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Two More Banks Fall to Redlining Consent Orders

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The Department of Justice has entered into a proposed consent order with two Ohio-based banks resolving allegations that the banks engaged in a pattern or practice of redlining in their mortgage lending practices by "structuring their businesses to avoid the credit needs of majority black neighborhoods" in four Ohio and Indiana MSAs. The banks, Union Savings Bank and Guardian Savings Bank, are both headquartered in Cincinnati Ohio and share common ownership and management. The consent orders come just a few weeks after the CFPB reinforced its emphasis on fair lending violations. The consent order, if approved, requires the banks to invest $7 million in loan subsidies and spend at least $2 million in advertising, outreach, financial education and community partnerships in the Cincinnati, Columbus, Dayton and Indianapolis metropolitan areas. The consent order additionally requires Union Savings Bank to add two full-service branches and Guardian Savings Bank to add one loan production office to serve the majority African American neighborhoods in their MSAs.

The complaint alleged that the banks violated both the Fair Housing Act and the Equal Credit Opportunity Act by serving the credit needs of predominantly white neighborhoods to a significantly greater extent than they served the credit needs of majority African-American neighborhoods. The complaint alleged that both banks engaged in a race-based pattern of locating branches, noting that all of the banks' branches were in majority white census tracts and that statistical analysis of their loan applications revealed significant disparities in their loan activities when compared to similar lenders in the same MSAs.

The consent order requires the banks engage an independent third party compliance management system consultant to assist in reviewing and revising their policies and practices to ensure compliance with fair lending laws. The Consent Order additionally requires that the banks:

- Conduct a detailed assessment of their policies and practices regarding "branch locations; loan officers' solicitation of applications, including the geography covered by loan officers; product availability at branch locations; loan officers; assignment, training, oversight, and compensation; marketing; and fair lending compliance monitoring."

- Submit a plan that includes a program for ongoing fair lending statistical monitoring of loan applications and originations, including statistical peer analysis of applications and originations from majority African-American census tracts.
- Provide training to all employees with significant involvement in mortgage lending to ensure their activities are conducted in a non-discriminatory manner and address the Fair Housing Act and the Equal Credit Opportunity Act and that the banks document employees' participation and proficiency.
- Prepare a credit assessment of the needs of majority African-American census tracts within their MSAs including analysis of demographic and socioeconomic data of those tracts, an evaluation of the credit needs and lending opportunities in those neighborhoods and a review of affordable loan products offered by other lenders and how products with those features can be adopted by the banks.
- Expand into majority African American neighborhoods. Specifically, the Order requires Union Bank to open two new branches in majority African American tracts and requires Guardian to open one loan production office in a majority African-American tract.
- Partner with local community-based organizations or government organizations to provide residents in majority African American census tracts with loan products. The banks are required to spend $750,000.00 over the term of the Consent Order.
- Advertise and conduct outreach in majority African American census tracts to effectively communicate the availability of the Loan Subsidy Program required by the Consent Oder and generate applications for mortgage loans from qualified residents in the majority African American census tracts. The banks are required to spend $625,000 over the term of the Consent Order.
- Develop and Implement a consumer financial education and credit report program which includes the sponsoring of a minimum of twelve financial education events a year and the provision of a program for credit establishment or repair assistance to residents of majority African-American census tracts.
- Provide a minimum of $7 million dollars in loan subsidies to residents and small businesses operating in majority African American census tracts within the banks MSAs.
- Maintain records relating to their compliance with the Consent Order and provide annually their HMDA data and a report as to their compliance to the Department of Justice to assist it in monitoring the banks' compliance with the Order.

The Consent Order will remain in effect for 63 months. A couple of other points worth noting:

- As with most consent orders, the order is made without any admission of liability;
- The DOJ's findings are based upon a review of the banks' HMDA data and a comparison of that data with HMDA data from other banks operating in the same MSAs. Of particular note are allegations in the complaint comparing the percentage of mortgage applications generated and loans originated by both banks in majority black tracts compared with other "comparable lenders" in the same MSAs in the same time period; and
- The MSAs in question are in metropolitan areas which are highly segregated. This undoubtedly makes these MSAs areas and others that are similar in racial makeup

areas of focus for the DOJ.

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