Wells Fargo Settles Federal Law Suit Over Discriminatory Lending Practices

July 13, 2012 - Wells Fargo, which is currently the nation's largest originator of new home loans, has agreed to settle a federal law suit over discriminatory lending practices. The Department of Justice suit alleged that Wells Fargo had steered minority borrowers into subprime loans and also charged them higher fees. Although the bank denies the charges, it has agreed to pay $175 million to settle the case. It is the second highest dollar amount ever paid in a discriminatory lending suit.

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According to the DOJ, Wells Fargo pushed more than 4,000 minority borrowers into subprime loans between 2004 and 2008, even though they qualified for conventional loans. Subprime loans have higher interest rates, higher fees, and early termination penalties. Subprime lending was one of the leading causes of the real estate collapse that began in earnest in 2007.

The suit also alleged that between 2004 and 2009, the bank charged roughly 30,000 minority customers higher bank fees than they should have.

A portion of the settlement will be used to compensate affected borrowers. Additionally, the bank has agreed to review its lending practices and to find a way to compensate borrowers who were placed in subprime loans even though they qualified for better terms.

byJim Malmberg
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