

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
CORPUS CHRISTI DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

TEXAS CHAMPION BANK,

Defendant.

CIVIL ACTION NO.

COMPLAINT

The United States of America alleges:

1. This action is brought by the United States to enforce the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f (“ECOA”).
2. From at least 2006 to 2010, Defendant Texas Champion Bank (“Texas Champion” or “the Bank”) engaged in a pattern or practice of discrimination on the basis of national origin because it charged Hispanic borrowers higher interest rates on unsecured consumer loans compared to the rates charged to similarly situated white borrowers. In more than 1,000 instances, Texas Champion charged a Hispanic borrower a higher interest rate than a white borrower with a similar credit and risk profile.
3. This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331 and 1345 and 15 U.S.C. § 1691e(h).

4. Venue is proper pursuant to 28 U.S.C. §§ 1391(b) and (c) because Defendant resides in the Southern District of Texas and because a substantial part of the events or omissions giving rise to this action occurred in the Southern District of Texas.

5. Defendant Texas Champion is a state-chartered bank based in Alice, Texas. Texas Champion operates thirteen branches in South Texas in Alice, Beeville, Benavides, Charlotte, Corpus Christi, George West, Kenedy, Mathis, Pleasanton, San Antonio, and San Diego.

6. Texas Champion offers a variety of loan products, including mortgage loans, consumer loans, commercial loans, and agricultural loans. The Bank originates its loans through loan officers operating at one or more of its thirteen branches.

7. As of September 30, 2011, the Bank had total assets of \$338 million and total equity capital of \$32.14 million. Texas Champion is subject to the regulatory authority of the Federal Deposit Insurance Corporation ("FDIC").

8. Texas Champion is subject to federal laws governing fair lending, including ECOA and the regulations promulgated thereunder. ECOA prohibits financial institutions from discriminating on the basis of, *inter alia*, national origin in their lending practices. Charging higher prices for loans on the basis of national origin, including charging higher rates of interest, is one of the discriminatory lending practices prohibited by ECOA. Texas Champion is a "creditor" within the meaning of section 702(e) of ECOA, 15 U.S.C. § 1691a(e).

9. Beginning in March 2010, the FDIC conducted an examination of the lending practices of Texas Champion to evaluate compliance with ECOA. Based on analysis of the average rates of interest that the Bank charged on unsecured consumer loans made between

February 1, 2009 and January 21, 2010, the FDIC found reason to believe that Texas Champion had engaged in a pattern or practice of discrimination on the basis of national origin against Hispanic borrowers.

10. On December 6, 2010, following its examination, the FDIC referred the lending practices of Texas Champion to the United States Department of Justice pursuant to 15 U.S.C. § 1691e(g).

11. After receiving the referral from the FDIC, the United States analyzed the interest rates that Texas Champion charged for unsecured consumer loans originated between January 1, 2006 and March 31, 2011. The United States also reviewed and evaluated the Bank's loan policies, procedures, and practices for that time period.

12. Prior to June 1, 2010, Texas Champion provided only general guidance to its loan officers regarding the pricing of unsecured consumer loans. The Bank's Credit Policy and Procedures Guide provided the following general, non-exclusive list of factors for loan officers to consider when setting rates:

- (a) Money market conditions
- (b) Local economic conditions
- (c) Liquidity of the total asset portfolio
- (d) State usury statutes
- (e) Competitive lending practices
- (f) The total customer relationship (past, present, and future)
- (g) The term of the loan
- (h) The Banks [sic] profit objectives

13. The Credit Policy and Procedures Guide stated that it was a "broad guide" for loan officers, and that "ultimate responsibility" for credit decisions rested with individual officers. The Bank did not use a uniform pricing system such as a matrix or rate sheet and did not have specific pricing guidelines; loan officers had broad subjective discretion to set interest rates on unsecured consumer loans.

14. Between at least January 1, 2006 and June 1, 2010, Texas Champion made approximately 2,025 loans to Hispanic borrowers. During this period, Texas Champion charged interest rates to Hispanic borrowers for unsecured consumer loans that were 176 basis point¹ higher, on average, than the rates charged to non-Hispanic borrowers. This disparity is statistically significant.

15. After accounting for relevant loan and borrower credit factors, including loan term, debt-to-income ratio, indicators of the borrower's credit history, and the prime rate at the time the loan was originated, Texas Champion charged interest rates to Hispanic borrowers between at least January 1, 2006 and June 1, 2010 that were 123 basis points higher, on average, than the rates charged to similarly situated non-Hispanic borrowers. This disparity is statistically significant.

16. The differences in interest rates charged to Hispanic borrowers and those charged to non-Hispanic borrowers cannot be explained by factors unrelated to national origin.

17. The higher rates of interest that Texas Champion charged to Hispanic borrowers for unsecured consumer loans are a result of Texas Champion's policy or practice of giving its employees broad subjective discretion in setting the interest rate for unsecured consumer loan

¹ One basis point represents one hundredth of a percentage point (0.01%).

transactions. Information as to each applicant's national origin was available and known to the Bank's loan officers, who personally handled each loan transaction at one of Bank's thirteen branch offices. Texas Champion did not properly instruct its loan officers regarding their obligation to treat prospective customers without regard to national origin, and the Bank has failed to supervise or monitor the performance of its loan officers to ensure compliance with fair lending laws.

18. Texas Champion's policy or practice of giving its employees broad subjective discretion in handling every aspect of the unsecured consumer loan transaction has had a disparate detrimental impact on Hispanic borrowers compared to similarly situated non-Hispanic borrowers and is not justified by business necessity or legitimate business interests.

19. Texas Champion's actions, policies, and practices, as alleged herein, constitute discrimination against applicants with respect to credit transactions on the basis of national origin in violation of ECOA.

20. Texas Champion's actions, policies, and practices, as alleged herein, constitute a pattern or practice of resistance to the full enjoyment of rights secured by ECOA.

21. Persons who have been victims of Texas Champion's discriminatory actions, policies and practices are affected persons as defined in ECOA, 15 U.S.C. § 1691e, and have suffered injury and damages as a result of Texas Champion's violation of ECOA.

22. Texas Champion's pattern or practice of discrimination has been intentional, willful, and implemented with reckless disregard for the rights of Hispanic borrowers.

WHEREFORE, the United States prays that the Court enter an ORDER that:

1. Declares that the policies and practices of the Defendant constitute violations of the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f;

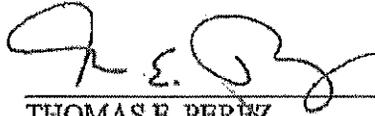
2. Enjoins the Defendant, its agents, employees, and successors, and all other persons in active concert or participation with it, from:
 - a. Discriminating on the basis of national origin against any person with respect to any aspect of a credit transaction;
 - b. Failing or refusing to take such affirmative steps as may be necessary to restore, as nearly as practicable, the victims of the Defendant's unlawful conduct to the position they would have been in but for the discriminatory conduct; and
 - c. Failing or refusing to take such actions as may be necessary to prevent the recurrence of any such discriminatory conduct in the future.
3. Awards monetary damages, pursuant to 15 U.S.C. § 1691e(h), to all persons harmed by the Defendant's discriminatory policies and practices.

The United States further prays for such additional relief as the interests of justice may require.

Dated: February 19, 2013

Respectfully submitted,

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Assistant Attorney General
Civil Rights Division

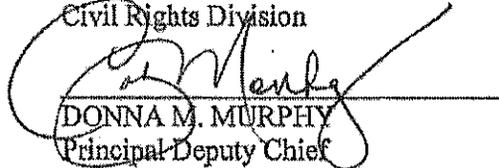


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