have a less discriminatory impact against
11 African Americans;
- 12 j. Whether Defendants’ intent in their discriminatory policies and
13 procedures was racially motivated; and
- 14 k. Whether Defendants’ policies and practices have proximately
15 caused damages and injury to Plaintiff and the Classes entitling
16 them to injunctive and declaratory relief, and the measure of that
17 relief.

18 25. Adequacy of Representation: The NAACP will fairly and adequately
19 protect the interests of the Class and have retained counsel competent and experienced in
20 class action litigation, including class actions within the Central District of California.
21 The NAACP has no interests antagonistic to, or in conflict with, the Class that the
22 NAACP seeks to represent.

23 26. Injunctive/Declaratory Class: Defendants have acted or refused to act on
24 grounds generally applicable to the Class, thereby making final injunctive relief proper
25 with respect to the Class. Fed. R. Civ. P. 23(b)(2).

26 27. WELLS FARGO has engaged, and continues to engage, in disparate
27 treatment by issuing residential mortgage loans to African Americans under less

1 favorable terms than equally situated Caucasians. In addition, WELLS FARGO has
2 instituted specific, identifiable policies and practices that have a disparate adverse impact
3 on African Americans. The statistical evidence identified herein is sufficiently
4 supportive of both claims.

5 28. The majority of African-Americans who took out purchase mortgages in
6 2005 were put into higher-cost subprime loans, compared with about 17% of
7 Caucasians, according to Federal Reserve data. As just two examples, the South Side of
8 Chicago, with a large concentration of minority borrowers, has a high concentration of
9 subprime loans and the state's highest foreclosure rate. And in Boston, where defaults
10 are rising primarily in minority neighborhoods, 73% of high-income African-Americans
11 (those making \$92,000 to \$152,000) received subprime loans in 2005, compared with
12 17% of Caucasians.

13 29. This is consistent with the Association of Community Organizations for
14 Reform Now (ACORN) finding in 2001 that among upper-income African-Americans
15 nationally, 18.05 percent of conventional refinance loans received were from subprime
16 lenders, whereas for upper-income Caucasian homeowners it was only 4.81 percent. In
17 fact, *upper-income* African-American homeowners are more likely to receive a subprime
18 loan while refinancing even when compared to *lower-income* Caucasian homeowners.

19 30. While some borrowers in the subprime market are genuine credit risks,
20 African-American borrowers have been targeted and illegally steered into subprime
21 residential mortgage loans. WELLS FARGO is reluctant or refuses to offer these
22 borrowers the prime loans that are offered to Caucasian borrowers with the same
23 qualifications. Instead, WELLS FARGO engages in predatory subprime lending,
24 knowingly making loans with high loan-to-value ratios, in this case to borrowers who
25 qualify for lower-cost or prime loans, in what amounts to a kind of “reverse redlining”.
26 Studies by Freddie Mac and Standard & Poor’s have found that 20% to 30% of
27 borrowers who receive subprime mortgages could have qualified for traditional

1 mortgages at the lower rates offered by banks to prime borrowers. This effectively
2 dilutes the equity from the property, places the borrower in jeopardy of default, and puts
3 the borrower in the position of spending years paying off additional loan balances
4 without developing any equity.

5 31. In September 2005, the Federal Reserve Board concluded that African-
6 Americans were more likely to pay higher prices for these mortgages. The United States
7 Inspector General then cited that report as showing “significant” differences that made it
8 “clear” that African-Americans were “much more likely to get higher-priced loans” than
9 Caucasians, and the FDIC has stated that it does not believe that these significant
10 disparities can be explained away by risk-based pricing, as the lending industry has
11 repeatedly tried to do.

12 32. Further, the U.S. Department of Housing and Urban Development found
13 that in neighborhoods where at least 80 percent of the population is African-American,
14 borrowers were 2.2 times more likely than borrowers in the nation as a whole to
15 refinance with a subprime lender. In fact, *upper-income* borrowers living in
16 predominately African-American neighborhoods are twice as likely as *lower-income*
17 Caucasian borrowers to have subprime loans.

18 33. WELLS FARGO has subjected its African American consumers and
19 members of the NAACP to disparate adverse treatment by imposing terms and
20 conditions for residential mortgage loans that resulted in their paying more for their
21 loans than similarly situated Caucasian customers.

22 34. WELLS FARGO unlawfully steered applicants to less favorable credit
23 products than they qualified for on the basis of race.

24 35. WELLS FARGO had engaged in a policy and practice of actively
25 marketing subprime residential mortgage loan products directly to consumers, without
26 providing them with sufficient information on how to purchase prime residential
27 mortgage products from WELLS FARGO or one of its related entities.

1 36. WELLS FARGO has engaged in policies and practices that provide greater
2 financial compensation for mortgage brokers to steer consumers to subprime residential
3 mortgage products in lieu of prime residential mortgage products from the defendants or
4 one of its related entities. In fact, for 2006, 71 percent of all subprime loans were
5 originated through brokers.

6 37. The adverse impact of these policies and practices is felt disproportionately
7 by African American consumers and members of the NAACP, compared to similarly
8 situated Caucasians, as reflected in the substantially higher relative rate at which African
9 Americans receive subprime residential mortgage loans despite the fact that they qualify
10 for prime or “A” paper residential mortgage loans.

11 38. Based upon the foregoing, WELLS FARGO was aware or should have
12 been aware that applications for subprime residential mortgage loans include those made
13 by individuals who would qualify for prime or “A” paper residential mortgage loans.

14 39. Nonetheless, WELLS FARGO had the policy and practice of not providing
15 meaningful review of loan applications to determine whether the applicant qualifies for a
16 prime residential mortgage product offered by the defendant or one of its affiliated
17 entities. While WELLS FARGO might review loan applications to determine whether
18 they qualify for the subprime residential mortgage product, WELLS FARGO had
19 policies and practices of not reviewing the application to determine if the applicant
20 would qualify for a prime residential mortgage product offered by Ameriquest or one of
21 its affiliated entities. The adverse effect of this policy was felt disproportionately by
22 African American consumers and members of the NAACP, compared to similarly
23 situated Caucasians, as reflected in their subprime rates.

24 40. WELLS FARGO subjects its individual African American borrowers to
25 terms and conditions for home mortgage loans that resulted in those borrowers paying
26 more for their loans than similarly situated Caucasian borrowers.

1 41. The foregoing policies and practices are facially neutral in that WELLS
2 FARGO applies the same policies and practices to all residential mortgage loans.

3 42. The foregoing policies and practices have a disproportionately adverse
4 effect on African Americans compared with similarly situated Caucasian applicants
5 because African Americans are subject to a significantly higher likelihood of receiving a
6 subprime residential mortgage loan than Caucasian borrowers when they nonetheless
7 qualify for a prime residential mortgage loan. Statistical analysis confirms that African
8 Americans are more likely to be placed in subprime loans when they qualify for prime
9 loans, than similarly situated Caucasians.

10 43. This statistical analysis goes beyond the data recently required under the
11 Home Mortgage Disclosure Act, and demonstrates a clear pattern of discrimination
12 unexplainable on grounds other than race.

13 44. The 2004 HMDA reporting requirements first directed lenders to identify
14 higher-rate loans. That year, staff to the Board of Governors of the Federal Reserve
15 System analyzed the distribution of these higher-rate loans. They reported pricing
16 disparities between different racial and ethnic groups even after controlling for a
17 borrower's income, gender, property location, and the loan amount. For example, after
18 accounting for these differences, African-Americans who took a loan to purchase a home
19 were 3.1 times more likely than Caucasian borrowers to receive a higher-rate home loan.
20 While this Federal Reserve analysis confirmed that African-American borrowers were
21 more likely to receive higher-rate loans than white borrowers, the researchers were
22 unable to broadly explore how these disparities were affected by risk factors such as
23 borrowers' credit score, down payment, or ability to document income. Then last year,
24 the Center for Responsible Lending produced the first full research report that addresses
25 this limitation.

26 45. Specifically, the Center developed a database of 177,000 subprime loans
27 by matching loans in HMDA to a private database of subprime mortgages. This step

1 enabled them to bring together detailed information on mortgage pricing, loan terms, and
2 borrower risk characteristics into a single dataset. As a result, that study was able to
3 account for those factors and isolate the effects of race and ethnicity in influencing
4 whether a borrower receives a higher-rate loan in the subprime market.

5 46. The findings were striking, yet consistent with those of the Federal Reserve
6 and other consumer organizations. The Center found that race and ethnicity – two
7 factors that should play no role in pricing – were significant predictors of whether a
8 subprime loan falls into the higher-rate portion of the market. Race and ethnicity
9 remained significant predictors even after they accounted for the major factors that
10 lenders list on rate sheets to determine loan pricing.

11 47. Even after controlling for legitimate loan risk factors, including borrowers’
12 credit score, loan-to-value ratio, and ability to document income, race mattered, and it
13 mattered in a discriminatory way. African American borrowers continued to face a
14 much greater likelihood of receiving the most expensive subprime loans – even with the
15 same loan type and the same qualifications as their white counterparts. Across a variety
16 of different loan types, African Americans were commonly 31% to 34% more likely to
17 receive a higher-rate loan than Caucasian borrowers.

18 48. This data evidences and is indicative of the treatment and impact described
19 herein.

20 49. Further, WELLS FARGO had policies and practices of marketing
21 residential mortgage loans that have initial rates during the first few years of the loan
22 that are substantially lower than the rates that will be charged during the remaining
23 course of the loans. These rates are often referred to as “teaser” rates or the initial
24 interest rates for “Option ARM” loans. WELLS FARGO knew that the initial or teaser
25 interest rate will increase substantially during the first four years of such residential
26 mortgage loans.

1 50. Notwithstanding the fact that WELLS FARGO had a non-delegable,
2 statutorily obligated duty to evaluate each applicant's ability to repay the entire loan (and
3 not just the initial or teaser rates), WELLS FARGO had policies and practices of
4 evaluating each applicant's ability to pay based upon *only* the lower initial rate.

5 51. These policies and practices are facially neutral insofar as WELLS
6 FARGO used the same policies and practices for all residential mortgage loan
7 applications.

8 52. The foregoing policies and practices have a disproportionately adverse
9 effect on African Americans compared with similarly situated Caucasian applicants.
10 Statistically, African Americans are more likely to obtain residential mortgage loans that
11 would not satisfy WELLS FARGO's loan guidelines if the loan had been evaluated
12 under the anticipated adjusted rates during the first four years of the loan, rather than the
13 low initial interest rate. This is because African Americans have a much lower mean
14 household income than Caucasians. Census data indicates that in 2006 African
15 Americans had a mean household income of \$31,969 compared to \$52,423 for
16 Caucasians. A policy that evaluates the ability to repay a loan based only on an initial
17 low rate will necessarily result in a disproportionate impact on African Americans since,
18 due to their lower incomes, a disproportionate number will be being stuck in loans they
19 will not be able to repay when the interest rate increases.

20 53. The consequences of these policies and procedures have resulted in
21 African Americans being disproportionately given loans that they will not have an
22 ability to repay when the higher rates kick in. In the event African American
23 homeowners elect to refinance their mortgages (in the unlikely event that they are able to
24 qualify for such refinancing), they must often pay huge pre-payment penalties pursuant
25 to the terms and conditions of the original residential mortgage loan.

54. There is no legitimate business reason justifying each of the aforementioned policies and practices that could not be achieved by a policy that does not have a discriminatory impact or a greatly reduced discriminatory impact.

55. Even though, upon information and belief, WELLS FARGO is presently no longer issuing mortgage loans, the injunctive relief requested in this Original Complaint is required because there is a great likelihood that upon the stabilization of the mortgage market, WELLS FARGO will again market and sell mortgage loans and the injunctive relief is required to ensure that the discriminatory conduct is not repeated.

FIRST CAUSE OF ACTION

(Fair Housing Act – 42 U.S.C. § 3601 *et seq.*)

56. The NAACP incorporates each and every preceding paragraph stated above, inclusive, as though the same were fully set forth herein.

57. The Fair Housing Act prohibits mortgage lenders from imposing different terms or conditions on a loan, such as different interest rates, points or fees, on the basis of race. The rights of the Class are protected by the Act.

58. WELLS FARGO's policies and practices have resulted in discrimination with respect to the Class, resulting in economic injury, as particularly stated herein.

59. By selling subprime residential mortgages to African Americans who qualify for prime residential mortgages at grossly unfavorable terms compared to Caucasians who continue to receive better terms than their African American counterparts, WELLS FARGO has discriminated against The Class with respect to their ability to participate in real estate transactions under terms and conditions that violate 42 U.S.C. §3605.

60. WELLS FARGO engaged in the following facially neutral policies and practices that have an adverse disparate impact on African Americans:

a. actively marketing subprime residential loan products directly to consumers, without providing applicants with sufficient

1 information on how to purchase prime residential mortgage
2 products from WELLS FARGO or one of its related entities;

3 b. providing financial incentives for mortgage brokers to steer
4 consumers to subprime residential mortgage products in lieu of
5 prime residential mortgage products from WELLS FARGO or one
6 of its related entities;

7 c. not providing meaningful review of loan applications to determine
8 whether the applicant qualifies for a prime residential mortgage
9 product offered by WELLS FARGO or one of its affiliated entities.

10 61. The foregoing facially neutral policies and practices have a
11 disproportionately adverse effect on African Americans compared with similarly situated
12 Caucasian applicants because African Americans are subject to a significantly higher
13 likelihood of receiving a subprime residential mortgage loan than Caucasian borrowers
14 when they nonetheless qualify for a prime residential mortgage loan. Statistical analysis
15 confirms that African Americans are more likely to be placed in subprime loans when
16 they qualify for prime loans, than comparable situated Caucasians, thus constituting a
17 violation of the Fair Housing Act.

18 62. WELLS FARGO engaged in the following additional facially neutral
19 policies and practices that have an adverse disparate impact on African Americans:

20 a. marketing residential mortgage loans that have “teaser” rates or the
21 initial interest rates for “Option ARM” loans; and

22 b. evaluating each applicant’s ability to pay based upon *only* the
23 lower initial rate, and not the subsequent adjusted higher rate that
24 will be due under the loan.

25 63. The foregoing policies and practices have a disproportionately adverse
26 effect on African Americans compared with similarly situated Caucasian applicants.
27 Statistically, African Americans are more likely than Caucasians to obtain residential

1 mortgage loans that would not satisfy WELLS FARGO's loan guidelines if the loan had
2 been evaluated under the anticipated adjusted rates during the first four years of the loan,
3 rather than the low initial interest rate.

4 64. There is no legitimate business reason justifying each of the
5 aforementioned policies and practices that could not be achieved by a policy that does
6 not have a discriminatory impact or a greatly reduced discriminatory impact.

7 65. As a proximate result of WELLS FARGO's violation of this statute, the
8 NAACP and the Class A have been actually damaged.

9 66. This cause of action arises from continuing violations of this Act.

10 67. The NAACP and the Class are entitled to injunctive and declaratory relief.

11 **SECOND CAUSE OF ACTION**

12 **(Equal Credit Opportunity Act – 15 U.S.C. § 1691 *et seq.*)**

13 68. The NAACP incorporates each and every preceding paragraph stated
14 above, inclusive, as though the same were fully set forth herein.

15 69. The Equal Credit Opportunity Act was first enacted in 1974 as a consumer
16 protection statute prohibiting discrimination in the issuing of credit. The Act has been
17 broadly construed by the courts in order to make effective its provisions to protect
18 consumers.

19 70. WELLS FARGO is a creditor within the meaning of 15 U.S.C. § 1691(e).
20 The mortgage loans offered to NAACP members are credit transactions. The Act
21 provides that “[i]t shall be unlawful for any creditor to discriminate against any
22 applicant, with respect to any aspect of a credit transaction . . . on the basis of race.” 15
23 U.S.C. § 1691(a)(1). Class members are systematically and continuously extended
24 mortgage credit by Defendants on a discriminatory basis. The rights of the Class are
25 protected by the Act. WELLS FARGO discriminated against the Class and they were
26 economically injured, as particularly stated herein.

1 71. WELLS FARGO engaged in a pattern and practice of discrimination on the
2 basis of race in the terms and interest rates charged to African American consumers and
3 members of the NAACP. By selling subprime residential mortgages to African
4 Americans who qualify for prime residential mortgages at a far greater rate than
5 Caucasians, WELLS FARGO discriminated against the Class with respect to their ability
6 to participate in real estate transactions under terms and conditions that violate 42 U.S.C.
7 §3605.

8 72. WELLS FARGO engaged in the following facially neutral policies and
9 practices that have a disproportionately adverse impact on African Americans when
10 compared with Caucasians:

- 11 a. actively marketing subprime residential loan products directly to
12 consumers, without providing applicants with sufficient
13 information on how to purchase prime residential mortgage
14 products from WELLS FARGO or one of its related entities;
- 15 b. providing financial incentives for mortgage brokers to steer
16 consumers to subprime residential mortgage products in lieu of
17 prime residential mortgage products from WELLS FARGO or one
18 of its related entities; and
- 19 c. not providing meaningful review of loan applications to determine
20 whether the applicant qualifies for a prime residential mortgage
21 product offered by WELLS FARGO or one of its affiliated entities.

22 73. WELLS FARGO engaged in the following additional facially neutral
23 policies and practices that have a disproportionately adverse impact on African
24 Americans when compared with:

- 25 a. marketing residential mortgage loans that have “teaser” rates or the
26 initial interest rates for “Option ARM” loans; and

1 b. evaluating each applicant's ability to pay based upon *only* the
2 lower initial rate, and not the subsequent adjusted higher rate that
3 will be due under the loan.

4 74. There is no legitimate business reason justifying each of the
5 aforementioned policies and practices that could not be achieved by a policy that does
6 not have a discriminatory impact or a greatly reduced discriminatory impact.

7 75. As a proximate result of WELLS FARGO's violation of this statute, the
8 Class has been actually damaged.

9 76. This cause of action arises from continuing violations of this Act.

10 77. The NAACP and the Class are entitled to injunctive and declaratory relief.

11 **THIRD CAUSE OF ACTION**

12 **(Civil Rights Act: Racial Discrimination 42 U.S.C. §§ 1981, 1982 *et seq.*)**

13 78. The NAACP incorporates each and every preceding paragraph stated
14 above, inclusive, as though the same were fully set forth herein.

15 79. The Civil Rights Act of 1866 and 1870, and later expanded upon in 1991,
16 prohibits racial discrimination in the formation and issuance of contracts, and intentional
17 interference in the purchase and holding of real property.

18 80. WELLS FARGO intentionally discriminated against the Class by charging
19 them higher interest rates than those charged to similarly-situated Caucasian mortgagees.

20 81. By charging higher rates to the Class, WELLS FARGO unlawfully
21 discriminated against the Class in (i) formation of contracts, (ii) making, performance,
22 modification, and termination of contracts, and/or (iii) the enjoyment of all benefits,
23 privileges, terms and conditions of the contractual relationship, and in their right to
24 purchase and hold real property.

25 82. WELLS FARGO's actions violate 42 U.S.C. §§ 1981 and 1982. As a
26 proximate result of WELLS FARGO's systematic violation of this statute, the NAACP
27 and the Class are entitled to the requested relief provided under the Act.

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WHEREFORE, the NAACP, individually and in a representative capacity on behalf of the putative Class comprised of African Americans and/or members of the NAACP, prays for entry of judgment as follows:

- 20

1 H. Enjoining the complained of conduct and Ordering WELLS FARGO to
2 modify its lending practices to comport with the law. The NAACP and the
3 Class request that the Court exercise its equitable jurisdiction and order
4 WELLS FARGO, its agents, subsidiaries, and affiliated companies to cease
5 and desist from the unlawful conduct described above, and hereafter
6 modify their lending practices to conform with statutory requirements.
7 The NAACP and the Class further request that the Court order WELLS
8 FARGO, its agents, subsidiaries, and affiliated companies to establish and
9 publish informative materials and programs to fully inform African
Americans about their rights to equal treatment with respect to home loans
and subprime loans. The NAACP further requests that the Court retain
jurisdiction on an ongoing basis in order to ensure and, where necessary,
enforce compliance.

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11 Dated: March ___, 2009

Respectfully submitted,

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13 _____
14 Brian S. Kabateck
15 KABATECK BROWN KELLNER LLP

16 NAACP
17 FEAZELL & TIGHE LLP
18 LAW OFFICES OF GARY L. BLEDSOE
WEBB, CASON & COVICH, P.C

19 *Attorneys for Plaintiff, NAACP, on*
20 *Behalf of Itself and Its Members*