Should cities sue banks?

Written by Judge Greg Mathis
Tuesday, 14 July 2009 14:39

The city of Baltimore, Maryland is leading a growing group of local governments across the country are either suing or considering lawsuits against banks that allegedly steered minority home buyers toward subprime mortgages, even if they were eligible for better loan terms. This predatory lending method is the latest in a legacy of discriminatory practices some businesses have used to keep people of color from getting ahead. In this case, banks such as Wells Fargo, convinced the home buyer they were helping them capture a piece of the American dream when, in reality, their loan practices were draining buyers and the communities they lived in of their wealth.

According to a federal lawsuit filed by the city of Baltimore, Wells Fargo Bank knowingly used predatory lending practices in some of Baltimore's predominantly black and poor neighborhoods. Two of the bank's former employees have provided statements under oath that confirm the charges, saying bank loan officers often directed applicants who qualified for better loan terms toward subprime mortgages. A subprime mortgage loan is made to borrowers who have less than stellar credit histories and, as a result, are not able to qualify for more financially sound loans. The most common is the adjustable rate mortgage, where payments start low, with a fixed interest rate, but increase as the increase rate rises. As the monthly payments increase, homeowners struggle to keep up; many end up in foreclosure.

When banks knowingly and intentionally steer buyers toward subprime loans, they not only put the borrower's financial health at risk, they also put the vitality of the city on the line. When a community has a large number of foreclosures, property values drop, buildings stand vacant and become havens for criminal activity. More than half of Baltimore's subprime buyers who borrowed from Wells Fargo between 2005 and 2008 lost their homes to foreclosure. Those homes now stand vacant; 71 percent of them are in predominantly black neighborhoods.

This "reverse redlining" has led to increased crime rates in black and Latino communities. Redlining is an illegal practice that was once widely used to prevent poor people of color from securing mortgages or home insurance. The method left many urban areas starved for the credit needed to develop and grow. Before the economic collapse, financial institutions flooded these same urban markets with loan products that drain residents of their financial resources. Maryland isn't the only state where local governments are challenging bank's lending practices; similar suits have been filed in California, Texas and Tennessee. The NAACP has also filed a class action suit against some of the nation's largest banks and challenges them to own up to and immediately reverse their discriminatory practices.

Cities across the country are paying the price for the banking industry's greed and racist practices. They shouldn't be left to bear that burden alone. The federal government should earmark a sizable portion of the $700 billion in bailout money the industry received to go toward repaying cities for the costs they incurred as resident after resident lost their home. Taxpayers have paid enough for the mistakes of the financial sector; it's time they started to make restitution on their own.