Attorney No. 99000

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

THE PEOPLE OF THE STATE OF ILLINOIS, Plaintiff, v. WELLS FARGO AND COMPANY, WELLS FARGO BANK, N.A., also doing business as Wells Fargo Home Mortgage, and WELLS FARGO FINANCIAL ILLINOIS, INC., Defendants.	(	09CH26434 No.

FILED
2009 JUL 31 PM 12:40
CIRCUIT COURT OF COOK COUNTY, ILLINOIS
CHANCERY DIV.
DOROTHY BROWN
CLERK

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

The Plaintiff, THE PEOPLE OF THE STATE OF ILLINOIS, by LISA MADIGAN, Attorney General of the State of Illinois, brings this action against Defendants WELLS FARGO AND COMPANY, WELLS FARGO BANK, N.A., and WELLS FARGO FINANCIAL ILLINOIS, INC., pursuant to the provisions of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, and the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, and against WELLS FARGO FINANCIAL ILLINOIS, INC. pursuant to the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.* and the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS 510/2.

This action is brought to protect Illinois residents and communities from the harmful effects of racial discrimination. All residents of the State of Illinois are entitled to equal access to credit on the terms for which they qualify, regardless of their race or ethnicity. This Complaint alleges that Defendants Wells Fargo and Company, Wells Fargo Bank, N.A. and Wells Fargo Financial Illinois, Inc. (collectively "Wells Fargo") engaged in illegal discrimination by steering African Americans, Latinos and residents of predominantly African American and Latino neighborhoods into high cost subprime or riskier mortgage loans while White borrowers with similar incomes received lower cost or less risky mortgage loans. Statistical data indicates that during the heyday of subprime lending, these borrowers paid more for their home mortgages than White borrowers with similar income levels. Wells Fargo's discretionary policies, compensation structure, and lack of controls enabled its employees and mortgage brokers selling Wells Fargo mortgages to steer African Americans, Latinos and residents of predominantly African American and Latino neighborhoods into high cost or risky mortgage loans.

Wells Fargo also engaged in illegal discrimination through the practice of reverse redlining. Reverse redlining occurs when lenders target minorities or residents of minority neighborhoods for abusive and unfair home mortgages. Wells Fargo targeted African Americans and the residents of African American neighborhoods for the sale of high cost subprime or risky mortgages through marketing and programs that promoted such loans.

Wells Fargo Financial Illinois, a subsidiary of Wells Fargo and Company that primarily originated high cost subprime loans and consumer installment loans, also engaged in unfair and deceptive business practices by misleading Illinois borrowers about their mortgage terms, misrepresenting the benefits of refinancing, and repeatedly refinancing borrowers' mortgages, also known as loan flipping, without any real benefit to consumers. In addition, Wells Fargo

Financial used deceptive mailings and marketing tools to confuse borrowers as to which division of Wells Fargo and Company they were doing business with – prime or subprime. As a result, borrowers believed they doing business with Wells Fargo Home Mortgage, which offered mainly prime loans, when in fact they were dealing with Wells Fargo Financial, a predominantly subprime lender.

JURISDICTION AND VENUE

1. This action is brought for and on behalf of the PEOPLE OF THE STATE OF ILLINOIS, by LISA MADIGAN, Attorney General of the State of Illinois, pursuant to the provisions of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.*, and the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS 510/2.

2. Venue for this action properly lies in Cook County, Illinois, pursuant to Sections 2-101 and 2-102(a) of the Illinois Code of Civil Procedure, in that Defendants are doing business in Cook County, Illinois. 735 ILCS 5/2-101 and 735 ILCS 5/2-102(a).

PARTIES

3. Plaintiff, THE PEOPLE OF THE STATE OF ILLINOIS, is represented by and through LISA MADIGAN, Attorney General of the State of Illinois, by virtue of her statutory authority to protect the interests and well-being of the people of the State of Illinois through enforcement of the Illinois Human Rights Act, 775 ILCS 5/1 *et seq.*, the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*, the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.*, and the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS 510/2, and her common law authority.

4. Defendant WELLS FARGO AND COMPANY is a financial holding company and bank holding company incorporated in the State of Delaware with its principal place of business in San Francisco, California. WELLS FARGO AND COMPANY is a diversified financial services company providing banking, insurance, investment, mortgage and consumer finance services through almost 6,000 stores, the Internet, and other distribution channels across the United States, including Illinois, and internationally. As of December 2008, WELLS FARGO AND COMPANY had $1.3 trillion in assets across its numerous businesses.

5. Defendant WELLS FARGO BANK, N.A. ("Wells Fargo Bank" or "Wells Fargo Home Mortgage") is a national banking association chartered in Sioux Falls, South Dakota with its principal place of business in San Francisco, California. It currently has 84 offices in Illinois, which includes 40 locations previously named Wells Fargo Financial. Defendant WELLS FARGO BANK is a subsidiary of Defendant WELLS FARGO AND COMPANY. Defendant WELLS FARGO BANK offers residential mortgage loans to consumers through its Well Fargo Home Mortgage division, which operated as a separate company at one time, but is now a business unit of WELLS FARGO BANK. Wells Fargo Home Mortgage is one of the nation's largest residential mortgage originators and servicers.

6. Defendant WELLS FARGO FINANCIAL ILLINOIS, INC. ("Wells Fargo Financial") is a foreign corporation registered to do business in Illinois since August 31, 1981. The company's headquarters are in Des Moines, Iowa. WELLS FARGO FINANCIAL is a subsidiary of Defendant WELLS FARGO AND COMPANY and is a non-bank affiliate of Defendant WELLS FARGO BANK. Until 2008, WELLS FARGO FINANCIAL operated in Illinois under state licenses.

7. In March 2008, the Office of the Attorney General issued a subpoena to Wells Fargo Financial to investigate potential violations of fair lending and consumer protection laws. The subpoena requested information regarding mortgage loans provided to Illinois consumers, such as loan purpose, loan amount, applicants' gender and race, and loan application date, which Wells Fargo Financial is required to report pursuant to the federal Home Mortgage Disclosure Act ("HMDA") concerning every loan application it receives. The subpoena requested 28 additional data points about the borrowers and their loans, such as the borrowers' credit scores and employment information, debt-to-income ratio, loan-to-value percentage, type of mortgage, and whether the mortgage had a prepayment penalty. Pursuant to this subpoena, Wells Fargo Financial provided data concerning the mortgage loans that it originated from 2005 to 2007 in Illinois.

8. On November 14, 2008, Wells Fargo Financial informed the Illinois Attorney General's Office that all of Wells Fargo Financial's offices in Illinois had become loan production offices of Wells Fargo Bank and that all new real estate secured mortgage loans originated at the Wells Fargo Financial stores in Illinois were now originated as Wells Fargo Bank loans. Wells Fargo Financial told the Attorney General's Office that it believed that any further attempts to obtain documents by the Attorney General would be an improper assertion of visitorial power over Wells Fargo Bank.

9. Defendants WELLS FARGO AND COMPANY, WELLS FARGO BANK, and WELLS FARGO FINANCIAL are collectively referred to as "Wells Fargo," unless otherwise specified, and each is responsible, separately or acting in concert, for the unlawful conduct alleged herein.

10. Any allegation about any acts of Defendants WELLS FARGO AND COMPANY, WELLS FARGO BANK, and WELLS FARGO FINANCIAL means that the entities performed

the acts alleged through their officers, directors, employees, agents and/or representatives while they were acting within the actual or ostensible scope of their authority.

WELLS FARGO'S GROWTH AND MARKET SHARE IN ILLINOIS

11. Although the name remains the same, Wells Fargo as it exists today has evolved from its mid-nineteenth century express and banking company.

12. Over the years, Wells Fargo has grown its banking business through an aggressive campaign of mergers, acquisitions and corporate takeovers.

13. In 1998, Wells Fargo merged with Norwest Corporation. Although Norwest was technically the surviving entity, the new company chose to keep the name Wells Fargo to capitalize on brand recognition. After the merger, the company maintained its headquarters in San Francisco and its banking charter in Sioux Falls, South Dakota.

14. Following the merger, Defendant Wells Fargo and Company became a $196 billion diversified financial services company providing banking, insurance, investment, mortgage and consumer finance services in all 50 states, Canada, the Caribbean, Latin America and elsewhere internationally. The company had 6,650 retail branches, 276,000 employees and over 48 million customers.

15. After the merger in 1998, the combined company ranked first in the nation in residential mortgage loan originations and servicing.

16. Since 1998, Wells Fargo and Company has completed other mergers and acquisitions of banking entities. Most recently, on December 31, 2008, Wells Fargo and Company acquired Wachovia Corporation.

17. Wells Fargo provides financial services to Illinois consumers statewide and operates in 63 Illinois communities through 15 retail stores, 29 Wells Fargo Home Mortgage stores, and 40 Wells Fargo Financial stores.

18. In 2006, Wells Fargo was the Chicago area's second-largest lender by volume. From 2005 to 2007, Wells Fargo made over 60,000 residential mortgage loans in the Chicago area, of which over 12,000 were high cost.

THE EXPANSION OF SUBPRIME LENDING AT WELLS FARGO

19. Prior to the 1990s, subprime mortgages were rare.

20. In the early 1990s, banking regulators adopted new rules that allowed lenders to pass on much of the credit risk associated with originating subprime mortgages by selling mortgages to investors as mortgage-backed securities.

21. The yields on subprime mortgage securities were attractive. Attracted by larger returns on subprime mortgages, and relying on an assumption that subprime mortgage-backed securities would share the same stable performance of the mortgage-backed securities backed by prime mortgages, investors began purchasing, and in some cases paying a premium for, securities backed by subprime mortgages. This incentivized lenders to originate more of these mortgages, resulting in a precipitous increase in their origination.

22. Subprime lending increased from 4.5% of mortgage lending in 1994 to 12.5% in 1999. Between 1994 and 2005, subprime mortgage lending volume grew from $35 billion to $625 billion.

23. It was during this period that Wells Fargo and Company, while it was still Norwest Corporation, made a concerted attempt to become a dominant player in the subprime lending

industry through two separate channels: Directors Acceptance Corporation (later Wells Fargo Home Mortgage) and Norwest Financial (later Wells Fargo Financial).

24. In 1995, Norwest acquired Directors Mortgage Loan Corporation, with plans to use the company as a subprime lender and servicer. Norwest renamed the company Directors Acceptance Corporation, and it began making mortgage loans in early 1997.

25. Following Norwest Corporation's merger with Wells Fargo in 1998, the subprime lending operations at Directors Acceptance Corporation migrated to Wells Fargo Home Mortgage – at that time a separate company, but later a division of Wells Fargo Bank.

26. Wells Fargo Home Mortgage sold subprime mortgages, as well as prime mortgages, to Illinois consumers through its retail storefronts. In addition, Wells Fargo Home Mortgage made subprime and prime mortgages through its network of mortgage brokers.

27. Norwest's aggressive growth strategy for its subprime mortgage unit continued even after the company's merger with Wells Fargo.

28. Wells Fargo Home Mortgage sought to dominate the prime and subprime markets. According to a former area manager for Wells Fargo Home Mortgage, the company wanted to be the number one lender in all markets it served and it wanted to serve every market.

29. As a former employee explained, the subprime division of Wells Fargo Home Mortgage was expected to make sufficient profit to cover the fixed costs of the rest of the bank; managers informed the employees in this division multiple times that this was the goal.

30. In order to achieve this goal, the company set a quota for the number of subprime mortgages every area had to close. The company kept scorecards for managers that included the number of subprime mortgages coming out of their area.

31. From 1999 until at least 2007, Wells Fargo Home Mortgage worked to gain market share in the subprime market and to increase the volume of subprime mortgages it sold.

32. Prior to the Wells Fargo merger, Norwest Corporation also engaged in subprime lending through Norwest Financial. In describing the culture at Norwest Financial, a 1994 American Banker article stated that "[t]o step inside Norwest Financial is to enter a flexible, fast-paced world where federal regulation takes a backseat to competition and discipline."

33. After the merger in 1998, Norwest Financial was rebranded as Wells Fargo Financial, Inc., which has subsidiaries in numerous states, including Illinois. Wells Fargo Financial does not offer home purchase mortgages, nor is it a prime lender. Rather, it offers primarily subprime/high cost home refinance mortgages for various purposes, including debt consolidation, home improvement, and cash needs. Additionally, Wells Fargo Financial offers products such as credit cards, "cash on demand" loans, signatory loans, auto loans, retail financing, and insurance.

34. According to a report by the Center for Responsible Lending, top management at Norwest Corporation and later Wells Fargo and Company set profit goals for Wells Fargo Financial, but allowed it to operate with little day-to-day oversight. Center for Responsible Lending, *A Review of Wells Fargo's Subprime Lending* (April 2004) at 5, available at http://www.responsiblelending.org/mortgage-lending/research-analysis/a-review-of-wells-fargo-s-subprime-lending.html.

35. As a result of its growth strategy, between its two subprime lending channels – its subprime division of Wells Fargo Home Mortgage and its Wells Fargo Financial stores – Wells Fargo was among the top ten subprime lenders in the nation by 2003.

36. The company doubled its subprime lending volume each year from 2000 to 2003. In 2003, its subprime lending totaled $16.5 billion.

37. Between 2005 and 2007, Wells Fargo was the eighth largest subprime lender by loan volume in the nation, with a total loan volume of $51,877,522,000.

SUBPRIME LENDING PRACTICES CONTRIBUTED SIGNIFICANTLY TO THE FORECLOSURE CRISIS IN THE STATE OF ILLINOIS AND ACROSS THE NATION

38. The aggressive pursuit of market share and profits by lenders such as Wells Fargo led to unsound practices that contributed significantly to the collapse of residential mortgage lending.

39. As the subprime market grew, the opportunities for abusive practices grew with it. Consequentially, abusive and predatory practices "are concentrated in the subprime mortgage market," as the federal government has found. HUD-Treasury Task Force on Predatory Lending, *Curbing Predatory Home Lending* ("HUD-Treasury Task Force Report") (June 2000) at 1, available at http://www.huduser.org/ publications/hsgfin/curbing.html.

40. One such abusive practice perpetrated by Wells Fargo, and alleged in detail below, was placing borrowers into subprime mortgages, even though they qualified for prime mortgages with better terms.

41. Data shows that a substantial portion of subprime mortgages are priced in excess of what is merited by the risk involved.

42. A study conducted in 2000 using an industry survey of mortgages with subprime pricing found that almost 16% of borrowers of subprime-priced mortgages had credit scores above 680, a credit score traditionally considered prime-eligible. Office of Thrift Supervision, *What about Subprime Mortgages?*, Mortgage Market Trends (June 2000) at 10, available at http://files.ots.treas.gov/19010.pdf.

43. Borrowers who are placed in subprime mortgages, but who qualified for conventional mortgages, paid mortgage rates on the order of one to two-and-one-half percentage points higher than they would have paid in the prime market, according to a Freddie Mac study. Woodstock Institute, *Risky Business – An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures* (March 2004) at 2, available at http://www.woodstockinst.org. This pricing difference becomes even greater when the higher up-front fees on most subprime mortgages are taken into account. *Id.*

44. Instead of the affordable mortgages that these borrowers should have received, they were sold mortgages that were unaffordable and unsustainable.

45. Primarily as a result of these practices, subprime lending inevitably collapsed.

46. According to a report issued by the Government Accountability Office on July 28, 2009, as of the end of March 2009, approximately one in eight nonprime mortgages was in the foreclosure process, and approximately 1.6 million (11%) of the 14.4 million nonprime mortgages originated between 2000 and 2007 had completed the foreclosure process. Government Accountability Office, *Characteristics and Performance of Nonprime Mortgages* ("GAO Report"), GAO-09-848R (July 28, 2009). Subprime loans made up 80% of these mortgages. *Id.*

47. Moreover, 28% of subprime mortgages originated between 2000 and 2007 were seriously delinquent as of March 31, 2009. *Id.*

48. Illinois has been in the top 10 states with the most foreclosure filings since April 2008, as ranked by RealtyTrac.com, a company that tracks foreclosure filings nationwide.

49. Over 100,000 Illinois homes are projected to go through foreclosure in 2009. Center for Responsible Lending, *Illinois Foreclosures: Impact & Opportunities* (January 2009), available at

http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/il-foreclosure-fact-sheet.pdf.

50. Approximately 342,000 Illinois homeowners are predicted to lose their homes over the next four years. *Id.*

51. When a home goes through foreclosure, the property will revert to the foreclosing lender if there is no successful purchaser at the foreclosure auction.

52. Foreclosed homes usually stand vacant while they are held by lenders until they are sold to a third party.

53. If these vacant homes are not properly secured and maintained, they cause significant blight in the neighborhoods in which they are situated, resulting in further damage to home values in the area.

54. Between 2005 and 2007, the percent of auctions in the Chicago region in which the property reverted to the foreclosing lender increased from 70.5% to 94%. *Foreclosure Fallout: An Analysis of Foreclosure Auctions in the Chicago Region* ("Foreclosure Fallout"), (August 2008) at 5, available at http://www.woodstockinst.org.

55. In 2008, that percentage increased to 97.5% in the Chicago region; meaning only 2.5% of auctions resulted in the property being purchased by a third party. Woodstock Institute, *The Chicago Region's Foreclosure Problem Continued to Grow in 2008*, (January 2009) at 5, available at http://www.woodstockinst.org.

56. This trend has been most pronounced in high-minority areas of Chicago such as Washington Park, Grand Boulevard, and Woodlawn, which had the highest levels of properties going to the foreclosing lender at auctions. *Id.* at 6. And, in the first part of 2008 in South Cook

County, an area with a high percentage of minorities, 99% of properties in foreclosure auctions went to the foreclosing lender. *Foreclosure Fallout* at 9.

57. Homeowners who are not even in foreclosure have seen and will continue to see their property values plummet as homes in their communities go through foreclosure.

58. Between 2009 and 2012, approximately 4.2 million Illinois homes are projected to lose value, just by virtue of a nearby home going into foreclosure. On average, these homes will likely lose $29,400 in value. The total lost property value statewide is projected to be roughly $126 billion.

59. In only three other states (California, Florida and New York) will the predicted cumulative property devaluation be as severe as projected in Illinois. Center for Responsible Lending, *Soaring Spillover* (May 2009), available at http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf.

60. These negative effects are amplified in distressed neighborhoods. Concentrated vacancies driven by foreclosures cause neighborhoods, especially those already struggling, to decline rapidly. The United States Department of Housing and Urban Development and the United States Department of the Treasury explained in a joint report on predatory subprime lending that "foreclosures can destabilize families and entire neighborhoods" and that "[f]oreclosed homes are often a primary source of neighborhood instability . . . ." HUD-Treasury Task Force Report at 13, 51.

61. The spillover effect extends beyond just neighboring homeowners. The plummeting property values mean a shrinking tax base for funds to support governmental services. Local governmental authorities will look to the State to make up budget shortfalls for necessary

services. This is a critical blow when Illinois is already suffering the impact of the recession and has a staggering budget shortfall.

CHICAGO'S HISTORICALLY SEGREGATED NEIGHBORHOODS ARE MORE SUSCEPTIBLE TO THE HARMFUL EFFECTS OF SUBPRIME LENDING

62. Reverse redlining by targeting minorities for unfair mortgage products is often found in places where, historically, two factors are present: minorities have been denied access to credit and other banking services, and there are racially segregated neighborhoods.

63. Denying segments of the population access to credit and banking services leaves residents of those communities without the knowledge and experience that others in the broader market possess, while also making these residents more likely to accept *any* credit they are offered.

64. Residents of historically underserved markets are more likely to accept the first offer of credit they receive, even if the terms or the products are worse than what they could qualify for or otherwise receive in a market free of discrimination.

65. Racial segregation in neighborhoods has the effect of concentrating those most vulnerable, due to historical discrimination and lack of access to credit and banking services, in one area. This sets up a fertile breeding ground for lenders to push unfair products.

66. The Chicago area in Illinois has both of these characteristics.

67. First, minorities in Chicago historically have been denied access to credit and other banking services. In the late 1990s, the Woodstock Institute found that conventional lenders served higher-income White areas of Chicago, while FHA and subprime lenders were concentrated in lower-income and minority communities. The study noted that the racial disparities were too great to be explained by differences in credit of the borrowers and that the patterns resulted from the failure of "mainstream lenders" to seek out creditworthy borrowers in

lower-income and minority communities. This was described in the study as a "dual housing market."

68. Second, Chicago has racially segregated neighborhoods. African American and Latino neighborhoods in Chicago are very much segregated from White and other racial groups. African Americans are about 35% of Chicago's population of 3 million people and are largely concentrated on the City's South and West Sides, while Latinos are about 30% of Chicago's population and are largely concentrated on the Southwest and Northwest sides of the City.

69. This residential racial segregation is confirmed by the United States Census Bureau which lists Chicago as one of the five most segregated metropolitan areas for African Americans and the sixth most segregated metropolitan area for Latinos. United States Census Bureau, *U.S. Census Bureau Reports: Racial and Ethnic Segregation in the United States: 1980 – 2000*; Census 2000 Special Reports, censr-3 (August 2002).

70. The impact of a historical denial of access to credit and a racially segregated housing market is seen in the lending and foreclosure patterns in Chicago.

71. The HMDA data from 2004 through 2007 reveals that the Chicago metropolitan area had the highest number of high cost loans in the nation for four years in a row. From 2004 through 2007, the Chicago area had the largest number of high cost mortgages in the nation, according to a Chicago Reporter study. Alden Loury, *More Loan for the Same Home*, Chicago Reporter, Sept. 2008, available at http://www.chicagoreporter.com/ index.php/c/Web_Extras /d/More_Loan_For_The_Same_Home.

72. A 2007 study also found that compared to five other cities around the country, Chicago had the highest share of high cost loans made to African American borrowers; it found that 64.2% of mortgage loans made to African Americans in Chicago were high cost. California

Reinvestment Coalition ("CRC") *et al*, *Paying More for the American Dream: A Multi-State Analysis of Higher Cost Home Purchase Lending*, March 2007.

WELLS FARGO'S BUSINESS PRACTICES RESULTED IN DISCRIMINATION AGAINST MINORITIES

73. Wells Fargo engaged in illegal discrimination by steering African Americans, Latinos and residents of predominately African American and Latino neighborhoods into high cost subprime or risky mortgages, while White borrowers with similar incomes received lower cost and less risky mortgages. Wells Fargo also engaged in illegal discrimination through the practice of reverse redlining.

74. Wells Fargo Home Mortgage gave its retail and wholesale employees (those employees who worked with outside mortgage brokers) and mortgage brokers who sold Wells Fargo Home Mortgage loans, financial incentives to steer borrowers eligible for prime mortgages into subprime mortgages that were more expensive and had riskier terms.

75. At the same time, Wells Fargo Home Mortgage failed to maintain proper controls to ensure that borrowers were not placed into mortgages that were riskier or more expensive than the mortgage loans for which they were qualified.

76. Wells Fargo Financial also failed to maintain adequate policies and procedures to ensure that instead of being sold high cost or risky mortgages, prime qualified borrowers were referred or transferred to the prime lending channel in Wells Fargo Home Mortgage.

77. Moreover, through marketing and disproportionate marketshare, Wells Fargo intentionally targeted African American borrowers and residents of predominately African American neighborhoods for costlier and riskier mortgages.

78. All of these policies and practices resulted in discrimination against African Americans, Latinos and residents of predominately African American and Latino neighborhoods.

79. Although its two lending channels – Wells Fargo Home Mortgage and Wells Fargo Financial – are separate, Wells Fargo and Company purports to homogeneously apply strong controls that govern mortgage underwriting and pricing companywide so that it meets or exceeds all fair lending legal and regulatory requirements and expectations.

80. According to Wells Fargo and Company, its policies and procedures ensure that prime pricing options are offered to all mortgage customers whose credit characteristics and transaction terms make them eligible for prime mortgages.

81. Wells Fargo and Company also prepared fair lending training modules that employees of both Wells Fargo Home Mortgage and Wells Fargo Financial were required to complete.

82. Moreover, then-Wells Fargo and Company Chief Executive Officer Richard Kovacevich stated in 2005 that Wells Fargo offers subprime and prime mortgages to customers based solely on their credit ratings and that Wells Fargo prices for risk, not race.

83. As shown below, however, these policies were only on paper. Wells Fargo did not implement these policies in a way that ensured minority borrowers received mortgages from Wells Fargo on the same terms as White borrowers, resulting in discrimination against African Americans, Latinos and residents of predominantly African American and Latino neighborhoods.

Wells Fargo Home Mortgage Retail Employees Were Incentivized to Steer Consumers into Subprime Mortgages Without Adequate Controls to Prevent Abuses

84. Wells Fargo Home Mortgage had discretionary policies and procedures with inadequate controls in place from at least 1999 until at least late 2007 that allowed its retail employees to purposefully steer borrowers into high cost subprime or risky mortgages.

85. There was a clear line between what products prime loan officers and subprime loan officers within Wells Fargo Home Mortgage's subprime division could originate: prime loan

officers originated prime mortgages, and loan officers in Wells Fargo Home Mortgage's subprime division were allowed to originate only subprime mortgages.

86. Yet, loan officers on each side of the business were permitted to refer borrowers to loan officers on the other side, meaning that prime loan officers could refer borrowers to subprime loan officers to receive a subprime mortgage. Subprime loan officers could also refer borrowers to prime loan officers to receive a mortgage. As described below, however, Wells Fargo Home Mortgage's policies created stronger incentives to refer borrowers from prime to subprime.

87. Wells Fargo Home Mortgage's compensation policy for referrals from prime to subprime loan officers provided significant financial incentives to its prime employees to steer borrowers into subprime mortgages, even if the borrowers could have qualified for prime mortgages.

88. Wells Fargo compensated its employees in "basis points." One basis point is equivalent to 0.01% (1/100th of a percent). Thus, if the compensation on a mortgage is 100 basis points, then the compensation is equivalent to 1% of the principle amount of a mortgage.

89. The compensation policy initially split the commissions for a subprime mortgage resulting from a referral by a prime loan officer to a subprime loan officer 60/40, meaning the subprime loan officer received 60% of the compensation and the prime loan officer received 40%. Later, this policy was changed to provide the prime loan officer a flat rate of 50 basis points for mortgages referred to subprime loan officers that resulted in the closing and funding of a subprime mortgage. Under both policies, prime loan officers could do little work and still receive significant compensation – about the same amount – for referring a borrower to a subprime loan officer to receive a subprime mortgage, as opposed to spending the time and energy needed to originate a prime mortgage for the borrower.

90. Employees at Wells Fargo Home Mortgage took advantage of this compensation policy to make money by steering prime borrowers into subprime mortgages.

91. While Wells Fargo Home Mortgage provided significant incentives for its employees to steer borrowers into subprime mortgages, there was no reciprocal incentive to refer borrowers to prime products.

92. Subprime loan officers were compensated significantly more per loan – a maximum of 325 basis points – than prime loan officers – who received a maximum of 65 basis points.

93. Subprime and prime loan officers also received different fees for referring loans to one another. Subprime loan officers received 25 basis points for referring a loan to a prime loan officer, while prime loan officers received 50 basis points for referring a loan to a subprime loan officer.

94. Because of these differences in compensation and referral fees, subprime loan officers received more compensation to originate a subprime mortgage than if they referred that same mortgage to a prime loan officer. At the same time, prime loan officers had a lower incentive to accept a referral and close loans from subprime loan officers because, in accepting a referral, prime loan officers would have to share approximately half of their compensation with the subprime loan officers.

95. The referral policy provided minimal incentives both for subprime loan officers to refer mortgages to prime loan officers and for prime loan officers to accept the referrals. In fact, according to a former employee, it was sometimes difficult to get a prime loan officer to accept a referral from a subprime loan officer because the prime loan officer would have to give away too much of his or her commission to the referring subprime loan officer.

96. The Wells Fargo Home Mortgage quota system was another consideration for subprime loan officers in determining whether to refer a mortgage to prime loan officers. Subprime loan officers were required to close a certain number of loans per month. This policy provided a significant disincentive to make referrals to prime loan officers.

97. Although prime loan officers also had the same monthly quota, it was often easier for prime loan officers to meet this quota, in part because the majority of borrowers are prime borrowers, and because the prime loan officer could also use home equity mortgages to satisfy this quota, while subprime loan officers could not.

98. Compensation for subprime loan officers was tiered such that if the loan officers closed enough mortgages in a month to move up to the next tier of compensation, they would get paid even more on *each* mortgage they closed in that month. In other words, subprime loan officers who stood at the threshold of the next tier receive significantly greater compensation for closing just one more mortgage – if it would put them in the next compensation tier. This compensation structure incentivized subprime loan officers to close as many subprime mortgages as possible in each month. This policy also provided a disincentive for subprime loan officers to refer mortgages to prime loan officers.

99. Wells Fargo Home Mortgage, therefore, greatly incentivized referrals from prime to subprime, without an equal incentive for referrals from subprime to prime.

100. Despite the financial inducements created by the referral, quota and compensation policies, Wells Fargo Home Mortgage failed to have adequate policies and procedures in place to ensure that borrowers were not steered into high cost subprime or risky mortgages when they could otherwise qualify for prime mortgages. Indeed, loan officers had discretion that enabled them to easily steer borrowers into subprime mortgages.

101. Wells Fargo Home Mortgage's underwriting guidelines provided various ways of qualifying prime borrowers for subprime mortgages.

102. The methods for qualifying borrowers for subprime mortgages included having borrowers apply with "stated income" even if they could document their income, or having borrowers not put money down on a mortgage, even if they had funds available to do so. Using "stated income" instead of documenting income or not making a down payment could turn what would otherwise have been a prime mortgage into subprime.

103. Sometime around 2003 or 2004, Wells Fargo Home Mortgage put into place a computerized filter that was supposed to prevent prime borrowers from being steered into subprime mortgages. The loan officers learned ways to get around the filter, however, by using the discretion they were granted under Wells Fargo Home Mortgage's subprime underwriting guidelines.

104. If the underwriting department questioned why a mortgage was subprime and not prime, loan officers could simply say that the borrower did not want to provide documentation or that the borrower had no "sourced and seasoned" assets. With these simple explanations, the underwriter could override the filter and approve the subprime mortgage.

105. Wells Fargo Home Mortgage also gave subprime underwriters, who were separate from Wells Fargo Home Mortgage's prime underwriters and worked on only subprime mortgages, financial incentives to accept these explanations and approve subprime mortgage applications. Under Wells Fargo Home Mortgage's compensation policies, the more mortgages subprime underwriters approved and were funded, the more money the underwriters would make.

106. Finally, Wells Fargo Home Mortgage did not train its subprime loan officers to sell mortgages that could have been less costly or risky to borrowers. In fact, until approximately

2007, subprime loan officers were not trained in how to sell Federal Housing Administration (FHA) mortgages and could not sell such mortgages. These mortgages are traditionally for borrowers with higher credit risk, but are often less costly than subprime mortgages.

107. Subprime loan officers were given discretion to choose which subprime mortgage product to sell to a particular borrower. The effect of steering a borrower who could qualify for a prime mortgage into a subprime mortgage was to sell that borrower a less favorable and more expensive mortgage than one for which they were otherwise qualified. Wells Fargo Home Mortgage's subprime mortgages were more expensive than their prime mortgages, and were often offered with less favorable terms, like the inclusion of prepayment penalties.

108. In addition to policies that incentivized steering borrowers into subprime mortgages, Wells Fargo Home Mortgage had a discretionary pricing policy that resulted in borrowers paying higher fees for subprime mortgages. From at least 1999 until approximately a few years thereafter, Wells Fargo put no cap on the amount of fees or the rate subprime loan officers could charge on a mortgage. While this policy was in place, subprime loan officers could charge as much over the rate quoted by the company as they wanted.

Wells Fargo Home Mortgage Wholesale Employees and Mortgage Brokers Who Sold Wells Fargo Home Mortgage Loans Were Incentivized to Sell Subprime Mortgages Without Adequate Controls to Prevent Abuses

109. In addition to selling mortgages directly to consumers in its own retail stores, Wells Fargo Home Mortgage maintained wholesale units that worked with mortgage brokers. These brokers would, in turn, offer mortgages to their clients – including subprime mortgages – from Wells Fargo Home Mortgage.

110. In early 2005, Wells Fargo Home Mortgage launched one of its subprime wholesale units in Springfield, Illinois. This new subprime wholesale unit, which operated statewide as well as

nationwide, was created to partner Wells Fargo subprime wholesale unit employees, referred to as account executives, with Wells Fargo prime account executives. This facilitated the sale of Wells Fargo Home Mortgage's subprime loan products through the company's existing network of mortgage brokers.

111. Prime account executives introduced subprime account executives to existing broker channels. The prime account executives introduced, encouraged, and helped to build new sales relationships between mortgage brokers who sold Wells Fargo Home Mortgage prime products and the new subprime account executives.

112. Although Wells Fargo Home Mortgage required subprime and prime account executives to work as partners in the Springfield office, Wells Fargo Home Mortgage compensated subprime and prime executives very differently.

113. Wells Fargo paid both subprime and prime account executives commissions according to a volume, dollar-based tiered system. But while prime account executives' commissions ranged from one to three basis points per loan depending on dollar volume, subprime account executives were paid 15 to 30 basis points per loan based on their dollar volume.

114. Additionally, prime account executives benefited financially when the subprime unit originated loans through the new partnership. Wells Fargo required subprime account executives to pay their prime account executive partners a ten basis-point cut for all loans that funded and finalized on an account that a prime account executive cultivated. However, the partnership cut only went one way; there was no reciprocal compensation shared by prime account executives with subprime account executives for any prime mortgages closed.

115. Wells Fargo Home Mortgage's compensation policy for partnered prime and subprime account executives created an attractive financial incentive for prime account executives to

promote their subprime account executive partners and their subprime mortgage products to the mortgage brokers with whom they worked. These brokers would, in turn, promote those products to borrowers.

116. Wells Fargo Home Mortgage offered additional incentives which steered mortgage brokers to sell subprime loans.

117. Wells Fargo Home Mortgage subprime account executives routinely gave brokers 25 basis points as an additional inducement to deliver a subprime loan origination. This inducement was not available to brokers who made prime mortgage originations.

118. In addition, Wells Fargo Home Mortgage had a "Full Package" incentive program for subprime mortgage products. Under this program, mortgage brokers were given an additional 50 basis points for submitting a fully completed mortgage application package to underwriting. This meant the broker arranged for a completed appraisal to be in the loan application, a task otherwise performed by Wells Fargo Home Mortgage underwriters. Wells Fargo Home Mortgage did not offer this incentive to brokers who sold borrowers Wells Fargo Home Mortgage prime mortgages.

119. As a consequence of Wells Fargo Home Mortgage's incentive structures, brokers would make more money by steering borrowers into subprime mortgages.

120. Despite this, Wells Fargo Home Mortgage had no policies or procedures in place to ensure that borrowers receiving loans from Wells Fargo Home Mortgage's wholesale channel were not steered into subprime mortgages when they could otherwise qualify for prime mortgages.

121. Toward the end of its subprime wholesale origination business, Wells Fargo Home Mortgage began requiring prime-qualifying borrowers to sign a disclosure stating that they

understood that they qualified for a prime mortgage, but were accepting a subprime mortgage. Disclosure alone, however, did not prevent the steering of prime-eligible borrowers into subprime loans.

122. Therefore, as with its retail units, Wells Fargo Home Mortgage's compensation policies on the wholesale side gave incentives to steer borrowers from prime to subprime mortgages, failed to maintain adequate checks to stop the steering of prime-eligible borrowers into subprime loans, and provided no countervailing incentive for steering borrowers to prime mortgages.

Wells Fargo Financial's Policies and Practices Resulted in Prime-Eligible Borrowers Receiving Higher Cost and Riskier Mortgages

123. Wells Fargo Financial had policies and procedures that allowed it to sell subprime mortgage loans to prime-eligible borrowers.

124. As with Wells Fargo Home Mortgage, Wells Fargo Financial failed to maintain an effective policy to refer prime borrowers to Wells Fargo Home Mortgage's prime divisions. This meant that customers who could have qualified for prime mortgages were given high cost and more risky mortgages simply because they walked in the door of Wells Fargo Financial instead of Wells Fargo Home Mortgage.

125. Wells Fargo Financial made loans directly to consumers through retail storefronts. Its employees who dealt with consumers were referred to as "credit managers."

126. Wells Fargo Financial specialized in lending to customers with "less than perfect credit" by offering home refinance and debt consolidation mortgages. These products came with a higher cost of credit than that generally paid by prime borrowers.

127. Besides these products, Wells Fargo Financial also offered credit cards, "cash on demand" loans, signatory loans, auto loans, retail financing, and insurance.

128. Although Wells Fargo Bank has a subprime unit, the majority of mortgages originated by Wells Fargo Bank were prime interest rate loans. Wells Fargo Financial, on the other hand, is a high cost lender. For example, according to HMDA data, in 2005 over 89% of Wells Fargo Financial's mortgages in the Chicago metropolitan area were high cost; in 2006, over 88% were high cost; and in 2007, over 97% were high cost.

129. In 2004 and 2005, a borrower with a relatively high credit score, a low loan-to-value ratio, and an average loan size could be quoted a loan with a high interest rate by Wells Fargo Financial.

130. According to price matrices provided to the Office of the Illinois Attorney General by Wells Fargo Financial, in 2004 and 2005, a borrower with a relatively high credit score of [redacted] to [redacted], a low proposed loan-to-value ratio less than [redacted], and a relatively small loan amount between $[redacted] and $[redacted], would be offered a [redacted]% on an [redacted]. In 2006, a borrower with a relatively high credit score above [redacted], a low proposed loan-to-value ratio of less than [redacted], and a loan amount as low as $[redacted], received a starting rate of [redacted]%. By the end of 2007, [redacted]. Traditional prime rates for mortgages during this time period were significantly lower.

131. Because Wells Fargo Financial is a high cost lender, borrowers who receive a mortgage from this company generally receive high cost mortgages. Yet, at no time did Wells Fargo Financial maintain an effective filter or referral system to prevent prime-eligible borrowers from being sold a high cost mortgage in Wells Fargo Financial stores.

132. Starting in 2003, Wells Fargo Financial maintained a toll-free number that credit managers could provide borrowers to reach Wells Fargo Home Mortgage if the borrowers were seeking purchase money or "rate/term" refinance loans, which Wells Fargo Financial did not sell. But, prior to 2005 or 2006, according to one former Wells Fargo Financial Illinois branch manager, each branch had discretion as to whether to place a borrower with prime characteristics into their mortgages or refer them to Wells Fargo Home Mortgage.

133. After 2005 or 2006, the centralized underwriting department for Wells Fargo Financial, which was located in Iowa, made the ultimate decision as to whether consumers who qualified for prime mortgages could still be sold high cost mortgages from Wells Fargo Financial.

134. As with the subprime unit in Wells Fargo Home Mortgage's retail division, around 2005 or 2006, a filter was put into Wells Fargo Financial's computer system to try to separate prime from subprime consumers.

135. But this filter and the central underwriting department's oversight could be circumvented through manual underwriting or by simply requesting an exception to the underwriting department's decision.

136. And, there was no automatic action taken to move a consumer to prime because the credit manager would need to obtain the consumer's signed consent to refer their mortgage application to Wells Fargo Home Mortgage for consideration for a prime mortgage.

137. Because there was no consistent or effective policy to refer prime-eligible borrowers out of Wells Fargo Financial and to the prime lending side in Wells Fargo Home Mortgage, Wells Fargo Financial employees were regularly able to get around the policies and procedures.

138. One credit manager said that during the time he worked at Wells Fargo Financial from 2005 through 2007, he could not even recall that a referral policy existed to send consumers with

high credit or FICO scores to Wells Fargo Bank where the borrowers might be able to obtain prime mortgages.

139. Nonetheless, this employee did not want to work with anyone who had a credit score over 700 and would tell such consumers that they could get better rates on a mortgage somewhere else. This employee's managers criticized him when he shared this advice with consumers. Managers would tell him to "try to get something done" or "make something happen" – unambiguously delivering the message he should not offer advice about less expensive prime mortgage options.

140. This employee's understanding was that Wells Fargo Financial lost money when employees referred consumers who potentially qualified for prime mortgages to Wells Fargo Home Mortgage. This employee said it seemed that Wells Fargo was competing with itself for business.

141. According to one former Wells Fargo Home Mortgage employee, the economic incentive provided by referral fees for Wells Fargo Financial credit managers to send a prime-eligible consumer to Wells Fargo Home Mortgage was not large enough to make it worth their while. His experience was that, in practice, these referrals did not happen.

142. Additionally, there was no incentive for credit managers at Wells Fargo Financial to maintain a reciprocal relationship with loan officers at Wells Fargo Home Mortgage. Because Wells Fargo Home Mortgage had its own subprime lending unit, its prime loan officers would never have any need to send subprime referrals to Wells Fargo Financial.

143. A Wells Fargo Home Mortgage employee in the prime unit could not recall ever receiving a referral of a prime consumer from Wells Fargo Financial. He understood that this

supposedly should have happened, but he never saw any such policy in writing and never spoke to an employee for Wells Fargo Financial.

144. Wells Fargo Financial encouraged credit managers to consider every consumer who entered its store for a high cost mortgage, even if that borrower could have qualified for a less expensive, prime loan.

145. For example, a former Wells Fargo Financial employee who worked in Illinois recalls working with consumers whose credit scores were in the 700s – above the traditional cutoff for subprime or high cost mortgages.

146. Another former Wells Fargo Financial employee said that she could submit a mortgage even if a consumer had a credit score over 800. And Wells Fargo Financial's pricing matrices for 2004 and 2005 stated that borrowers with credit scores as high as [redacted], with a loan-to-value ratio of less than [redacted], could be quoted a rate for a subprime mortgage from the company.

147. Moreover, Wells Fargo Home Mortgage had a policy prohibiting loan officers at that company from soliciting borrowers with Wells Fargo Financial mortgages to refinance, even if the loan officers could provide the borrowers with a better rate. Under this policy, Wells Fargo Home Mortgage loan officers could refinance Wells Fargo Financial borrowers only if the borrowers came to the Wells Fargo Home Mortgage loan officers on their own. If that happened, the loan officers were required to document to the company that they had not solicited the borrowers away from Wells Fargo Financial.

148. At the same time, Wells Fargo Financial employees were allowed to, and did, directly solicit borrowers with Wells Fargo Home Mortgage loans through direct mail and telephone calls. Wells Fargo Financial refinanced these borrowers into adjustable rate mortgages with

higher interest rates than the fixed interest rates the borrowers initially had on their Wells Fargo Home Mortgage loans.

Wells Fargo Targeted African American Borrowers for Subprime Mortgages

149. In or around 2005 and 2006, Wells Fargo Home Mortgage targeted African American borrowers for subprime mortgages through a series of "wealth building" seminars held in cities around the country.

150. According to a former Wells Fargo Home Mortgage employee, one of these "wealth building" seminars held in Maryland was planned for an audience that would be virtually all African American. The plan for the seminar was for Wells Fargo Home Mortgage employees to talk about subprime mortgages, although they were directed by Wells Fargo Home Mortgage to use the term "alternative lending" when marketing these products.

151. The former employee, who is White, was scheduled to be a speaker at the seminar, but was told by a Wells Fargo Home Mortgage manager that she was "too White" to do so; only African American Wells Fargo Home Mortgage employees were to speak at the seminar.

152. At least one of these "wealth building" seminars was held in Chicago in October 2005.

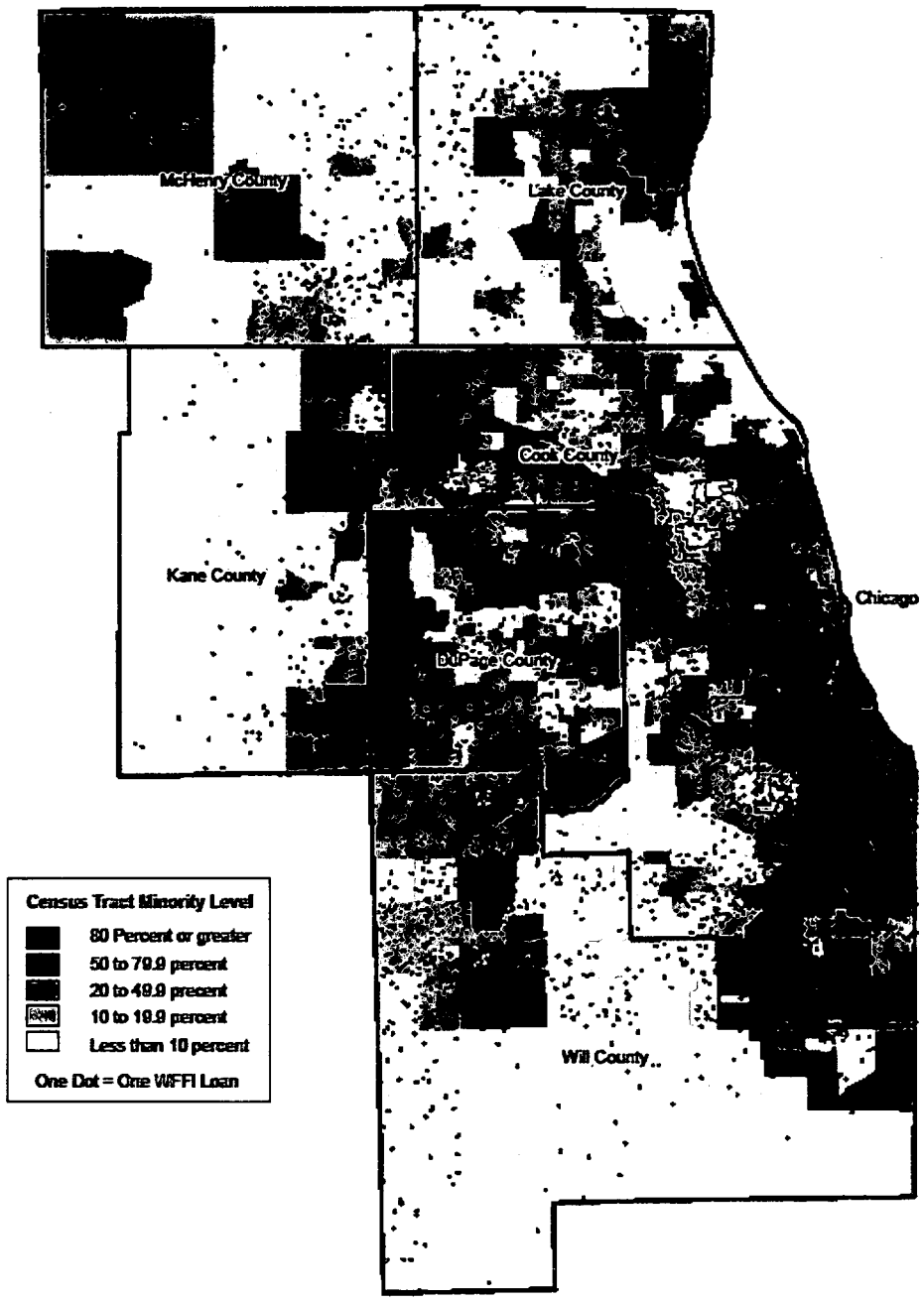
153. The Chicago seminar was held in a predominantly African American neighborhood, and featured a keynote address given by a well-known African American author and commentator.

154. In addition, as part of Wells Fargo Home Mortgage's marketing plan, Wells Fargo Home Mortgage utilized a computer function that purportedly permitted employees to customize Wells Fargo marketing materials to target African Americans by choosing "African American" in a pull-down menu of "language" options.

155. Wells Fargo Financial did a disproportionately larger share of its lending in the African American community.

156. As shown in the map below, Wells Fargo Financial's lending is concentrated in minority census tracts in the Chicago area.

Wells Fargo Financial Illinois (WFFI) Lending in the Chicago Six County Area, 2005 to 2007



Prepared by Woodstock Institute

157. When looking at market share, Wells Fargo Financial should have an equal presence in African American and White mortgage markets, regardless of the relative size of the markets.

158. In 2005, 2006, and 2007, however, Wells Fargo Financial had a greater presence in the African American mortgage market in Illinois, as compared to the White mortgage markets.

159. Wells Fargo Financial's presence in the African American mortgage market in 2005 was 1.95 times greater than in the White market. Similarly, in 2006, Wells Fargo Financial's presence in the African American mortgage market was 1.96 times greater than in the White market. Then, in 2007, Wells Fargo Financial's presence in the African American market was 2.65 times greater than its presence in the White market.

160. The following are a few examples from data based on Wells Fargo Financial records at the time that Wells Fargo Financial's locations were operating under state licenses. All of the following borrowers are African American, all received the highest credit rating Wells Fargo Financial had (an "A" rating), and all received a nonprime mortgage from Wells Fargo Financial:

Date of Origination	Mortgage Amt	Income	Debt-to-income ratio ("after debt")	Loan-to-value ratio	FICO score	Points paid	Rate	Mortgage type
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]
[redacted]	$[redacted]	$[redacted]	[redacted]%	[redacted]%	[redacted]	$[redacted]	[redacted]%	[redacted]

161. Generally accepted prime underwriting guidelines in the mortgage industry often consider borrowers with credit scores at 680 and above, loan-to-value ratios of 80% or less, and debt-to-income ratios of 35% or less as candidates for prime mortgages. The U.S. Department of Housing and Urban Development defines "A paper," another phrase for prime mortgages, as a consumer with a credit score above 660, although borrowers with credit scores as low as 650 could be considered candidates for prime loans.

162. Wells Fargo Financial placed borrowers who had credit scores at 680 or above, loan-to-value ratios of 80% or less, and debt-to-income ratios less than 35% or some combination of these factors, into subprime loans.

The Discriminatory Effect of Wells Fargo's Policies and Practices

163. As a result of retail and wholesale policies, or lack thereof, and practices in its Wells Fargo Home Mortgage and Wells Fargo Financial companies, Wells Fargo's high cost mortgages were disproportionately sold to minority borrowers and in minority neighborhoods.

164. African American and Latino consumers were much more likely than White, non-Latino consumers to receive high cost mortgages from Wells Fargo.

165. One of the ways to examine disparate impact is to look at publicly available data.

166. The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 and is implemented by the Federal Reserve Board's Regulation C. One of the purposes for implementing HMDA was to provide information publicly in order to assist in identifying possible discriminatory lending patterns.

167. HMDA and Regulation C require most mortgage lenders located in metropolitan areas to collect data about their housing-related lending activity, report the data annually to the federal government, and make the data publicly available. Among the data they must report are the geographic location of originated and purchased home loans, and the race, sex, and income of applicants and borrowers.

168. In 2002, the Federal Reserve Board amended the HMDA regulations to require lenders to report price data for certain higher-priced home mortgage loans (commonly referred to as "high cost" mortgages), and other new data. This requirement became effective on January 1, 2004.

169. This new category of high cost mortgages is currently defined as first-lien mortgages carrying interest rates at least three percentage points above the rate of comparable-maturity U.S. Treasury securities at the time the mortgage application was made. For second-lien mortgages, this category includes mortgages with interest rates at least five percentage points above the U.S. Treasury standard. A high cost mortgage is a type of subprime mortgage. The term high cost mortgage, when used in this Complaint, has the meaning as defined in this Paragraph.

170. Unless otherwise stated, the studies and statistics cited in the Complaint used this publicly available HMDA data.

171. According to a 2009 report by National People's Action, 37% of all mortgages that Wells Fargo and Company made nationwide between 2004 and 2007 to African American borrowers were high cost, while only 11% of mortgages to White borrowers were high cost. National People's Action Report, *The Truth About Wells Fargo: Racial Disparities in Lending Practices* ("National People's Action report") (March 2009), available at http://www.npa-us.org/downloads/truthaboutwellsfargo.pdf. The same report found that 45% of all refinance mortgages by Wells Fargo and Company to African American borrowers were high cost, compared to only 19% of refinance mortgages sold to White borrowers.

172. The 2007 CRC study found that Wells Fargo had higher disparities in its high cost lending to African American borrowers in six cities around the country when compared to six other major lenders. The study, which examined the lending patterns of a group of the largest lending institutions in the nation (Citigroup, Countrywide, GMAC, HSBC, JP Morgan Chase, Washington Mutual, and Wells Fargo) in various cities around the country, including Chicago, found that Wells Fargo had the highest overall African American-to-White disparity ratio out of any of the lenders in 2005. African American borrowers getting a home purchase mortgage

from Wells Fargo in these cities were ten times more likely than White borrowers to receive a high cost mortgage. The next highest disparity ratio of a lender was only 5.8.

173. Similar disparities exist on Wells Fargo Bank's high cost lending in the Chicago area. The CRC study showed that, in Chicago in 2005, African American borrowers were more than 14 times as likely as White borrowers to receive a high cost home purchase mortgage from Wells Fargo Bank. The study found that this was the worst disparity ratio for any of the lenders in any of the cities studied.

174. In addition, the same study found that, in 2005, Wells Fargo Bank's Latino borrowers were more than five times as likely to receive a high cost home purchase mortgage as White borrowers, a higher disparity ratio than any of the other lenders analyzed in Chicago.

175. These disparities have been found by other analyses of public data as well. According to an analysis of HMDA data in 2005, approximately 34% of Wells Fargo Bank's African American borrowers and 17% of Wells Fargo Bank's Latino borrowers in the Chicago area received high cost mortgages, while only about 6% of Wells Fargo Bank's White borrowers received high cost mortgages. The trend continued in 2006, with approximately 50% of Wells Fargo Bank's African American borrowers and 28% of its Latino borrowers in the Chicago area receiving a high cost mortgage, compared to only 10% of its White borrowers. In 2007, approximately 29% of Wells Fargo Bank's African American borrowers and 13% of Latino borrowers were sold high cost mortgages in the Chicago area, compared to only 6% of White borrowers.

176. When lending done by all of the entities that list either Wells Fargo and Company or Wells Fargo Bank as their parent institution (including Wells Fargo Financial) is included in the analysis, during 2005, African Americans in the Chicago area received high cost mortgages 45%

of the time and Latinos received a high cost mortgage 23% of the time, compared to White borrowers, who received high cost mortgages just 11% of the time from Wells Fargo.

177. In 2006, the trend continued, with 58.5% of Wells Fargo's African American borrowers and 35% of Latino borrowers receiving a high cost mortgage, compared to White borrowers who received high cost mortgages just 16% of the time.

178. This continued in 2007, when African American borrowers in the Chicago area received high cost mortgages from Wells Fargo more than 49% of the time and Latino borrowers received high cost mortgages 25% of the time, compared to just 15% for White borrowers.

179. These disparaties do not go away when controlling for income.

180. HMDA data reveals that, in 2007, 43% of African American borrowers and 23.5% of Latino borrowers making between $120,000 and $140,000 received high cost mortgage loans from Wells Fargo, while only 12% of White borrowers with this income received a high cost mortgage.

181. For those making between $40,000 and $60,000, 54% of Wells Fargo's African American borrowers and 32% of Wells Fargo's Latino borrowers received high cost mortgages, while only 17% of Wells Fargo's White borrowers with this income received high cost mortgages in 2007.

182. According to an analysis of 2007 HMDA data by the Chicago Reporter, about 34% of African Americans earning $120,000 or more received high cost mortgages from Wells Fargo in the Chicago metro area, while less than 22% of White borrowers earning less than $40,000 received high cost mortgages from Wells Fargo. Alden Loury, *Wells Fargo Gave Wealthy Blacks Subprime Loans More Often Than Poorer Whites* (June 23, 2009), available at

http://chicagoreporter.typepad.com/chicago_reporter/2009/06/wells-fargo-gave-wealthy-blacks-subprime-loans-more-often-than-poorer-whites.html.

183. A study by National People's Action shows that, nationwide, Wells Fargo was more likely to sell a high cost mortgage to African American borrowers with middle- and upper-incomes than to low- and moderate-income White borrowers. Approximately 34% of Wells Fargo mortgages to middle- and upper-income African Americans were high cost compared to approximately 20% of mortgages to low- and moderate-income White borrowers.

184. These disparities persist when examining minority neighborhoods in the Chicago area. In 2007, more than 51% of all of Wells Fargo's mortgages in predominantly African American census tracts in the Chicago area were high cost mortgages, compared to 14.5% of its mortgages in predominantly White census tracts. Alden Loury, *In Black Neighborhoods, Most Wells Fargo Mortgages Were High-Cost Loans*, Chicago Reporter (June 28, 2009), available at http://chicagoreporter.typepad.com /chicago_reporter/2009/06/in-black-neighborhoods-most-wells-fargo-mortgages-were-highcost-loans.html.

185. Simply living in a minority neighborhood doubled even a White borrower's chances of receiving a high cost mortgage from Wells Fargo. In 2007, White borrowers received high cost mortgages about 15% of the time in the Chicago area from Wells Fargo. For properties in predominantly black census tracts in the Chicago area, however, Wells Fargo placed White borrowers in high cost mortgages 31% of the time. *Id.*

186. Moreover, African American borrowers also paid more for their high cost mortgages from Wells Fargo than White borrowers. The National People's Action report estimates that, nationwide from 2004 through 2007, African American borrowers paid interest rates an average of 0.37 % higher on their Wells Fargo high cost purchase mortgages than White borrowers, and

an average 0.3 % higher on high cost refinance mortgages than White borrowers. According to the report, this will result in African Americans paying approximately $137 million more in interest than White borrowers will pay for their high cost mortgages from Wells Fargo.

187. Similarly, an analysis done by the Chicago Reporter demonstrates that African American borrowers in the Chicago area, on average, paid more for their high cost mortgages from Wells Fargo in 2007 than for high cost mortgages from other lenders. The article states that the 1,019 high cost, first-lien mortgages made to African Americans in the Chicago metro area in 2007 were, on average, 5.02 points above the rate of U.S. Treasury bonds of the same maturity, and at least one point higher than the average high cost mortgage African American borrowers received from the other top-ten lenders (by volume) in the Chicago area. Alden Loury, *Black borrowers in metro Chicago got their priciest home loans from Wells Fargo*, Chicago Reporter, July 10, 2009, available at www.chicagoreporter.typepad.com/chicagoz-reporter/2009/07/black-borrowers-in-metro-chicago-got-their-priciest-home-loans-from-wells-fargo.html#more.

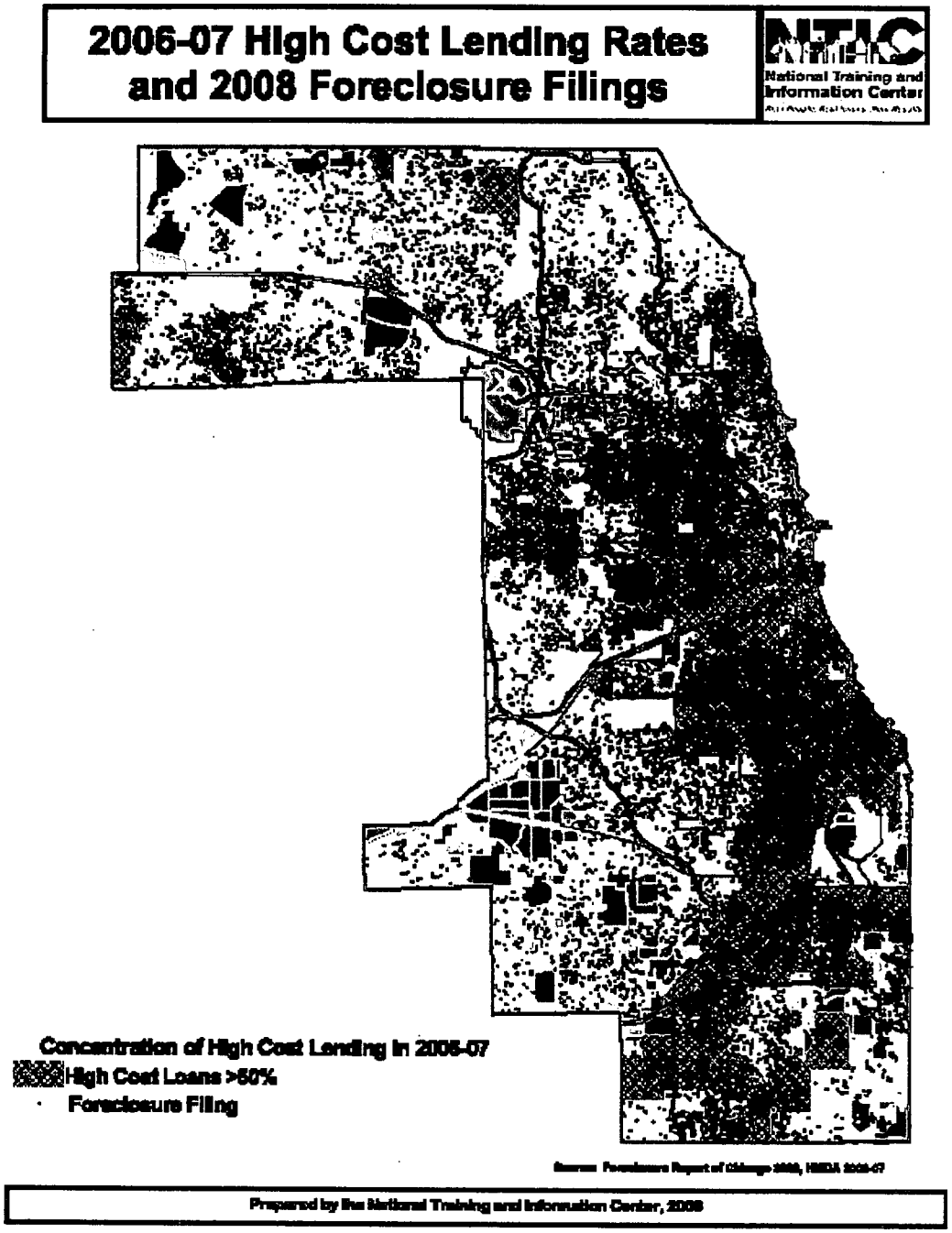
188. In addition to increased costs paid by minority borrowers for their Wells Fargo subprime mortgages, many of these mortgages ended up in foreclosure, and, ultimately, ended with Wells Fargo holding title to the property.

189. High cost mortgages are more likely to go into foreclosure than prime mortgages.

190. The GAO Report identified several features that were common in subprime mortgages and have been found to increase the likelihood of default and foreclosure. These features include adjustable interest rates, prepayment penalties, and low or no documentation of income and assets.

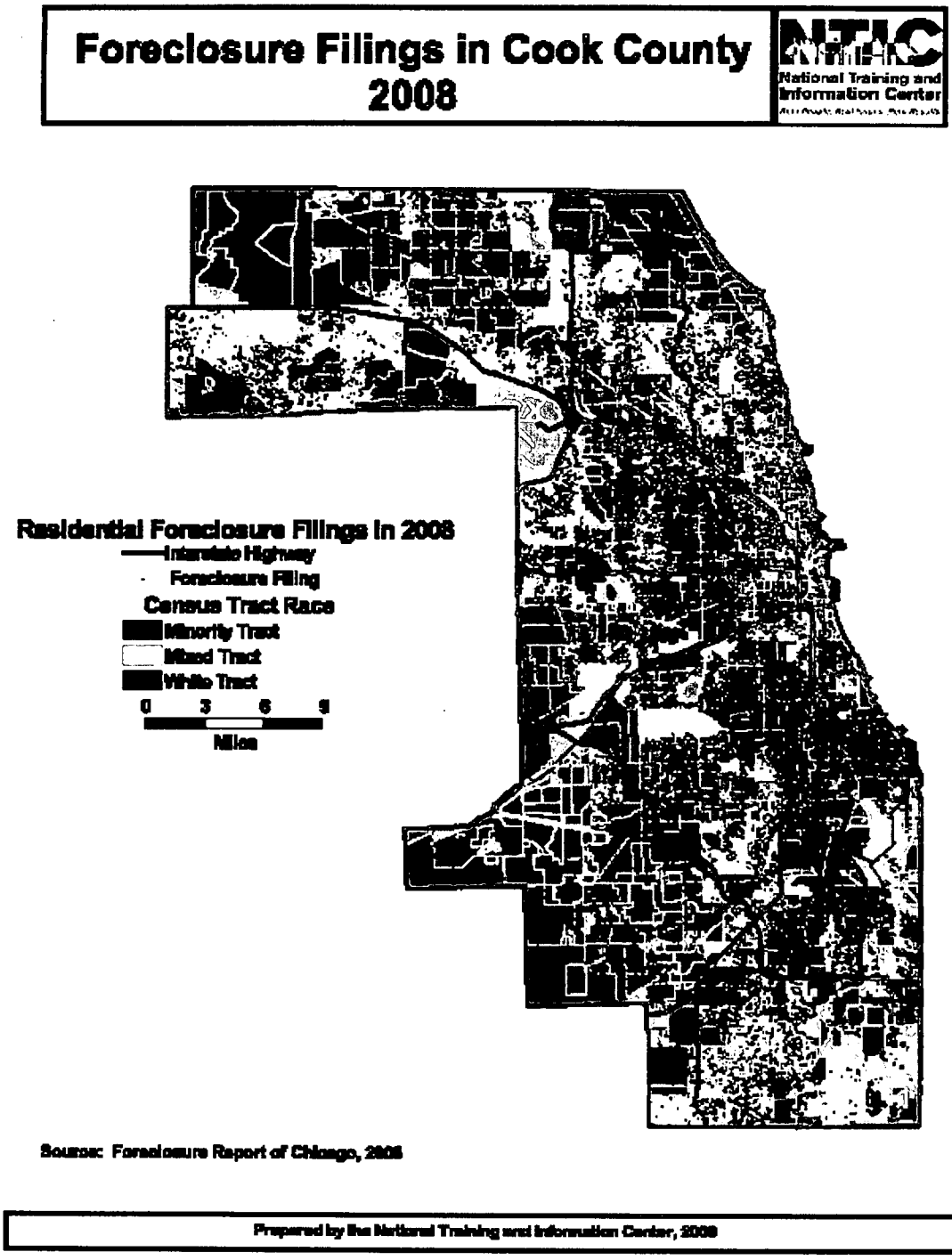
191. Wells Fargo sold subprime mortgages with these features to Illinois borrowers.

192. Below is a map of 2008 foreclosure filings in Cook County, Illinois, showing areas where the high cost lending rate during 2005 and 2006 was greater than 50%.



193. As the map above demonstrates, the foreclosure filings in Cook County are concentrated in areas where there was a high percentage of high cost lending.

194. Foreclosure filings in Cook County are also concentrated in minority census tracts. The map below shows foreclosure filings in Cook County juxtaposed with census tracts.



195. The location of Wells Fargo's REO properties, i.e. the properties that reverted back to Wells Fargo after a foreclosure auction, also demonstrates this trend. According to the National People's Action report, in the City of Chicago, approximately 82% of Wells Fargo's vacant foreclosed city properties are located in minority and lower income neighborhoods.

WELLS FARGO FINANCIAL ILLINOIS, INC. ENGAGED IN UNFAIR AND DECEPTIVE BUSINESS PRACTICES

196. Wells Fargo Financial also engaged in unfair and deceptive business practices that misled Illinois borrowers about the terms of the mortgages they received, including whether they would receive a mortgage with a fixed or adjustable rate, or a lower interest rate. In addition, Wells Fargo Financial used solicitations that misled consumers as to the source of the solicitations.

197. Wells Fargo Financial also repeatedly refinanced Illinois borrowers for the purpose of receiving fees, even though the borrowers received no real benefit from the transactions.

Wells Fargo Financial Employees Engaged in Unfair and Deceptive Sales Techniques By Misrepresenting Mortgage Terms

198. Wells Fargo Financial credit managers misrepresented to Illinois consumers the terms of mortgages in order to entice consumers into obtaining Wells Fargo Financial mortgages.

199. Wells Fargo Financial credit managers solicited Illinois borrowers by representing that they would be able to refinance into fixed interest rate mortgages when, in fact, they would be directed toward and receive adjustable interest rate mortgages.

200. On other occasions, Wells Fargo Financial representatives promised consumers a certain interest rate on their mortgages, but then told the consumers at the closings that their mortgages would contain different interest rates.

201. For example, a Wells Fargo Financial credit manager solicited one Illinois consumer who had a 9% adjustable rate mortgage with Countrywide. This particular borrower was interested in

obtaining a mortgage with a lower interest rate, and the Wells Fargo Financial credit manager told her that she could receive a mortgage with a 5% interest rate. Upon visiting the Wells Fargo Financial office in Tinley Park, Illinois, however, she was told that her interest rate would be 6%. Because it was still lower than her current 9% interest rate, the borrower decided to proceed with the mortgage. Then, at the closing on her loan, her mortgage documents showed that the interest rate on her new Wells Fargo Financial mortgage was actually 9%. When the consumer questioned this higher interest rate, the Wells Fargo Financial credit manager reassured her that, despite the documents, the mortgage interest rate was actually 6%. After reviewing her first bill, she found that the credit manager's assurances were false and the interest rate was 9%.

Wells Fargo Financial Used Solicitations that Unfairly and Deceptively Confused Illinois Consumers About the Source of the Solicitations

202. Wells Fargo and Company encouraged each of its employees to view all of its different affiliates and subsidiaries as one brand and was aware that consumers would similarly regard all of its divisions or subsidiaries as one company. This led consumers to be unaware that they were dealing with a subprime lender, Wells Fargo Financial, as opposed to a lender who made prime mortgage loans, Wells Fargo Home Mortgage.

203. Wells Fargo Financial solicited current Wells Fargo Home Mortgage customers with direct mail and telephone calls.

204. Although the direct mailers represented that they were from Wells Fargo Financial, the mailers were similar to mailers from Wells Fargo Home Mortgage. As a result, many consumers believed they were doing business with Wells Fargo Home Mortgage, rather than with Wells Fargo Financial.

205. Consequentially, when Wells Fargo Home Mortgage consumers contacted Wells Fargo Financial in response to the mailings, they were unaware that they were dealing with Wells Fargo Financial, which offered mainly subprime mortgages.

Wells Fargo Financial Unfairly and Deceptively Pressured Illinois Consumers to Repeatedly Refinance

206. Since at least 2002, Wells Fargo Financial has solicited both its own and Wells Fargo Home Mortgage customers for refinance and debt consolidation loans.

207. Wells Fargo Financial credit managers often urged potential borrowers to roll their unsecured debt – usually credit card debt – into a debt consolidation loan by misrepresenting to consumers that they would pay less in interest than what they paid on the credit cards.

208. When making sales, Wells Fargo Financial directed credit managers to use a software program called "Loan Optimizer" to explain the benefits of debt consolidation loans.

209. The credit manager would enter the required monthly payments for the consumer's debts, including mortgages, credit cards, and auto loans, into the Loan Optimizer program. Then, credit managers would ask consumers to estimate the value of their homes. Next, the credit managers would suggest a mortgage balance, provide the consumers with an estimated interest rate, and calculate the consumers' "new monthly payments."

210. The Loan Optimizer, however, did not take into account all possible fees and points that Wells Fargo Financial may have charged consumers.

211. Moreover, credit managers misrepresented the benefits of debt consolidation because they did not disclose that consumers were moving unsecured debt to secured debt. Once unsecured debt is consolidated with secured debt, the borrower puts up their home as collateral, allowing the bank to foreclose should the borrower default. Also, debt consolidation increased the balance of the consumer's mortgage loan and could increase the total amount of interest on

the consolidated debt over the term of the loan. Finally, debt consolidation could result, in some instances, in higher interest rates on the consumers' mortgages.

212. Although Wells Fargo Financial required its credit managers to ensure that there was some tangible benefit to refinancing a consumer's mortgage, the definition of "tangible benefit" was so broad as to be meaningless.

213. For example, a tangible benefit could include increasing a consumer's mortgage balance to pay off unsecured debts. As discussed above, this did not necessarily result in a benefit to consumers.

214. Likewise, tangible benefit could mean that the credit manager moved the borrower from an adjustable rate mortgage to a fixed rate mortgage. But the credit manager was not required to analyze if the fixed rate mortgage was actually more or less advantageous for the consumer.

215. Although Wells Fargo Financial credit managers enticed consumers into mortgages as debt consolidation loans, they would sometimes include debts already paid off in the loan amount or, conversely, not pay off debts as promised.

216. For example, a Wells Fargo Financial credit manager represented to one consumer with high credit card balances at high interest rates that the debt consolidation loan would pay off all of his existing credit card balances. In fact, only some of the credit card balances were paid off. As a result, this consumer was left with large outstanding credit card balances and with a 9.74% adjustable rate mortgage with Wells Fargo Financial, when he had previously had a 30-year fixed rate mortgage at 8%.

217. Once Wells Fargo Financial refinanced consumers, they could re-solicit the consumer after only one year for a new refinance.

218. For example, in January 2002, Wells Fargo Financial solicited and refinanced a consumer's 30-year fixed rate mortgage with GE Capital at 8% into a 15-year 11.56% mortgage, with over $12,000 in fees financed into the $203,900 mortgage.

219. By April 2003, Wells Fargo Financial re-refinanced this same borrower's mortgage. This time, Wells Fargo Financial put this borrower into an adjustable rate mortgage with a three-year introductory interest rate of 8%. Over $6,500 in fees were financed into the mortgage, which was now $223,501.

STATUTORY PROVISIONS

220. The Illinois Human Rights Act, 775 ILCS 5/3-101, contains the following relevant definitions:

> (B) Real Estate Transaction. "Real estate transaction" includes the sale, exchange, rental or lease of real property. "Real estate transaction" also includes the brokering or appraising of residential real property and the making or purchasing of loans or providing other financial assistance:
>
> > (1) for purchasing, constructing, improving, repairing or maintaining a dwelling; or
> >
> > (2) secured by residential real estate.

221. The Illinois Human Rights Act, 775 ILCS 5/3-102, provides that:

> It is a civil rights violation for an owner or any other person engaging in a real estate transaction, or for a real estate broker or salesman, because of unlawful discrimination or familial status, to
>
> ...
>
> (B) Terms. Alter the terms, conditions or privileges of a real estate transaction or in the furnishing of facilities or services in connection therewith;

222. The Illinois Human Rights Act, 775 ILCS 5/4-101, contains the following relevant definitions:

...

(B) Financial Institution. "Financial institution" means any bank, credit union, insurance company, mortgage banking company or savings and loan association which operates or has a place of business in this State.

(C) Loan. "Loan" includes, but is not limited to, the providing of funds, for consideration, which are sought for: (1) the purpose of purchasing, constructing, improving, repairing, or maintaining a housing accommodation as that term is defined in paragraph (C) of Section 3-101; or (2) any commercial or industrial purposes.

(D) Varying Terms. "Varying the terms of a loan" includes, but is not limited to, the following practices:

(1) Requiring a greater down payment than is usual for the particular type of a loan involved.

(2) Requiring a shorter period of amortization than is usual for the particular type of loan involved.

(3) Charging a higher interest rate than is usual for the particular type of loan involved.

(4) An under appraisal of real estate or other item of property offered as security.

223. The Illinois Human Rights Act, 775 ILCS 5/4-102, provides that:

It shall be a civil rights violation for any financial institution, on the grounds of unlawful discrimination, to:

(A) Denial of Services. Deny any person any of the services normally offered by such an institution.

(B) Modification of Services. Provide any person with any service which is different from, or provided in a different manner than, that which is provided to other persons similarly situated.

(C) Loan Terms. Deny or vary the terms of a loan.

(D) Property Location. Deny or vary the terms of a loan on the basis that a specific parcel of real estate offered as security is located in a specific geographical area.

(E) Consideration of Income. Deny or vary the terms of a loan without having considered all of the regular and dependable income of each person who would be liable for repayment of the loan.

(F) Lending Standards. Utilize lending standards that have no economic basis and which constitute unlawful discrimination.

224. Section 104 of the Illinois Human Rights Act, 775 ILCS 5/10, provides as follows:

(A) Standing, venue, limitations on actions, preliminary investigations, notice, and Assurance of Voluntary Compliance.

(1) Whenever the Illinois Attorney General has reasonable cause to believe that any person or group of persons is engaged in a pattern and practice of discrimination prohibited by this Act, the Illinois Attorney General may commence a civil action in the name of the People of the State, as parens patriae on behalf of persons within the State to enforce the provisions of this Act in any appropriate circuit court. Venue for this civil action shall be determined under Section 8-111(B)(6). Such actions shall be commenced no later than 2 years after the occurrence or the termination of an alleged civil rights violation or the breach of a conciliation agreement or Assurance of Voluntary Compliance entered into under this Act, whichever occurs last, to obtain relief with respect to the alleged civil rights violation or breach.

(2) Prior to initiating a civil action, the Attorney General shall conduct a preliminary investigation to determine whether there is reasonable cause to believe that any person or group of persons is engaged in a pattern and practice of discrimination declared unlawful by this Act and whether the dispute can be resolved without litigation. In conducting this investigation, the Attorney General may:

(a) require the individual or entity to file a statement or report in writing under oath or otherwise, as to all information the Attorney General may consider necessary;

(b) examine under oath any person alleged to have participated in or with knowledge of the alleged pattern and practice violation; or

(c) issue subpoenas or conduct hearings in aid of any investigation.

...

(5) The Illinois Attorney General may commence a civil action under this subsection (A) whether or not a charge has been filed under Sections 7A-102 or 7B-102 and without regard to the status of any charge, however, if the Department or local agency has obtained a conciliation or settlement agreement or if the parties have entered into an Assurance of Voluntary Compliance no action may be filed under this subsection (A) with respect

to the alleged civil rights violation practice that forms the basis for the complaint except for the purpose of enforcing the terms of the conciliation or settlement agreement or the terms of the Assurance of Voluntary Compliance.

(6) If any person fails or refuses to file any statement or report, or obey any subpoena, issued pursuant to subdivision (A)(2) of this Section, the Attorney General will be deemed to have met the requirement of conducting a preliminary investigation and may proceed to initiate a civil action pursuant to subdivision (A)(1) of this Section.

(B) Relief which may be granted.

(1) In any civil action brought pursuant to subsection (A) of this Section, the Attorney General may obtain as a remedy, equitable relief (including any permanent or preliminary injunction, temporary restraining order, or other order, including an order enjoining the defendant from engaging in such civil rights violation or ordering any action as may be appropriate). In addition, the Attorney General may request and the Court may impose a civil penalty to vindicate the public interest:

(a) for violations of Article 3 and Article 4 in an amount not exceeding $25,000 per violation, and in the case of violations of all other Articles in an amount not exceeding $10,000 if the defendant has not been adjudged to have committed any prior civil rights violations under the provision of the Act that is the basis of the complaint;

...

(2) A civil penalty imposed under subdivision (B)(1) of this Section shall be deposited into the Attorney General Court Ordered and Voluntary Compliance Payment Projects Fund, which is a special fund in the State Treasury. Moneys in the Fund shall be used, subject to appropriation, for the performance of any function pertaining to the exercise of the duties of the Attorney General including but not limited to enforcement of any law of this State and conducting public education programs; however, any moneys in the Fund that are required by the court or by an agreement to be used for a particular purpose shall be used for that purpose.

225. Section 2 of the Illinois Fairness in Lending Act, 815 ILCS 120/2, provides that

(a) "Financial institution" means any bank, credit union, insurance company, mortgage banking company, savings bank, savings and loan association, or other residential mortgage lender which operates or has a place of business in this State.

(b) "Person" means any natural person.

(c) "Varying the terms of a loan" includes, but is not limited to the following practices:

(1) Requiring a greater than average down payment than is usual for the particular type of a loan involved.

(2) Requiring a shorter period of amortization than is usual for the particular type of loan involved.

(3) Charging a higher interest rate than is usual for the particular type of loan involved.

(4) An underappraisal of real estate or other item of property offered as security.

(d) "Equity stripping" means to assist a person in obtaining a loan secured by the person's principal residence for the primary purpose of receiving fees related to the financing when (i) the loan decreased the person's equity in the principal residence and (ii) at the time the loan is made, the financial institution does not reasonably believe that the person will be able to make the scheduled payments to repay the loan. "Equity stripping" does not include reverse mortgages as defined in Section 5a of the Illinois Banking Act, Section 1-6a of the Illinois Savings and Loan Act of 1985, or subsection (3) of Section 46 of the Illinois Credit Union Act.

(e) "Loan flipping" means to assist a person in refinancing a loan secured by the person's principal residence for the primary purpose of receiving fees related to the refinancing when (i) the refinancing of the loan results in no tangible benefit to the person and (ii) at the time the loan is made, the financial institution does not reasonably believe that the refinancing of the loan will result in a tangible benefit to the person.

(f) "Principal residence" means a person's primary residence that is a dwelling consisting of 4 or fewer family units or that is in a dwelling consisting of condominium or cooperative units.

226. Section 3 of the Illinois Fairness in Lending Act, 815 ILCS 120/3 provides in relevant part that:

No financial institution, in connection with or in contemplation of any loan to any person, may:

(a) Deny or vary the terms of a loan on the basis that a specific parcel of real estate offered as security is located in a specific geographical area.

(b) Deny or vary the terms of a loan without having considered all of the regular and dependable income of each person who would be liable for repayment of the loan.

(c) Deny or vary the terms of a loan on the sole basis of the childbearing capacity of an applicant or an applicant's spouse.

(d) Utilize lending standards that have no economic basis and which are discriminatory in effect.

(e) Engage in equity stripping or loan flipping.

227. Section 5 of the Illinois Fairness in Lending Act, 815 ILCS 120/5(c), provides in relevant part that:

> An action to enjoin any person subject to this Act from engaging in activity in violation of this Act may be maintained in the name of the people of the State of Illinois by the Attorney General or by the State's Attorney of the county in which the action is brought. This remedy shall be in addition to other remedies provided for any violation of this Act.

228. Section 2 of the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/2, provides that:

> Unfair methods of competition and unfair or deceptive acts or practices, including but not limited to the use or employment of any deception, fraud, false pretense, false promise, misrepresentation or the concealment, suppression or omission of any material fact, with intent that others rely upon concealment, suppression or omission of such material fact, or the use of employment of any practice described in Section 2 of the "Uniform Deceptive Trade Practices Act," approved August 5, 1965, in the conduct of any trade or commerce are hereby declared unlawful whether any person has in fact been misled, deceived or damaged thereby. In construing this section consideration shall be given to the interpretations of the Federal Trade Commission and the federal courts relating to Section 5(a) of the Federal Trade Commission Act.

229. Section 7 of the Illinois Consumer Fraud and Deceptive Practices Act, 815 ILCS 505/7, provides in relevant part:

> (a) Whenever the Attorney General has reason to believe that any person is using, has used, or is about to use any method, act or practice declared by the Act to be unlawful, and that proceedings would be in the public interest, he may bring an

action in the name of the State against such person to restrain by preliminary or permanent injunction the use of such method, act or practice. The Court, in its discretion, may exercise all powers necessary, including but not limited to: injunction, revocation, forfeiture or suspension of any license, charter, franchise, certificate or other evidence of authority of any person to do business in this State; appointment of a receiver; dissolution of domestic corporations or association suspension or termination of the right of foreign corporations or associations to do business in this State; and restitution.

(b) In addition to the remedies provided herein, the Attorney General may request and this Court may impose a civil penalty in a sum not to exceed $50,000 against any person found by the Court to have engaged in any method, act or practice declared unlawful under this Act. In the event the court finds the method, act or practice to have been entered into with intent to defraud, the court has the authority to impose a civil penalty in a sum not to exceed $50,000 per violation.

(c) In addition to any other civil penalty provided in this Section, if a person is found by the court to have engaged in any method, act, or practice declared unlawful under this Act, and the violation was committed against a person 65 years of age or older, the court may impose an additional civil penalty not to exceed $10,000 for each violation.

230. Section 10 of the Illinois Consumer Fraud Deceptive Act, 815 ILCS 505/10, provides that "[i]n any action brought under the provisions of this Act, the Attorney General is entitled to recover costs for the use of this State."

231. The Uniform Deceptive Trade Practices Act, 815 ILCS 510/2(a)(2), provides, in relevant part, that: "[a] person engages in deceptive trade practices when, in the course of his or her business, vocation or occupation, the person: ... causes likelihood of confusion or of misunderstanding as to the source, sponsorship, approval, or certification of goods or services."

COUNT I

Defendants' Violations of the Illinois Human Rights Act, 775 ILCS 5/3-101 *et seq.*

232. The allegations contained in Paragraphs 1 through 219 of the Complaint are re-alleged and incorporated herein by reference.

233. Defendants made loans to Illinois consumers secured by residential real estate and therefore engaged in residential real estate-related transactions, as that term is defined in the Illinois Human Rights Act, 775 ILCS 5/3-101(B).

234. In the course of engaging in residential real estate-related transactions, Defendants' acts, policies and practices altered the terms, conditions or privileges of a real estate transaction or the furnishing of facilities or services in connection with a real estate transaction because of unlawful discrimination, by:

a. targeting African Americans and/or residents of predominantly African American neighborhoods for different treatment than residents of predominantly White neighborhoods;

b. targeting African Americans and/or residents of predominately African American neighborhoods for subprime mortgage loans without regard to their credit qualifications; and/or

c. targeting African Americans and/or residents of predominantly African American neighborhoods for riskier and/or costlier mortgage loans.

235. In the course of engaging in residential real estate-related transactions, Defendants' acts, policies and practices have had an adverse and disproportionate impact on African Americans and Latinos and residents of predominantly African American and Latino neighborhoods in Illinois as compared to similarly situated Whites and residents of predominantly White neighborhoods in Illinois, thereby altering the terms, conditions or privileges of a real estate transaction or the furnishing of facilities or services in connection with a real estate transaction because of unlawful discrimination, as a direct result of:

a. giving substantial discretion in pricing and product choice to those responsible for Defendants' mortgage lending decisions without imposing adequate controls; and

b. providing financial incentives to those responsible for Defendants' mortgage lending decisions to give borrowers loans that are costlier and riskier than mortgage loans for which they qualify, including steering prime-eligible borrowers into subprime mortgage loans.

236. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies. Moreover, Defendants' acts, practices and policies continue to impact all consumers in the State of Illinois through decreased home values resulting from, among other things, the spillover effect from mortgage loans originated by Defendants going into foreclosure. The State of Illinois itself continues to be harmed by Defendants' acts, practices and policies due to the reduced property tax base caused by mortgage loans originated by Defendants going into foreclosure and the costs related to the foreclosures.

237. Defendants' acts, practices and policies violate the Illinois Human Rights Act, 775 ILCS 5/3-102(B), and constitute a pattern and practice of discrimination.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/3-101 *et seq.*;

B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;

C. An order requiring Defendants to make restitution to all consumers who were affected by the above-mentioned unlawful acts and practices in the origination of Wells Fargo residential mortgage loans;

D. An order imposing a civil penalty in a sum not to exceed $25,000 against any Defendant for each violation of the Illinois Human Rights Act; and

E. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

COUNT II

Defendants' Violations of the Illinois Human Rights Act, 775 ILCS 5/4-101 *et seq.*

238. The allegations contained in Paragraphs 1 through 219 of the Complaint are re-alleged and incorporated herein by reference.

239. Defendants are financial institutions that make mortgages, as that term is defined in the Illinois Human Rights Act, 775 ILCS 5/4-101(B) and (C).

240. Defendants have engaged in acts, policies and practices, on the grounds of unlawful discrimination, that:

a. target African Americans and/or residents of predominantly African American neighborhoods for different treatment than residents of predominantly White neighborhoods;

b. target African Americans and/or residents of predominantly African American neighborhoods for subprime mortgage loans without regard to their credit qualifications; and/or

c. target African Americans and/or residents of predominantly African American neighborhoods for riskier and/or costlier mortgage loans.

241. Defendants have engaged in acts, polices and practices, on the grounds of unlawful discrimination, that have had an adverse and disproportionate impact on African Americans and Latinos and residents of predominantly African American and Latino neighborhoods in Illinois as compared to similarly situated Whites and residents of predominantly White neighborhoods in Illinois by:

a. giving substantial discretion in pricing and product choice to those responsible for Defendants' mortgage lending decisions without imposing adequate controls; and

b. providing financial incentives to those responsible for Defendants' mortgage lending decisions to give borrowers loans that are costlier and riskier than mortgage loans for which they qualify, including steering prime-eligible borrowers into subprime mortgage loans.

242. By providing residential mortgage financial services to African American and Latino borrowers and/or residents of predominately African American and Latino neighborhoods that are different from, or provided in a different manner than, that which was provided to White borrowers and borrowers in predominately White neighborhoods, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(B).

243. By varying the terms of residential mortgage loans for African American and Latino borrowers and/or residents of predominately African American and Latino neighborhoods, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(C).

244. By varying the terms of residential mortgage loans on the basis that a specific parcel of real estate offered as security is located in a predominately African American or Latino neighborhoods, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(D).

245. By utilizing lending standards that have no economic basis and constitute unlawful discrimination, Defendants violated the Illinois Human Rights Act, 775 ILCS 5/4-102(F).

246. Illinois homeowners who are still in mortgage loans made by Defendants that are unlawful for the reasons described above continue to suffer harm from Defendants' discriminatory acts, practices and policies. Moreover, Defendants' acts, practices and policies continue to impact all consumers in the State of Illinois through decreased home values resulting from, among other things, the spillover effect from mortgage loans originated by Defendants going into foreclosure. The State of Illinois itself continues to be harmed by Defendants' acts, practices and policies due to the reduced property tax base caused by mortgage loans originated by Defendants going into foreclosure and the costs related to the foreclosures.

247. Defendants' actions violate the Illinois Human Rights Act, 775 ILCS 5/4-102(B), (C), (D), and (F), and constitute a pattern and practice of discrimination.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have engaged in and are engaging in a pattern and practice of discrimination in violation of the Illinois Human Rights Act, 775 ILCS 5/4-101 *et seq.*;

B. An order permanently enjoining Defendants from the use of acts or practices that violate the Illinois Human Rights Act including, but not limited to, the unlawful acts and practices specified above;

C. An order requiring Defendants to make restitution to all consumers who were affected by the above-mentioned unlawful acts and practices in the origination of Wells Fargo residential mortgage loans;

D. An order imposing a civil penalty in a sum not to exceed $25,000 against any Defendant for each violation of the Illinois Human Rights Act; and

D. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

COUNT III

Defendants' Violations of the Illinois Fairness in Lending Act, 815 ILCS 120/1 *et seq.*

248. The allegations contained in Paragraphs 1 through 219 of the Complaint are re-alleged and incorporated herein by reference.

249. Defendants are financial institutions, as that term is defined by the Illinois Fairness in Lending Act, 815 ILCS 120/2(a).

250. Defendants varied the terms of loans on the basis that specific parcels of real estate offered as security are located in predominately African American and/or Latino neighborhoods, in violation of the Illinois Fairness in Lending Act, 815 ILCS 120/3(a).

251. Defendants utilized lending standards that have no economic basis and are discriminatory in effect, in violation of the Illinois Fairness in Lending Act, 815 ILCS 120/3(d).

252. Defendant Wells Fargo Financial Illinois, Inc. violated Section 3 of the Illinois Fairness in Lending Act, 815 ILCS 120/3(e), by engaging in acts or practices that constitute loan flipping,

to wit: assisting Illinois consumers in refinancing loans secured by their principal residences for the primary purpose of receiving fees related to the refinancing when (i) the refinancing of the loans resulted in no tangible benefits to the consumers and (ii) at the time the loans were made, Defendant did not reasonably believe that the refinancing of the loan would result in tangible benefits to the consumers.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendants have violated the Illinois Fairness in Lending Act;

B. An order permanently enjoining Defendants from engaging in acts or practices that violate the Illinois Fairness in Lending Act including, but not limited to, the unlawful acts and practices specified above; and

C. An order granting such further relief as this Court deems just, necessary, and equitable in the premises.

COUNT IV

Defendant Wells Fargo Financial of Illinois, Inc.'s Violations of Section 2 of the Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1, *et seq.* and Section 2(a)(2) of the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS 510/2

253. The allegations contained in Paragraphs 1 through 219 of the Complaint are re-alleged and incorporated herein by reference.

254. Defendant Wells Fargo Financial engaged in the conduct of trade or commerce, which constitutes unfair and deceptive acts or practices in violation of Section 2 of the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.*, by:

a. misleading consumers about the terms of mortgage loans that they would receive, such as telling consumers that they would be able to refinance from an adjustable rate mortgage into a fixed rate mortgage, or receive a lower interest rate;

b. misrepresenting the benefits of refinancing mortgage loans to consumers; and

c. repeatedly refinancing consumers for the purpose of receiving fees even though the consumers received no real benefit from the transaction.

255. Defendant Wells Fargo Financial has engaged in trade or commerce, which constitutes unfair and deceptive acts or practices in violation of Section 2 of the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 *et seq.*, and Section 2(a)(2) of the Uniform Deceptive Trade Practices Act, 815 ILCS 510/2, by causing a likelihood of confusion concerning with which company the consumer was dealing.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for the following relief:

A. A finding that Defendant Wells Fargo Financial violated the Illinois Consumer Fraud Act;

B. A finding that Defendant Wells Fargo Financial violated the Uniform Deceptive Trade Practices Act;

C. An order permanently enjoining Defendant Wells Fargo Financial from engaging in acts or practices that violate the Illinois Consumer Fraud and Deceptive Business Practices Act, including but not limited to, the unlawful acts and practices specified above;

D. Declaring that all contracts entered into between Defendant Wells Fargo Financial and Illinois consumers by the use of methods and practices declared unlawful are rescinded and requiring that full restitution be made to said consumers;

E. An order assessing a civil penalty in the amount of Fifty Thousand Dollars ($50,000.00) per violation of the Illinois Consumer Fraud and Deceptive Business Practices Act found by the Court to have been committed by Defendant Wells Fargo Financial with intent to defraud, if the Court finds it has engaged in methods, acts, or practices declared unlawful by the Illinois Consumer Fraud Act, without intent to defraud, then assessing a statutory civil penalty of Fifty Thousand Dollars ($50,000.00) all as provided in Section 7 of the Illinois Consumer Fraud Act;

F. An order assessing an additional civil penalty in the amount of Ten Thousand Dollars ($10,000.00) per violation of the Illinois Consumer Fraud Act found by the Court to have been committed by Defendant Wells Fargo Financial against a person 65 year of age and older as provided in Section 7 of the Illinois Consumer Fraud Act;

G. Requiring Defendant Wells Fargo Financial to pay all costs for the prosecution and investigation of this action, as provided by Section 10 of the Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/10; and

H. An order granting such other relief as this Honorable Court deems just and proper.

Respectfully submitted,

LISA MADIGAN, IN HER OFFICIAL CAPACITY AS ATTORNEY GENERAL OF ILLINOIS,

DEBORAH HAGAN, Chief
Consumer Protection Division

LISA MADIGAN
Attorney General of Illinois

DEBORAH HAGAN, Chief
Consumer Protection Division

JAMES D. KOLE, Chief
Consumer Fraud Bureau

CARLOS RAMIREZ, Chief
Civil Rights Bureau

CECILIA ABUNDIS
JOHN COSTELLO
SUSAN N. ELLIS
JENNIFER FRANKLIN
MICHELLE GARCIA
MONICA GRUBBS
VERONICA L. SPICER
THOMAS JAMES
Assistant Attorneys General
Telephone: 312-814-3000

100 W. Randolph St., 12th Floor
Chicago, IL 60601