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Baltimore sues Wells Fargo, accused of creating subprime crisis

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Tuesday, January 8, 2008

(01-08) 16:30 PST BALTIMORE, (AP) --

Black neighborhoods in Baltimore were disproportionately affected by the subprime mortgage fallout, according to a federal lawsuit filed Tuesday by the city, which is attempting to recoup the costs of maintaining neighborhoods wracked by foreclosures.

The lawsuit alleges Wells Fargo Bank NA engaged in a pattern of predatory lending practices in Baltimore's poorest neighborhoods, leading to foreclosure rates nearly double the citywide average.

"When you have foreclosures, the property values drop, and you get less tax revenue. There's fire and police costs that come from abandoned and boarded-up and vacant properties," said John P. Relman, a Washington-based attorney who is representing the city in the lawsuit. "It leads to crime and drugs and school problems as the community is being destabilized."

While the lawsuit, filed in U.S. District Court in Baltimore, does not specify compensatory or punitive damages, City Solicitor George Nilson said foreclosures have cost Baltimore tens of millions of dollars.

The lawsuit alleges that San Francisco-based Wells Fargo targeted black neighborhoods for high-risk and unfairly priced loans — a practice known as reverse redlining, which is prohibited under the federal Fair Housing Act. For example, it claims that mortgages for homes worth $75,000 or less — most of which are located in black neighborhoods — had higher rates and were laden with fees and surcharges.

"You could be equally well-qualified, but if you happen to buy a house that's worth $75,000 or less, you're going to pay more," Relman said.

Wells Fargo does not comment on pending litigation, but spokeswoman Debora Blume said in a statement that the company does not consider race when making loans.

"We do not tolerate illegal discrimination against, or unfair treatment of, any consumer," Blume said. "Our loan pricing is based on credit risk. We are committed to serving all customers fairly — our continued growth depends on it."

The lawsuit demonstrates a new legal tactic against lenders, and other cities hurt by the subprime crisis are likely to watch it closely, said Eric Halperin, director of the Washington office of Center for Responsible Lending.

"The innovative twist on it is that the city's seeking relief and not the borrower," Halperin said. He added that while it's clear foreclosures hurt property tax revenues, the city must prove "that the underlying conduct by the lender was discriminatory toward the borrowers and that the city was harmed by it."

More than 33,000 homes in Baltimore have been subjected to foreclosure since 2000.

Wells Fargo, one of the two largest mortgage providers in the city since 2004, made 1,285 loans a year totaling more than $600 million between then and 2007, according to the city.

Wells Fargo had 135 foreclosures in 2005 and 2006 and there were at least 70 foreclosures in the first half of 2007, according to the lawsuit, more than any other lender. Two-thirds of Wells Fargo's foreclosures occurred in neighborhoods that are more than 60 percent black during the first two years, according to the lawsuit.

Foreclosures overall are on the rise. The lawsuit says the number of "foreclosure events" — such as notices of default or foreclosure sales — increased fivefold from the first quarter to the second quarter of 2007.

Relman said other lenders had higher foreclosure rates in majority-black communities than in white ones, but Wells Fargo stood out having the most glaring racial disparity in its rates as well as for the sheer volume of foreclosures.

City officials say the foreclosures further damage their efforts to improve Baltimore's impoverished neighborhoods, where vacant and boarded-up houses are common.

"What we're trying to do is build and create strong neighborhoods," Mayor Sheila Dixon said Tuesday. "We have a whole different generation, a whole different set of people who are homeless as a result of foreclosures."

A report commissioned last November by the U.S. Conference of Mayors projected that 361 metropolitan areas would take an economic hit of $166 billion in 2008 because of the foreclosure crisis. The Baltimore area was expected to lose more than $1.6 billion in economic output, according to the report.

Shares of Wells Fargo & Co., the parent of Wells Fargo Bank, fell $1.18, or 4.3 percent, to $26.50 Tuesday.

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