



SEP 23 2015

CFPB and DOJ Order Hudson City Savings Bank to Pay \$27 Million to Increase Mortgage Credit Access in Communities Illegally Redlined

Bank Illegally Denied Black and Hispanic Neighborhoods Fair Access to Mortgages

WASHINGTON, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ) announced a joint action against Hudson City Savings Bank for discriminatory redlining practices that denied residents in majority-Black-and-Hispanic neighborhoods fair access to mortgage loans. The complaint filed by the CFPB and DOJ alleges that Hudson City illegally provided unequal access to credit to neighborhoods in New York, New Jersey, Connecticut, and Pennsylvania. The bank located branches and loan officers, selected mortgage brokers, and marketed products to avoid and thereby discourage prospective borrowers in predominantly Black and Hispanic communities. If the proposed consent order is approved by the court, Hudson City will pay \$25 million in direct loan subsidies to qualified borrowers in the affected communities, \$2.25 million in community programs and outreach, and a \$5.5 million penalty. This represents the largest redlining settlement in history to provide such direct subsidies.

“We allege that Hudson City’s redlining practices illegally cut off opportunities for consumers in predominantly Black and Hispanic neighborhoods to get a mortgage and achieve the dream of homeownership,” said CFPB Director Richard Cordray. “Without access to affordable credit, neighborhoods deteriorate in the long shadow cast by unfair lending. Today’s action seeks to remove the redline by bringing more than \$27 million in mortgage subsidies and outreach programs, along with new bank branches to the communities who should have had access from the beginning.”

“This case should send a message to lenders throughout the country that the Justice Department will not tolerate racial discrimination in the extension of credit,” said Principal Deputy Assistant Attorney General Vanita Gupta, head of the Civil Rights Division. “A lending institution must treat all potential borrowers equally, regardless of their race or the racial composition of their neighborhood, when deciding to offer its loan services. We encourage all lenders to proactively identify responsible lending opportunities that exist in predominantly minority neighborhoods within their lending areas.”

“Hudson City Savings Bank structured its business operations to systemically avoid providing credit services in predominantly minority neighborhoods,” said U.S. Attorney Paul J. Fishman of the District of New Jersey. “There is no room for such behavior in our banking system. In addition to paying \$25 million for a loan subsidy program, today’s settlement agreement will require the bank to take a number of concrete steps to ensure that they improve access to responsible and affordable credit to qualified borrowers in Black and Hispanic neighborhoods.”

Hudson City is a federally-chartered savings association with 135 branches and assets of \$35.4 billion. Hudson City focuses its lending on the origination and purchase of mortgage loans secured by single-family properties. Hudson City generates the vast majority of its mortgage loan applications for properties within three metropolitan statistical areas. The first area includes New York City, Long Island, and northern New Jersey. The second area includes Philadelphia, Camden, and Wilmington. The third area includes Bridgeport, Stamford, and Norwalk in Connecticut. In 2012, Hudson City generated over 90 percent of its mortgage loan applications for properties within these three areas.

The Equal Credit Opportunity Act (ECOA) prohibits creditors from discriminating against applicants in credit transactions on the basis of characteristics such as race, color, and national origin. In the complaint, the CFPB and DOJ alleged that from at least 2009 to 2013, Hudson City violated the law when it engaged in illegal redlining by offering unequal access to credit based on the race and ethnicity of prospective borrowers’ neighborhoods. Specifically, Hudson City structured its business to avoid and thereby discourage residents in majority-Black-and-Hispanic neighborhoods from accessing mortgages. The DOJ also alleges that Hudson violated the Fair Housing Act, which also prohibits discrimination in residential mortgage lending.

Today’s enforcement action is the result of a CFPB examination that began in March of 2014 and was followed by a joint CFPB and DOJ investigation. The joint action alleges

that Hudson City illegally avoided and thereby discouraged consumers in majority-Black-and-Hispanic neighborhoods from applying for credit by:

- **Avoiding locating branches and loan officers in majority-Black-and-Hispanic communities:**

From 2004 through 2010, Hudson City embarked on a branch expansion in Staten Island, Long Island, north of New York City, and Connecticut. These areas exclude and form a semi-circle around the four counties in New York with the highest proportions of majority-Black-and-Hispanic neighborhoods. Ninety-four percent of the branches opened or acquired as a result of this expansion effort were outside of majority-Black-and-Hispanic neighborhoods. Hudson City also placed all of its loan officers outside of majority-Black-and-Hispanic areas.

- **Avoiding using mortgage brokers in majority-Black-and-Hispanic communities:** Hudson City generated 80 percent of its mortgage applications through mortgage brokers, who were heavily concentrated outside of majority-Black-and-Hispanic areas. In 2011 and 2012, 94.5 percent of Hudson City's top 50 brokers' offices were not in majority-Black-and-Hispanic areas. For example, none of the 47 brokers utilized by Hudson City in the Philadelphia and Camden area were headquartered in majority-Black-and-Hispanic communities, despite these communities representing 22.6 percent of that area's census tracts.

- **Excluding majority-Black-and-Hispanic communities from its marketing strategy:** Hudson City focused its limited marketing in neighborhoods with relatively few Black and Hispanic residents. Hudson City chose Suffolk County, N.Y. for its strategic marketing initiative. Suffolk County has a lower proportion of majority-Black-and-Hispanic neighborhoods than any other county in New York City and Long Island. In another initiative, Hudson City advertised and offered discounted home improvement loans only to residents of certain counties, excluding from eligibility the four New York State counties with the highest proportions of majority-Black-and-Hispanic neighborhoods.

- **Excluding majority-Black-and-Hispanic neighborhoods from its credit assessment areas:**

Hudson City is required under the Community Reinvestment Act to select an area and to meet the credit needs of residents in that area. In doing so, the bank excluded most or all majority-Black-and-Hispanic neighborhoods in the areas selected. For example, Hudson City's assessment area near Philadelphia and

Camden excluded all 337 neighborhoods with a majority of Black and Hispanic residents.

Enforcement Action

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes the CFPB to take action against creditors engaging in discrimination in violation of the ECOA. The consent order, which is subject to court approval, requires Hudson City to take remedial measures to provide access to credit to the Black and Hispanic neighborhoods that it allegedly redlined. Specifically, the order requires Hudson City to:

- **Pay \$25 million to a loan subsidy program:** To increase access to affordable credit, the loan subsidy program will offer residents in majority-Black-and-Hispanic neighborhoods in New Jersey, New York, Connecticut, and Pennsylvania mortgage loans on a more affordable basis than otherwise available from Hudson City. The loan subsidies can include interest rate reductions, closing cost assistance, and down payment assistance.
- **Spend \$1,000,000 on targeted advertising and outreach:** During the five-year term of the order, Hudson City will spend \$200,000 annually on a targeted advertising and outreach campaign to generate applications for mortgage loans from qualified residents in the affected majority-Black-and-Hispanic neighborhoods. The bank will be required to display promotional materials in branch offices and advertise via print media, radio, and bilingually in English and Spanish.
- **Spend \$750,000 on local partnerships:** Hudson City will spend \$750,000 to partner with community-based or governmental organizations that provide assistance to residents in Black and Hispanic neighborhoods.
- **Spend \$500,000 on consumer education:** During the five-year term of the order, Hudson City will spend \$100,000 annually to provide 12 financial education events covering credit counseling, financial literacy, and other topics to help identify and develop qualified loan applicants from the affected Black and Hispanic communities.
- **Offer full-service banking in majority-Black-and-Hispanic communities:** Hudson City will open two new branches within majority-Black-and-Hispanic neighborhoods. These branches will provide the complete range of services typically offered at Hudson City's full-service branches.

- **Expand assessment areas to include majority-Black-and-Hispanic communities:** Hudson City is required to expand its Community Reinvestment Act assessment areas to include all of Bronx, Kings, Queens, and New York counties in New York; the city of Camden; and the city of Philadelphia.
- **Assess the credit needs of majority-Black-and-Hispanic communities:** Hudson City will also complete an assessment of the credit needs of the majority-Black-and-Hispanic communities within the affected metropolitan areas. The credit-needs assessment will include consideration of how the bank's lending operations can be expanded to meet the needs of majority-Black-and-Hispanic communities. The bank will meet regularly with representatives of community organizations involved in promoting fair lending, home ownership, or residential development in these communities.
- **Develop a fair lending compliance and training plan:** The bank will submit a compliance plan that includes a review of its mortgage lending policies and practices, and steps for reducing redlining risk, including an oversight policy to reduce redlining risks among its brokers and a formal ongoing process to monitor for redlining. The bank will also be required to train all of its employees involved in mortgage lending to ensure their activities are nondiscriminatory. Hudson City will also hire a full-time Director of Community Development to oversee the continued development of the bank's lending in Black and Hispanic neighborhoods.
- **Pay a \$5.5 million penalty:** Hudson City will pay a \$5.5 million penalty to the CFPB's Civil Penalty Fund.

The complaint and the proposed consent order resolving the complaint have been simultaneously filed with the United States District Court for the District of New Jersey. The complaint is not a finding or ruling that the defendants have actually violated the law. The proposed federal court order will have the full force of law only when signed by the presiding judge.

The complaint filed in U.S. District Court is available at:http://files.consumerfinance.gov/f/201509_cfpb_hudson-city-joint-complaint.pdf

The proposed consent order is available at:http://files.consumerfinance.gov/f/201509_cfpb_hudson-city-consent-order.pdf

The maps from the complaint filed today are available at:http://files.consumerfinance.gov/f/201509_cfpb_hudson-city-affected-areas-maps.pdf

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