

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

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CLERK OF DISTRICT COURT

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
 v.)
)
CHEVY CHASE BANK, F.S.B.,)
through its Successor in Interest,)
)
Defendant.)
_____)

No. 1:13-cv-1214
(AJT/JFA)

COMPLAINT

The United States of America alleges:

INTRODUCTION

1. The United States brings this action to remedy discrimination by Chevy Chase Bank, F.S.B. (“Chevy Chase Bank”) against more than 3,100 African-American and Hispanic residential mortgage borrowers. This action is brought to enforce the Fair Housing Act, 42 U.S.C. §§ 3601-3619 (FHA), and the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f (ECOA), and to redress discrimination based on race and national origin engaged in by Chevy Chase Bank between 2006 and 2009. Capital One, N.A. (“Capital One”), purchased Chevy Chase Bank in 2009, and as its successor in interest is responsible for remedying FHA and ECOA violations by Chevy Chase Bank and its subsidiaries.

2. From 2006 to 2009, Chevy Chase Bank annually originated between 4,000 and 6,500 mortgage loans through its retail loan officers, making it one of the Washington, D.C. region’s largest mortgage lenders in each of those years. Chevy Chase Bank originated these retail loans through its subsidiaries, Chevy Chase Mortgage and B.F. Saul Mortgage Company. During

2006 and 2007, Chevy Chase Bank also originated between 5,000 and 6,000 loans throughout the country through its wholesale lending channels using mortgage brokers.

3. As a result of Chevy Chase Bank's policies and practices, African-American and Hispanic borrowers paid Chevy Chase Bank higher loan interest rates, fees and costs for their home mortgages than non-Hispanic White borrowers ("White borrowers"), not based on their creditworthiness or other objective criteria related to borrower risk, but because of their race or national origin.

4. Chevy Chase Bank's discrimination increased loan prices for many of the African-American and Hispanic borrowers who obtained loans between 2006 and 2009 through offices operated in Maryland and Virginia by Chevy Chase Bank's subsidiaries, B.F. Saul Mortgage Company and Chevy Chase Mortgage. Chevy Chase Bank's discrimination also increased loan prices for many of the African-American and Hispanic borrowers located across the United States who obtained loans between 2006 and 2007 through Chevy Chase Bank's national network of mortgage brokers.

5. The victims of Chevy Chase Bank's discrimination were located in geographic markets spread across the country, with a concentration located in the Washington-Arlington-Alexandria DC-VA-MD-WV metropolitan area. Approximately 44% of the victims are African-American and 56% are Hispanic.

6. While it knew that African-American and Hispanic borrowers were being charged higher interest rates, fees and costs than similarly-situated White borrowers, Chevy Chase Bank maintained compensation systems that created financial incentives for loan officers to charge

“overages” and to minimize “underages.” These financial incentives resulted in discrimination against African-American and Hispanic borrowers.

7. An “overage” is an additional fee charged to borrowers above the rate-sheet price of mortgage loans. An overage raises the total cost to borrowers above what they would pay if the loans were closed using the prices that were set based on the borrowers’ objective credit characteristics. An “underage” is a price concession that reduces the rate-sheet price of a loan. An underage lowers the total cost to borrowers below what they would pay if the loans were closed using the prices that were set based on the borrowers’ objective credit characteristics.

8. The higher interest rates, fees and costs Chevy Chase Bank charged to African-American and Hispanic families – whether paid as higher up-front fees or higher interest rates – put increased economic burdens on those families.

9. The United States brings this lawsuit to hold Capital One accountable for Chevy Chase Bank’s serious violations of law and remedy the substantial and widespread harmful consequences of Chevy Chase Bank’s discriminatory lending policies and practices.

10. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1345, 42 U.S.C. § 3614, and 15 U.S.C. § 1691e(h). Venue is appropriate pursuant to 28 U.S.C. § 1391.

DEFENDANT

11. Chevy Chase Bank was one of the leading mortgage lenders in the Washington, DC region,¹ with its principal place of business at 7926 Jones Branch Drive, McLean, Virginia. During the period of time relevant to the events at issue in this Complaint, Chevy Chase Bank was subject to the regulatory authority of the Office of Thrift Supervision.

¹ Chevy Chase Bank was in the top 5% of mortgage lenders in the Washington, D.C. primary metropolitan statistical area (“PMSA”) in 2006 by number of loan originations. In 2007 and 2008, Chevy Chase Bank was in the top 3% of mortgage lenders in the Washington, D.C. PMSA by number of loan originations.

12. Chevy Chase Bank was subject to federal laws prohibiting lending discrimination, including the FHA and the ECOA and the regulations promulgated under each of those laws. The FHA and the ECOA prohibit lenders from discriminating on the basis of, *inter alia*, race or national origin in their lending practices. Charging higher prices for loans on the basis of race or national origin, including charging higher discretionary fees at the time of origination and charging higher rates of interest, is a discriminatory lending practice prohibited by the FHA and the ECOA.

13. Chevy Chase Bank was a “creditor” within the meaning of the ECOA, 15 U.S.C. § 1691a(e), and it engaged in “residential real estate-related transactions” within the meaning of the FHA, 42 U.S.C. § 3605. Chevy Chase Bank also was subject to the Home Mortgage Disclosure Act (HMDA), 12 U.S.C. § 2803, which requires mortgage lenders to collect and maintain data on the race and national origin of each applicant for a home loan.

REFERRAL FROM BANK REGULATORY AGENCY

14. In February 2009, Capital One purchased Chevy Chase Bank. Capital One is a wholly-owned subsidiary of Capital One Financial Corporation, a member of the Federal Reserve System. In connection with the merger, the Office of the Comptroller of the Currency (OCC), which regulated Capital One, conducted a pre-conversion examination, which revealed various deficiencies in Chevy Chase Bank’s fair lending program. Accordingly, the OCC directed Capital One to: (1) conduct a fair lending analysis of Chevy Chase Bank’s 2006, 2007 and 2008 home mortgage lending activity; (2) conduct an assessment of Chevy Chase Bank’s fair lending risk; and (3) develop action plans to address any significant fair lending findings. Capital One conducted an internal review and found statistically significant disparities favoring

White borrowers over minority borrowers in Chevy Chase Bank's retail, fixed-rate, first-lien loan program in 2008. Capital One attributed these disparities to practices at Chevy Chase Bank's Springfield/Tyson's Corner and Virginia Beach branches. Capital One also conducted an analysis of the Pay Option Adjustable Rate Mortgage product. Capital One's analysis found statistically significant pricing disparities favoring White borrowers over minority borrowers in 2006 and 2007. These disparities were attributable largely to the wholesale channel.

15. The OCC reviewed Capital One's analysis and conducted its own analysis of Chevy Chase Bank's home mortgage lending activity. In addition to confirming the existence of disparities at the Springfield/Tyson's Corner and Virginia Beach branches, the OCC found disparities favoring White borrowers over minority borrowers at two additional branches—Newport News and Bethesda. The OCC also determined that the charging of discretionary overages was the cause of the pricing disparities it identified. The OCC determined that the sole purpose of the overages was to provide additional compensation to loan officers, and that the overages were not based on the borrower's creditworthiness or the cost of origination. The OCC concluded that Chevy Chase Bank's management did not have adequate procedures in place to monitor how overages were charged or ensure that they did not vary based on race or national origin. The OCC also conducted a comparative loan file review and did not identify any borrower credit characteristics or loan features that would explain the disparities. As a result of its review, the OCC determined that it had reason to believe that Chevy Chase Bank had engaged in a pattern or practice of discrimination on the basis of race, color, and ethnicity, in violation of the FHA and the ECOA.

16. Following its determination described in the previous Paragraph, and pursuant to 15 U.S.C. § 1691e(g), the OCC referred the matter to the United States Department of Justice on September 24, 2010. Through a series of tolling agreements, Capital One agreed to a suspension of the running of any applicable statute of limitation from October 14, 2010, to February 13, 2011, from May 3, 2011, through September 14, 2012, and from February 27, 2013, to September 30, 2013, for “any cause of action or related claim or remedy that could have been brought against the Bank by the Department of Justice under the FHA, HUD’s Fair Housing Regulations, ECOA and/or Regulation B.”

17. The Department of Justice, based on the OCC’s referral and its independent authority under the FHA and ECOA, has engaged since 2010 in an investigation of Chevy Chase Bank’s retail and wholesale mortgage lending policies, practices, and procedures, including reviewing internal company documents and non-public loan-level data on more than 36,000 residential mortgage loans Chevy Chase Bank originated between 2006 and 2009.

FACTUAL ALLEGATIONS

18. Beginning prior to January 2006 and continuing through at least February 2009, Chevy Chase Bank originated residential mortgage loans through its retail channel, with eight loan production offices in Maryland and Virginia. Chevy Chase Bank also maintained a wholesale channel, which originated loans through 2007.

Retail Lending Pricing

19. Between 2006 and 2009, Chevy Chase Bank charged African-American and Hispanic retail borrowers higher interest rates, fees, and costs than White retail borrowers because of their race or national origin and not based on their creditworthiness or other objective criteria related to borrower risk. It was Chevy Chase Bank's business practice to allow its employees who originated loans through its retail channel to vary a loan's interest rate and other fees from the price initially set based on a borrower's objective credit-related factors. This subjective and unguided pricing discretion resulted in African-American and Hispanic borrowers paying more -- not based on borrower risk -- than White borrowers. As a result of Chevy Chase Bank's discriminatory retail pricing practices, an African-American or Hispanic borrower paid, on average, hundreds of dollars more for a Chevy Chase Bank retail loan than White borrowers.

20. Chevy Chase Bank's retail pricing monitoring efforts, while inadequate to remedy discriminatory practices against African-American and Hispanic borrowers between 2006 and 2009, were sufficient to put it on notice of widespread pricing disparities based on race and national origin. Even though Chevy Chase Bank had reason to know there were retail pricing disparities based on race and national origin, the Bank did not act to determine the full scope of these disparities, nor did it take prompt and effective action to eliminate unjustified disparities.

21. Before January 2006 and continuing through at least February 2009, Chevy Chase Bank set prices, including the interest rate and points, for its various retail mortgage loan products based on the current market rates of interest and the price it would receive by selling loans to investors, plus a profit margin for Chevy Chase Bank. These prices were communicated

through “rate sheets,” which were available to its retail mortgage loan officers and other retail lending employees.

22. Before January 2006 and continuing through at least February 2009, Chevy Chase Bank gave its retail mortgage loan officers discretion to charge borrowers more than the rate sheet price (an “overage”) of up to one percentage point, or to offer a pricing concession (an “underage”) of up to one percentage point. These overages and underages were not related to loan terms or to a borrower’s objective credit characteristics.

23. Retail mortgage loan officers’ compensation varied based on these discretionary pricing adjustments. Loan officers retained up to half of the overages they charged for loans originated through B.F. Saul Mortgage Company, and a quarter of the overages originated through Chevy Chase Mortgage. The compensation system rewarded loan officers with extra compensation for making loans with overages – the greater the overage, the greater the additional compensation. The compensation system also created incentives to make any underages as small as possible.

24. Chevy Chase Bank continued to allow mortgage loan officers to charge overages and raise their compensation through discretionary pricing until at least February 2009, when the bank was acquired by Capital One.

25. Between at least January 2006 and at least February 2009, Chevy Chase Bank did not establish objective criteria, or provide guidelines, instructions, or procedures to its retail mortgage loan officers, for setting overages or underages.

26. Charging a higher net overage on the basis of race or national origin, whether through Chevy Chase Bank’s inclusion of a greater overage or a smaller underage in the price of

the mortgage loan, is a discriminatory lending practice by Chevy Chase Bank prohibited by the FHA and the ECOA.

27. For each retail mortgage loan that Chevy Chase Bank originated, information about each borrower's race and national origin was available to, and was known by, Chevy Chase Bank. Chevy Chase Bank was required to collect, maintain, and report data with respect to significant mortgage loan terms and borrower information for residential loans, including the race and national origin of each retail home loan borrower, pursuant to HMDA. In addition to the information required by HMDA, Chevy Chase specifically tracked overages and underages for each loan it originated.

28. Statistical analyses of retail mortgage loans originated by Chevy Chase Bank between January 2006 and February 2009 demonstrate statistically significant discriminatory pricing disparities in retail mortgage loans based on race and national origin. Statistical significance is a measure of probability that an observed outcome would not have occurred by chance. As used in this Complaint, an outcome is statistically significant if the probability that it could have occurred by chance is less than 5%.

29. In each year between 2006 and 2009, Chevy Chase Bank charged qualified African-American and Hispanic retail borrowers (borrowers whom Chevy Chase Bank determined had the credit characteristics to qualify for a home mortgage) more in pricing adjustments that were not based on borrower risk than it charged White retail borrowers. These differences are demonstrated by the annual net overage disparities for the years 2006, 2007, and 2008-2009

(combined)², which range between approximately 7 and 27 basis points³, and they are statistically significant.

30. In the Bethesda branch, there were statistically significant disparities favoring White borrowers over African-American borrowers of approximately 19 basis points in 2006, 23 basis points in 2007, and 14 basis points in 2008-2009; in the Columbia branch, these disparities were approximately 15 basis points in 2006, 20 basis points in 2007, and 16 basis points in 2008-2009; in the Home Loan Express office, these disparities were approximately 6 basis points in 2006 and 8 basis points in 2008-2009; in the Newport News branch, these disparities were approximately 13 basis points in 2006, 17 basis points in 2007, and 20 basis points in 2008-2009; in the Reston branch, these disparities were approximately 22 basis points in 2006; in the Springfield/Tyson's Corner branch, these disparities were approximately 38 basis points in 2007. For Chevy Chase Mortgage, these disparities were approximately 13 basis points in 2007 and 14 basis points in 2008-2009. These disparities were not based on borrower risk. There were no branches at which Chevy Chase Bank charged White borrowers statistically significant higher net overages for retail loans than African-American borrowers in any given year.

31. In the Home Loan Express office, there were statistically significant disparities favoring White borrowers over Hispanic borrowers of approximately 4 basis points in 2007 and 14 basis points in 2008-2009; in the Reston branch, these disparities were approximately 23 basis points in 2006 and 37 basis points in 2007; in the Springfield/Tyson's Corner branch, these disparities were approximately 38 basis points in 2006, 60 basis points in 2007 and 47 basis

² For purposes of analysis, loans originated in January and February of 2009 are combined with loans originated in 2008.

³ A "basis point" is a percentage of the total amount of a loan, with one hundred basis points equaling one percent of the loan amount.

points in 2008-2009; in the Virginia Beach branch, these disparities were approximately 72 basis points in 2008-2009. These disparities were not based on borrower risk. There were no branches at which Chevy Chase Bank charged White borrowers statistically significant higher net overages for retail loans than Hispanic borrowers in any given year.

32. These net overage disparities mean, for example, that in 2007 Chevy Chase Bank would have charged a hypothetical retail customer in the Springfield/Tyson's Corner branch borrowing \$250,000⁴ an average of about \$950 more in pricing adjustments if the borrower were African-American, than the average amount charged to a White borrower. In 2008, Chevy Chase Bank would have charged a hypothetical retail customer in the Virginia Beach branch borrowing \$250,000 an average of about \$1,800 more in pricing adjustments if the borrower were Hispanic, than the average amount charged to a White borrower. The increases in price would not have been based on borrower risk factors.

33. In setting the terms and conditions for its retail mortgage loans, including interest rates, points, and fees, Chevy Chase Bank accounted for individual borrowers' differences in credit risk characteristics by setting the prices shown on its rate sheets for each loan product to include its assessment of applicant creditworthiness. Chevy Chase Bank's loan officers' pricing adjustments, as measured by net overage, were separate from and not controlled by the credit risk adjustments already reflected in the rate sheets. Accordingly, the racial and national origin net overage disparities described in Paragraphs 30-31 are not adjusted for borrowers' credit risk characteristics.

⁴ The mean loan amount for the retail loans at issue was approximately \$246,000 for African-American borrowers in 2006, \$237,000 for African-American borrowers in 2007; \$222,000 for African-American borrowers in 2008-2009; \$295,000 for Hispanic borrowers in 2006; \$285,000 for Hispanic borrowers in 2007; and \$251,000 for Hispanic borrowers in 2008-2009.

34. The disparities in net overage described in Paragraphs 30-31 were for African-American and Hispanic retail borrowers who Chevy Chase Bank determined had the credit characteristics to qualify for a home mortgage loan. These disparities resulted from the implementation and interaction of Chevy Chase Bank's policies and practices that: (a) allowed subjective and unguided pricing adjustments not based on borrower risk by its own employees, including retail mortgage loan officers, in setting overages and underages and then including those overages and underages in the terms and conditions of loans Chevy Chase Bank originated; (b) did not require its employees to justify or document the reasons for many of the pricing adjustments not based on borrower risk; (c) failed to adequately monitor for and fully remedy the effect of racial disparities in those pricing adjustments; and (d) linked loan officer compensation in part to the charging of overages and underages. Net overage specifically measures the pricing variation caused by the subjective and unguided pricing adjustments not based on borrower risk. Chevy Chase Bank continued to use this non-risk-based component of its overall retail loan pricing policy, to inadequately document and review the implementation of that pricing component, and to link loan officer compensation to overages and underages through at least February 2009, when it was acquired by Capital One.

35. Chevy Chase Bank's policies and practices identified in the previous Paragraph were not justified by business necessity or legitimate business interests. There were less discriminatory alternatives available to Chevy Chase Bank than these policies or practices.

36. Chevy Chase Bank had knowledge that the subjective and unguided discretion it granted to mortgage loan officers in its retail mortgage loan pricing policies and practices was being exercised in a manner that resulted in African-American and Hispanic borrowers paying

more in interest rates, fees and costs than similarly-situated White borrowers, but it continued to implement its policies and practices with that knowledge. Chevy Chase Bank did not take effective action before it was acquired by Capital One to change the pricing adjustment policies or practices to fully eliminate the discrimination, nor did it change its compensation policy to discourage the charging of overages or the provision of underages. It did not act before it was acquired by Capital One to identify or compensate the individual borrowers who were victims of its discriminatory retail mortgage loan pricing policies or practices.

Wholesale Lending Pricing

37. In 2006 and 2007, Chevy Chase Bank charged African-American and Hispanic wholesale borrowers higher fees and costs than White wholesale borrowers, not based on their creditworthiness or other objective criteria related to borrower risk, but because of their race or national origin. It was Chevy Chase Bank's business practice to allow mortgage brokers who generated loan applications through its wholesale channel to vary a loan's interest rate and other fees from the price initially set based on a borrower's objective credit-related factors. This subjective and unguided pricing discretion resulted in higher loan costs that were not based on borrower risk for African-American and Hispanic borrowers compared with White borrowers; this was true both on a nationwide basis and in dozens of geographic markets where Chevy Chase Bank originated a large volume of wholesale loans. As a result of Chevy Chase Bank's discriminatory wholesale pricing practices, African-American and Hispanic borrowers paid, on average, hundreds of dollars more for a Chevy Chase Bank wholesale loan.

38. Chevy Chase Bank's wholesale pricing monitoring efforts, while inadequate to remedy discriminatory practices against African-American and Hispanic borrowers in 2006 and

2007, were sufficient to put it on notice of widespread pricing disparities based on race and national origin. Even when Chevy Chase Bank had reason to know there were disparities, however, Chevy Chase Bank did not act to determine the full scope of these wholesale pricing disparities, nor did it take prompt and effective action to eliminate those disparities.

39. Prior to January 2006 and continuing until December 2007, Chevy Chase Bank originated and funded residential mortgage loans through a wholesale channel. Applications for these loans were brought to Chevy Chase Bank by mortgage brokers throughout the United States who had entered into contracts with Chevy Chase Bank for the purpose of bringing mortgage loan applications to it for origination and funding.

40. Chevy Chase Bank was directly and extensively involved in setting the complete terms and conditions of wholesale mortgage loans. Chevy Chase Bank evaluated the risk of making each wholesale mortgage loan using Chevy Chase Bank's underwriting guidelines and determined whether to originate and fund the loan.

41. Before January 2006 and continuing through December 2007, Chevy Chase Bank set prices, including the interest rate and points, for its various wholesale home mortgage loan products based on the current market rates of interest and the price it would receive by selling loans to investors, plus a profit margin for Chevy Chase Bank. These prices were communicated to its mortgage brokers through "rate sheets."

42. Chevy Chase Bank mortgage brokers determined the interest rate, fees, and points to quote individual mortgage loan applicants based on their objective credit characteristics. Individual loan applicants did not have access to the rate sheets or pricing adjustment

worksheets, and could not apply for a wholesale mortgage loan from Chevy Chase Bank except at the price quoted by their mortgage broker.

43. Before January 2006 and continuing through December 2007, Chevy Chase Bank gave its mortgage brokers discretion to increase or decrease the loan price that was set based on the borrower's objective credit characteristics using the rate sheets. This step of pricing wholesale loans permitted mortgage brokers to exercise subjective, unguided discretion in setting the final price Chevy Chase Bank charged to individual borrowers, unrelated to a borrower's credit risk characteristics.

44. Mortgage brokers who supplied Chevy Chase Bank with mortgage loan applications that Chevy Chase Bank funded were compensated in two ways. One was through a yield spread premium ("YSP"), an amount paid by Chevy Chase Bank to the brokers based on the extent to which the interest rate charged on a mortgage loan exceeded the rate set by Chevy Chase Bank based on a borrowers' particular credit qualifications. The second way brokers were compensated was through direct fees paid to brokers out of borrowers' funds, including loan proceeds at the loan closing.

45. Based on these two forms of compensation, Chevy Chase Bank calculated the "total compensation" charged on each wholesale mortgage loan. Higher total compensation raised the borrower's price for a loan, through a higher note interest rate, a higher final annual percentage rate charged on a loan, and/or a higher final total amount borrowed. Chevy Chase Bank continued to allow mortgage brokers to charge YSPs and raise their compensation through pricing adjustments through December 2007.

46. During the time period at issue, Chevy Chase Bank was fully informed of all broker compensation to be charged with respect to each individual residential loan application presented to it. Chevy Chase Bank exercised its right to control broker compensation, but it left wide discretion to mortgage brokers on the compensation charge that Chevy Chase Bank included in the terms of the loan between at least January 2006 and December 2007. Beginning prior to January 2006 and continuing through December 2007, Chevy Chase Bank's policy and practices allowed brokers subjective, unguided discretion in setting the amount of broker compensation charged to individual borrowers. From at least January 1, 2006, through the time it ceased making wholesale loans, Chevy Chase Bank capped total broker compensation charged to wholesale borrowers at 5% of the total loan amount. This cap allowed wide discretion to mortgage brokers because the maximum permissible amount far exceeded the average total compensation charged by its mortgage brokers between 2006 and 2007.

47. Other than this cap, Chevy Chase Bank did not establish any objective criteria, or provide guidelines, instructions, or procedures to be followed by brokers in setting the amount of total compensation to be charged to borrowers. Mortgage brokers exercised the pricing discretion Chevy Chase Bank gave them, untethered to any objective credit characteristics, on every loan they brought to Chevy Chase Bank for origination and funding. Chevy Chase Bank affirmed or ratified these discretionary pricing adjustments for all the wholesale loans it originated and funded. Chevy Chase Bank did not review the reasonableness of charges that fell within the ceiling before including them in the terms of the loan.

48. Charging higher total compensation on the basis of race and national origin, whether through Chevy Chase Bank's inclusion of a higher YSP or higher direct broker fees in the price

of the mortgage loan, is a discriminatory lending practice by Chevy Chase Bank prohibited by the FHA and the ECOA.

49. For each wholesale mortgage loan that Chevy Chase Bank originated, information about each borrower's race and national origin, the amount and types of broker fees paid, and the effect of broker fees on each borrower's annual percentage rate (APR), was available to, and was known by, Chevy Chase Bank prior to the approval and funding of the loan. Under HMDA, Chevy Chase Bank was required to collect, maintain, and report data with respect to significant mortgage loan terms and borrower information for residential loans, including the race and national origin of each wholesale home loan borrower.

50. Statistical analyses of wholesale mortgage loans originated by Chevy Chase Bank between January 2006 and December 2007 demonstrate statistically significant discriminatory pricing disparities in wholesale mortgage loans based on race and national origin.

51. Measured on a nationwide basis by APR, Chevy Chase Bank in 2007 charged qualified African-American borrowers (borrowers whom Chevy Chase Bank determined had the credit characteristics to qualify for a home mortgage) more in pricing adjustments not based on borrower risk for wholesale loans than White borrowers. The annual APR disparity was approximately 4.9 basis points in 2007.

52. Measured on a nationwide basis by APR, Chevy Chase Bank in 2006 and 2007 charged qualified Hispanic borrowers (borrowers whom Chevy Chase Bank determined had the credit characteristics to qualify for a home mortgage) more in pricing adjustments not based on borrower risk for wholesale loans than White borrowers. The annual APR disparities were approximately 7.5 and 7.1 basis points, respectively, in 2006 and 2007.

53. These APR disparities mean, for example, that in 2006 Chevy Chase Bank charged a hypothetical wholesale customer borrowing \$400,000⁵ an average of about \$300 more per year if he were Hispanic, than the average amount charged to a White borrower. In 2007, Chevy Chase Bank charged a hypothetical wholesale customer borrowing \$400,000 an average of about \$196 more per year if he were African-American and an average of \$284 more per year if he were Hispanic, than the average amount Chevy Chase Bank charged in pricing adjustments not based on borrower risk to a White borrower.

54. The statistically significant race and national origin disparities in APR described in Paragraphs 51-52 for qualified African-American and Hispanic wholesale borrowers (borrowers whom Chevy Chase Bank determined had the credit characteristics to qualify for a home mortgage) resulted from the implementation and the interaction of Chevy Chase Bank's policies and practices that: (a) allowed mortgage brokers subjective and unguided discretion in setting pricing adjustments for wholesale loans that were not based on credit risk characteristics and were determined after the loan price had been established based on credit risk characteristics; (b) did not require mortgage brokers to justify or document the reasons for the amount of pricing adjustments not based on credit risk characteristics; (c) failed to adequately monitor for and fully remedy the effects of race and national origin disparities in APR; and (d) created a financial incentive for mortgage brokers to charge interest rates above the interest rates Chevy Chase Bank had set based on credit risk characteristics. Chevy Chase Bank continued to use these discretionary wholesale pricing policies, to inadequately document and review the broker fees

⁵ The mean loan amount for the wholesale loans at issue was approximately \$412,000 for African-American borrowers in 2006, \$403,000 for African-American borrowers in 2007, \$466,000 for Hispanic borrowers in 2006, and \$465,000 for Hispanic borrowers in 2007.

charged to Chevy Chase Bank customers, and to incentivize upward broker adjustments to pricing through the end of 2007.

55. Chevy Chase Bank's policies and practices identified in the previous paragraph were not justified by business necessity or legitimate business interests. There were less discriminatory alternatives available to Chevy Chase Bank than these policies or practices.

56. Chevy Chase Bank had knowledge that the subjective and unguided discretion it granted to mortgage brokers in its wholesale mortgage loan pricing policies and practices was being exercised in a manner that discriminated against African-American and Hispanic borrowers, but continued to implement its policies and practices with that knowledge. Chevy Chase Bank did not take effective action before it ceased originating wholesale loans at the end of 2007 to change the pricing adjustment policies or practices to fully eliminate their discriminatory impact. Nor did it change its compensation policy to discourage the charging of higher pricing adjustments or to identify or compensate the individual borrowers who were victims of its discriminatory wholesale mortgage loan pricing policies or practices.

FAIR HOUSING ACT and EQUAL CREDIT OPPORTUNITY ACT VIOLATIONS

57. Chevy Chase Bank's residential lending-related policies and practices and the policies and practices it followed in residential credit transactions as alleged herein constitute:

- a. Discrimination on the basis of race and national origin in making available, or in the terms or conditions of, residential real estate-related transactions, in violation of the Fair Housing Act, 42 U.S.C. § 3605(a);

b. Discrimination on the basis of race and national origin in the terms, conditions, or privileges of the provision of services in connection with the sale of a dwelling, in violation of the Fair Housing Act, 42 U.S.C. § 3604(b); and

c. Discrimination against applicants with respect to credit transactions on the basis of race and national origin in violation of the Equal Credit Opportunity Act, 15 U.S.C. § 1691(a)(1).

58. Chevy Chase Bank's residential lending-related policies and practices as alleged herein constitute:

a. A pattern or practice of resistance to the full enjoyment of rights secured by the Fair Housing Act, 42 U.S.C. §§ 3601-3619, and the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f; and

b. A denial of rights granted by the Fair Housing Act to a group of persons – both African-Americans and Hispanics – that raises an issue of general public importance.

59. Between 2006 and 2009, at least 3,100 persons have been victims of Chevy Chase Bank's pattern or practice of discrimination and denial of rights as alleged herein. In addition to higher direct economic costs, some of the victims of discrimination suffered additional consequential economic damages resulting from having an excessively costly loan, including possible increased risk of credit problems, and other damages, including emotional distress. They are aggrieved persons as defined in the Fair Housing Act, 42 U.S.C. § 3602(i), and aggrieved applicants as defined in the Equal Credit Opportunity Act, 15 U.S.C. § 1691e, and have suffered injury and damages as a result of Chevy Chase Bank's conduct.

60. Chevy Chase Bank's policies and practices, as described herein, were intentional, willful, or implemented with reckless disregard for the rights of African-American and Hispanic borrowers.

RELIEF REQUESTED

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

(1) Declares that the policies and practices of Chevy Chase Bank constitute violations of the Fair Housing Act, 42 U.S.C. §§ 3601-3619, and the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f;

(2) Enjoins Chevy Chase Bank, through its successor in interest, as well as its agents, employees, and other successors, and all other persons in active concert or participation with it, from:

a. Failing or refusing to take such affirmative steps as may be necessary to restore, as nearly as practicable, the victims of Chevy Chase Bank's unlawful conduct to the position they would have been in but for the discriminatory conduct; and

b. Failing or refusing to take such affirmative steps as may be necessary to prevent the recurrence of any such discriminatory conduct in the future; to eliminate, to the extent practicable, the effect of the Chevy Chase Bank's unlawful practices; and to implement policies and procedures to ensure that all borrowers have an equal opportunity to seek and obtain loans on a non-discriminatory basis and with non-discriminatory terms and conditions;

(3) Awards monetary damages to all the victims of Chevy Chase Bank's discriminatory policies and practices for the injuries caused by Chevy Chase Bank, including direct economic

costs, consequential economic damages, and other damages, pursuant to 42 U.S.C.

§ 3614(d)(1)(B) and 15 U.S.C. § 1691e(h); and

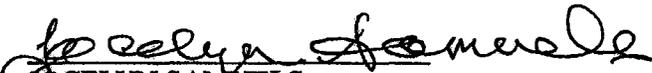
(4) Assesses a civil penalty in an amount authorized by 42 U.S.C. § 3614(d)(1)(C), in order to vindicate the public interest.

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

Dated: September 30, 2013

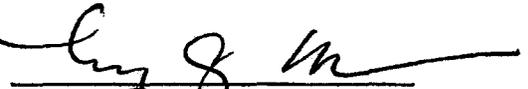
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