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17 **UNITED STATES DISTRICT COURT**  
18 **CENTRAL DISTRICT OF CALIFORNIA**

19 CITY OF LOS ANGELES, a municipal )  
20 corporation, )  
21 ) Plaintiff, )  
22 v. )  
23 JPMORGAN CHASE & CO.; )  
24 JPMORGAN CHASE BANK, N.A.; and )  
25 CHASE MANHATTAN BANK USA, )  
26 N.A., )  
Defendants. )

No. 14-4168  
**COMPLAINT FOR  
VIOLATION OF THE  
FEDERAL FAIR HOUSING  
ACT**  
  
DEMAND FOR JURY TRIAL

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1 I. NATURE OF THE ACTION

2 1. It is axiomatic that banks should not make discriminatory loans. Banks  
3 must extend credit to minorities on equal terms as they do to other similarly situated  
4 borrowers. Banks should not target minority neighborhoods for loans that  
5 discriminate nor make loans to minorities on terms that are worse than those offered to  
6 whites with similar credit characteristics. When banks engage in such discriminatory  
7 conduct, the misconduct has profound financial consequences for the cities in which  
8 mortgaged properties exist, and banks should be responsible for those financial  
9 consequences. Banks should reimburse the City for lost tax revenues due to  
10 discriminatory lending. And banks should pay the costs of repairing and maintaining  
11 properties that go into foreclosure due to discriminatory lending. This lawsuit arises  
12 because JPMorgan breached these legally mandated obligations and foreseeably  
13 injured the City of Los Angeles.

14 **A. JPMorgan Has Engaged in a Continuing Pattern of Discriminatory  
15 Mortgage Lending Practices in Los Angeles Resulting in Foreclosures**

16 2. This suit is brought pursuant to the Fair Housing Act of 1968 (“FHA”), as  
17 amended, 42 U.S.C. §§ 3601, *et seq.*, by the City of Los Angeles (“Los Angeles” or  
18 “City”) to seek redress for injuries caused by JPMorgan’s<sup>1</sup> (“JPMorgan” or “the  
19 Bank”) pattern or practice of illegal and discriminatory mortgage lending.  
20 Specifically, Los Angeles seeks injunctive relief and damages for the injuries caused  
21 by foreclosures on JPMorgan’s loans in minority neighborhoods and to minority

22 \_\_\_\_\_  
23 <sup>1</sup> Defendants collectively are referred to as “JPMorgan,” including: JPMorgan  
24 Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Chase, and Chase Manhattan  
25 Bank USA, N.A. JPMorgan Chase & Co. is the result of the combination of several  
26 large U.S. banking companies over the last decade including JPMorgan Manhattan  
27 Bank, J.P. Morgan & Co., Bank One, Bear Stearns and Washington Mutual.  
28 Accordingly, Plaintiff alleges that Defendants are also liable for residential home loans  
and lending operations acquired from, and/or sold by or through, Washington Mutual  
Bank, Washington Mutual Bank F.A., Bear Stearns Residential Mortgage, Chase  
Manhattan Mortgage Corporation, Encore Credit Corporation, Long Beach Mortgage  
Company, Performance Credit Corporation, JPE Home Finance LLC, and Bravo Credit  
Corp.

1 borrowers that are the result of JPMorgan's unlawful and discriminatory lending  
2 practices. The unlawful conduct alleged herein consists of both intentional  
3 discrimination and disparate impact discrimination.

4 3. JPMorgan has engaged in a continuous pattern and practice of mortgage  
5 discrimination in Los Angeles since at least 2004 by imposing different terms or  
6 conditions on a discriminatory and legally prohibited basis. In order to maximize  
7 profits at the expense of the City of Los Angeles and minority borrowers, JPMorgan  
8 adapted its unlawful discrimination to changing market conditions. This unlawful  
9 pattern and practice is continuing through the present and has not terminated.  
10 Therefore, the operative statute of limitations governing actions brought pursuant to  
11 the Federal Fair Housing Act has not commenced to run.

12 4. The pattern and practice of lending discrimination engaged in by  
13 JPMorgan consists of traditional redlining<sup>2</sup> and reverse redlining,<sup>3</sup> both of which have  
14 been deemed to violate the FHA by federal courts throughout the country. JPMorgan  
15 engaged in redlining, and continues to engage in said conduct, by refusing to extend  
16 mortgage credit to minority borrowers in Los Angeles on equal terms as offered to  
17 non-minority borrowers. JPMorgan engaged in reverse redlining, and continues to  
18 engage in said conduct, by extending mortgage credit on predatory terms to minority  
19 borrowers in minority neighborhoods in Los Angeles on the basis of the race or  
20 ethnicity of its residents. Federal Reserve Chairman Ben Bernanke recently  
21 acknowledged these twin evils of mortgage discrimination and explained that both  
22  
23  
24  
25

26 <sup>2</sup> Redlining is the practice of denying credit to particular neighborhoods based on  
27 race.

28 <sup>3</sup> Reverse redlining is the practice of flooding a minority community with  
exploitative loan products.

1 types of mortgage discrimination “continue to have particular significance to mortgage  
2 markets.”<sup>4</sup>

3 5. Major banks such as JPMorgan have a long history of engaging in  
4 redlining throughout Los Angeles. That practice began to change in the late 1990s,  
5 when JPMorgan adapted to changing market conditions and began to flood historically  
6 underserved minority communities with mortgage loans that consisted of a variety of  
7 high cost and abusive mortgage loan products with predatory terms as compared to the  
8 mortgage loans issued to white borrowers (reverse redlining).

9 6. JPMorgan’s discriminatory lending practices have the purpose and effect  
10 of placing vulnerable, underserved borrowers in loans they cannot afford. Reverse  
11 redlining maximizes JPMorgan’s profit without regard to the borrower’s best interest,  
12 the borrower’s ability to repay, or the financial health of underserved minority  
13 neighborhoods. Moreover, JPMorgan has averted any significant risk to itself by  
14 selling the vast majority of mortgage loans it originates or purchases on the secondary  
15 market (collectively “JPMorgan Loans”).

16 7. Between 1996-2006, one category of discriminatory loan products –  
17 subprime loans – grew throughout the country from \$97 billion to \$640 billion. These  
18 loans were frequently targeted to minorities. Upon information and belief, the lack of  
19 accessible credit resulting from JPMorgan’s previous pattern and practice of redlining  
20 in the minority communities in Los Angeles created conditions whereby the Bank could  
21 easily target and exploit the underserved minority communities who due to traditional  
22 redlining had been denied credit.

23 8. Thereafter, following several years of issuing abusive, subprime  
24 mortgage loans throughout the minority communities of Los Angeles, commencing in  
25 or around 2007, JPMorgan once again adapted to changing market conditions while

26 <sup>4</sup> Remarks by Federal Reserve Chairman Ben Bernanke at the Operation HOPE  
27 Global Financial Dignity Summit, Atlanta, Georgia at pg. 10 (November 15, 2012)  
28 *available at* [www.federalreserve.gov/newsevents/speech/bernanke20121115a.htm](http://www.federalreserve.gov/newsevents/speech/bernanke20121115a.htm).

1 continuing its pattern and practice of issuing a variety of discriminatory loan products.  
2 Simultaneously, JPMorgan also decided to curtail the issuance of mortgage credit to  
3 minority borrowers in Los Angeles.<sup>5</sup> In other words, JPMorgan not only refused to  
4 extend credit to minority borrowers when compared to white borrowers, but when the  
5 Bank did extend credit, it did so on predatory terms. This combination of reverse  
6 redlining and redlining represents a continuing and unbroken pattern and practice of  
7 mortgage lending discrimination in Los Angeles that still exists today.

8 9. JPMorgan's pattern and practice of *reverse redlining* has caused an  
9 excessive and disproportionately high number of foreclosures on the JPMorgan Loans  
10 it has made in the minority neighborhoods of Los Angeles. Foreclosures on loans  
11 originated by JPMorgan are concentrated in these neighborhoods even though the bulk  
12 of JPMorgan's lending in Los Angeles is in white neighborhoods. *A loan in a*  
13 *predominantly minority neighborhood is 2.190 times more likely to result in*  
14 *foreclosure than is a loan in a predominantly white neighborhood.*

15 10. JPMorgan's pattern and practice of *traditional redlining* has also caused  
16 an excessive and disproportionately high number of foreclosures in the minority  
17 neighborhoods of Los Angeles. These foreclosures often occur when a minority  
18 borrower who previously received a predatory loan sought to refinance the loan, only  
19 to discover that JPMorgan refused to extend credit at all, or on equal terms as when  
20 refinancing similar loans issued to white borrowers. The inevitable result of the  
21 combination of issuing a predatory loan, and then refusing to refinance the loan, was  
22 foreclosure.

23 11. JPMorgan would have had comparable foreclosure rates in minority and  
24 white communities if it had properly and uniformly applied responsible underwriting  
25 practices in both areas. JPMorgan possesses sophisticated underwriting technology

26 <sup>5</sup> California Reinvestment Coalition, *From Foreclosure to Re-Redlining* (2010), at  
27 4 (available at <http://www.community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stein-gwynn.pdf>).

1 and data that allows it to predict with precision the likelihood of delinquency, default,  
 2 or foreclosure. The fact that JPMorgan's foreclosures are so disproportionately  
 3 concentrated in minority neighborhoods is not the product of random events. To the  
 4 contrary, it reflects and is fully consistent with JPMorgan's practice of targeting  
 5 minority neighborhoods and customers for discriminatory practices and predatory  
 6 pricing and products. It also reflects and is consistent with JPMorgan's practice of  
 7 failing to underwrite minority borrowers' applications properly, and of putting these  
 8 borrowers into loans which (1) have more onerous terms than loans given to similarly  
 9 situated white borrowers, and (2) the borrowers cannot afford, leading to foreclosures.

10 12. The Bank's discriminatory lending practices are evidenced by  
 11 information from confidential witness statements provided by former employees of  
 12 JPMorgan (discussed further herein). For example:

- 13 a) "If you wanted to target the Hispanic community you  
 14 had to have certain words in there that you'd want to  
 15 use to attract [the borrowers]." Certain mortgage loan  
 16 products, like negative amortization loans, were  
 17 "tailored for minorities, but it was not specifically just  
 18 for them . . . It was easy to throw them into that  
 19 [negative amortization] program and get them  
 20 approved for that program at the one percent rate."  
 Loan officers did not always explain the  
 repercussions: "That's where a lot of clients were  
 misled. They thought it was a 1 percent fixed [rate]."  
 "The [initial monthly] cost was bare minimum. But  
 the possibilities were there that it could turn out to be  
 the worst case [scenario] for the borrowers, and that's  
 exactly what happened."
- 21 b) "The loans just weren't going through in that  
 22 [minority neighborhood]. It wasn't worth it [to the  
 Bank] to have someone there."
- 23 c) "The purpose of the [HAMP] program was to get  
 24 people out of these bad loans, and the banks refused to  
 25 do it. To find out "how they are discriminating, look  
 26 at the position of the branches. That's going to show  
 27 you." JPMorgan is opening "huge numbers" of  
 28 branches across California, "but none of this is  
 happening in minority neighborhoods. That, in itself,  
 is the biggest indication of discrimination that you can  
 find." "The redlining and stuff like that, that still goes  
 on."



1  
2 d) “The people who didn’t understand English and stuff  
3 like that” tended to face higher interest rates. “There  
4 were a lot of things with which I didn’t agree” at the  
Bank. “A lot of times there was no mercy,” pushing  
borrowers into foreclosure while loan modifications  
were pending.

5 13. The reports of these witnesses are confirmed when Los Angeles data on  
6 JPMorgan loans is examined. Such an examination reveals a widespread practice of  
7 discrimination. For example, a regression analysis that controls for credit history and  
8 other factors demonstrates that an African-American JPMorgan borrower was 1.795  
9 times more likely to receive a predatory loan than a white borrower, and a Latino  
10 borrower 1.576 times more likely. The regression analysis confirms that African-  
11 Americans with FICO scores over 660 are 2.026 times more likely to receive a  
12 predatory JPMorgan loan than a white borrower, and a Latino borrower 1.796 times  
13 more likely.

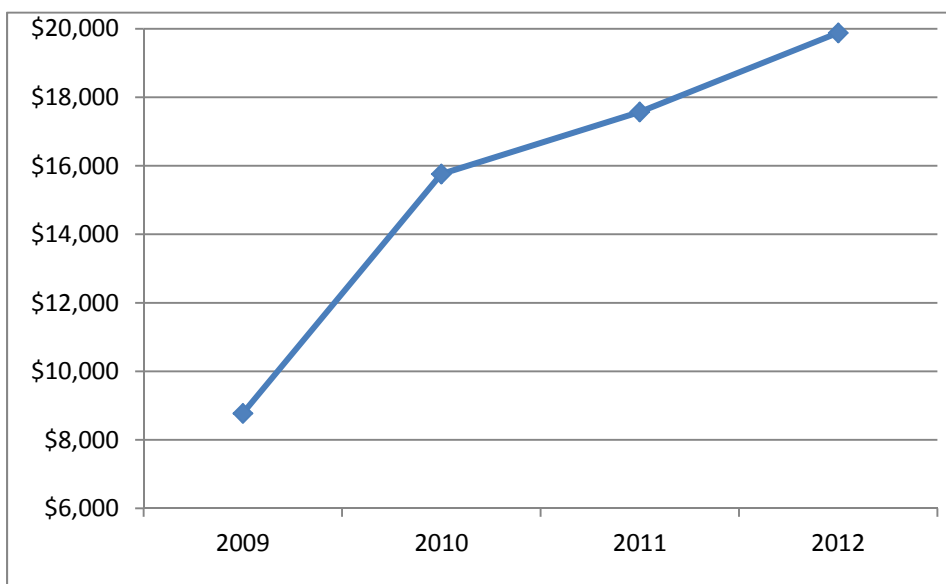
14 14. The Office of the Comptroller of the Currency and the Board of  
15 Governors of the Federal Reserve System brought an action alleging that certain large  
16 banks, including JPMorgan, engaged in mortgage lending related misconduct that  
17 induced a national foreclosure crisis. In connection with that action, JPMorgan  
18 entered into a settlement agreement with the government pursuant to which JPMorgan  
19 will: (a) make a cash payment of \$753 million into a settlement fund for distribution  
20 to qualified borrowers; and (b) provide an additional \$1.2 billion to foreclosure  
21 prevention actions.

22 15. In 2012, JPMorgan Chase and four other large mortgage servicers agreed  
23 to a global settlement with the U.S. Department of Justice, the U.S. Department of  
24 Housing and Urban Development, the Consumer Financial Protection Bureau, and the  
25 state attorneys general. The settlement relates to unethical mortgage origination and  
26 servicing activities similar to the activities alleged herein. Under the settlement,  
27 JPMorgan will make cash payments of approximately \$1.1 billion to 50 states (with a  
28

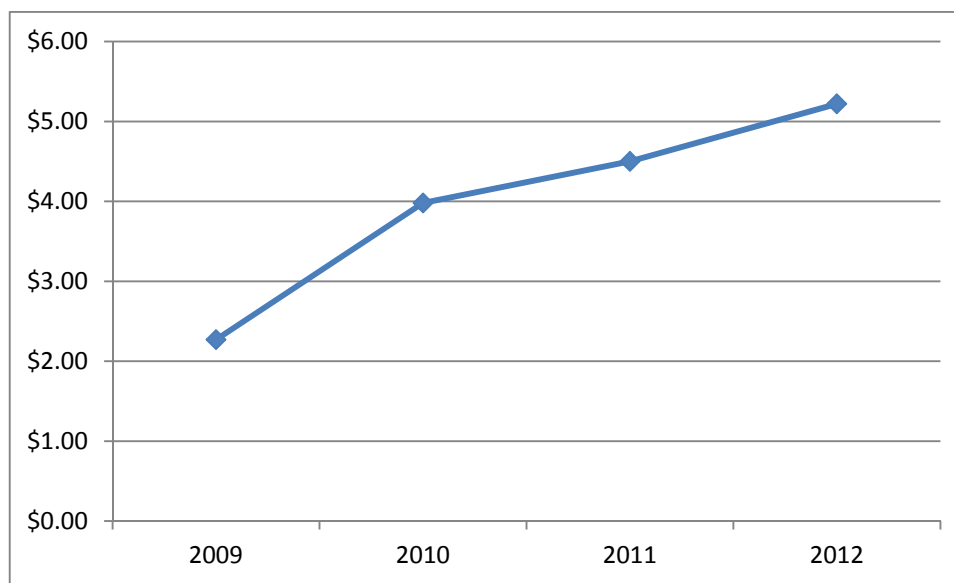
1 set aside to certain borrowers); offer approximately \$500 million of refinancing to  
2 certain borrowers; and provide approximately \$3.7 billion of additional payments for  
3 certain borrowers.

4 16. The past several years have been highly profitable for JPMorgan.  
5 According to recent press releases, the Bank generated a record amount of (i) net  
6 income (\$19.9 billion) and (ii) diluted earnings per share (\$5.22). The following charts  
7 illustrate these results.

8  
9 Net Income (millions)



## Earnings per share



17. At the same time that JPMorgan achieved record financial success, the Bank's discriminatory practices and resulting foreclosures in the City's minority neighborhoods have inflicted significant, direct, and continuing financial harm to the City. Since 2008, banks have foreclosed on approximately 1.7 million homes in California, and JPMorgan is responsible for a significant number of these foreclosures.

18. In addition to reverse redlining, JPMorgan has induced foreclosures since 2009 by failing to extend branch support to minority neighborhoods, pulling existing Bank support from minority neighborhoods, declining to offer refinancings or loan modifications to minority customers on fair terms, and otherwise denying minority borrowers equal access to fair credit.

19. One report<sup>6</sup> has estimated the impact that the City of Los Angeles has suffered due to discriminatory lending practices by all lenders as follows:

<sup>6</sup> Alliance of Californians for Community Empowerment and the California Reinvestment Coalition, *The Wall Street Wrecking Ball: What Foreclosures are Costing Los Angeles Neighborhoods* (September 2011).

- 1 • Overall, Los Angeles homeowners are estimated to have  
2 lost \$78.8 billion in home values as a direct result of the  
3 200,000 foreclosures for 2008-2012 alone.
- 4 • Property tax revenue losses are estimated to be  
5 \$481 million in the wake of the foreclosure crisis.
- 6 • The typical foreclosure costs local governments more  
7 than \$19,000 for increased costs of safety inspections,  
8 police and fire calls, trash removal, and property  
9 maintenance. In Los Angeles, these costs are estimated  
10 to be \$1.2 billion.
- 11 • Los Angeles has 79,029 homeowners underwater totaling  
12 \$7.3 billion in loan value. If banks wrote down those  
13 mortgages, it could pump \$780 million into the local  
14 economy and create 11,353 jobs.

15 20. In this action the City seeks damages for reduced property tax revenues  
16 based on (a) the decreased value of the foreclosed properties themselves, and (b) the  
17 decreased value of properties surrounding the foreclosed properties. In addition, the  
18 City seeks damages based on the expenditure of municipal services that will be  
19 required to remedy the blight and unsafe and dangerous conditions which exist at  
20 vacant properties that were foreclosed as a result of JPMorgan's illegal lending  
21 practices.

22 21. Because of the multitude of analytic tools available to JPMorgan to  
23 determine the likelihood that a particular mortgage loan would result in default by the  
24 borrower, as well as the existence of various studies, reports, and other pertinent  
25 literature specifically addressing the connection between mortgage loans and  
26 foreclosures, it was foreseeable that JPMorgan knew, or should have known, that a  
27 predatory or high risk loan issued to an African-American or Hispanic in certain  
28 neighborhoods in Los Angeles would result in default and subsequent foreclosure.  
Moreover, because JPMorgan maintains numerous branch offices throughout Los

1 Angeles, and has knowledge of the specific address for each loan it issued, it was  
2 foreseeable that JPMorgan knew, or should have known, of the condition of foreclosed  
3 properties corresponding to loans that it issued in Los Angeles regardless of whether it  
4 serviced the loan or subsequently sold the servicing rights to a third party.

5 22. According to Federal Reserve Chairman Bernanke, “foreclosures can  
6 inflict economic damage beyond the personal suffering and dislocation that  
7 accompany them. Foreclosed properties that sit vacant for months (or years) often  
8 deteriorate from neglect, adversely affecting not only the value of the individual  
9 property but the values of nearby homes as well. Concentrations of foreclosures have  
10 been shown to do serious damage to neighborhoods and communities, reducing tax  
11 bases and leading to increased vandalism and crime. Thus, the overall effect of the  
12 foreclosure wave, especially when concentrated in lower-income and minority areas,  
13 is broader than its effects on individual homeowners.”<sup>7</sup>

14 23. The discriminatory lending practices at issue herein have resulted in what  
15 many leading commentators describe as the “greatest loss of wealth for people of color  
16 in modern US history.” It is well-established that poverty and unemployment rates for  
17 minorities exceed those of whites, and therefore, home equity represents a  
18 disproportionately high percentage of the overall wealth for minorities.<sup>8</sup> Indeed,  
19 between 2005-2009, the median wealth of Latino households decreased by 66 percent,  
20 and the median wealth of African-American households decreased by 53 percent,  
21 while the median wealth of white households decreased just 16 percent.<sup>9</sup> As Federal  
22 Reserve Chairman Bernanke recently explained, as a result of the housing crisis,  
23

24 <sup>7</sup> Bernanke, *supra* n.4 at pg. 4.

25 <sup>8</sup> Robert Schwemm and Jeffrey Taren, *Discretionary Pricing, Mortgage*  
26 *Discrimination, and the Fair Housing Act*, 45 HARVARD CIVIL RIGHTS-CIVIL  
LIBERTIES LAW REV. 375, 382 (2010).

27 <sup>9</sup> Alliance of Californians for Community Empowerment, *California in Crisis:*  
28 *How Wells Fargo’s Foreclosure Pipeline is Damaging Local Communities* (2013)  
pg. 6 available at [www.calorganize.org](http://www.calorganize.org).

1 “most or all of the hard-won gains in homeownership made by low-income and  
2 minority communities in the past 15 years or so have been reversed.”<sup>10</sup> The resulting  
3 impact of these practices represents “nothing short of the preeminent civil rights issue  
4 of our time, erasing, as it has, a generation of hard fought wealth accumulation among  
5 African Americans.”<sup>11</sup>

## 6 II. PARTIES

7 24. Plaintiff City of Los Angeles is a municipal corporation, organized  
8 pursuant to Article XI of the California Constitution. The City is authorized by the  
9 City Council to institute suit to recover damages suffered by the City as described  
10 herein.

11 25. Defendant JPMorgan Chase & Co. (“JPMorgan & Co.”), headquartered  
12 in New York, New York, operates under two brand names: JPMorgan and  
13 J.P.Morgan. The U.S. consumer and commercial banking businesses operate under  
14 the JPMorgan brand, and include its home finance and home equity loan business.  
15 JPMorgan & Co., in its current structure, is the result of the combination of several  
16 large U.S. banking companies over the last decade including JPMorgan Manhattan  
17 Bank, J.P. Morgan & Co., Bank One, Bear Stearns and Washington Mutual. Upon  
18 information and belief, Plaintiff alleges that JPMorgan & Co. owns and/or operates  
19 JPMorgan Chase Bank, N.A. and JPMorgan Manhattan Bank USA, N.A. JPMorgan  
20 & Co.’s operates a Consumer & Community Banking segment, which includes a  
21 mortgage banking business (*i.e.*, mortgage production, servicing, and real estate  
22 portfolios).

23 26. On September 25, 2008, the Office of Thrift Supervision seized  
24 Washington Mutual’s (“WaMu”) assets and operations and placed them into

25  
26 <sup>10</sup> Bernanke, *supra* n.2 at pg. 3.

27 <sup>11</sup> Charles Nier III and Maureen St. Cyr, *A Racial Financial Crisis: Rethinking the*  
28 *Theory of Reverse Redlining to Combat Predatory Lending Under the Fair Housing*  
*Act*, 83 TEMPLE LAW REV. 941, 942 (2011).

1 receivership with the Federal Deposit Insurance Corporation (“FDIC”). Pursuant to a  
2 Purchase and Assumption Agreement (“Agreement”), the FDIC later sold  
3 substantially all of WaMu’s assets and a significant amount of its liabilities to  
4 JPMorgan & Co for \$1.9 billion. The liabilities assumed by JPMorgan & Co. include  
5 the claims alleged by Los Angeles herein.

6 27. Section 2.1 of the Agreement titled “Liabilities Assumed by Assuming  
7 Bank” provides as follows:

8 Subject to Sections 2.5 and 4.8 the Assuming Bank [JPMorgan & Co.]  
9 Chase] expressly assumes at Book Value (subject to adjustment pursuant  
10 to Article VIII) and agrees to pay, perform, and discharge, all of the  
11 liabilities of the Failed Bank [WaMu] which are reflected on the Books  
12 and Records of [WaMu] as of Bank Closing [September 25, 2008],  
13 including the Assumed Deposits and all liabilities associated with any and  
14 all employee benefit plans, except as listed on the attached Schedule 2.1,  
15 and as otherwise provided in this Agreement (such liabilities referred  
16 to as “Liabilities Assumed”). Notwithstanding Section 4.8, [JPMorgan &  
17 Co.] specifically assumes all mortgage servicing rights and obligations of  
18 [WaMu].

16 28. Section 2.5 of the Agreement titled “Borrower Claims” provides as  
17 follows:

18 Notwithstanding anything to the contrary in this Agreement, any  
19 liability associated with *borrower claims* for payment of or liability  
20 to any *borrower* for monetary relief, or that provide for any other  
21 form of relief to any *borrower*, whether or not such liability is  
22 reduced to judgment, liquidated or unliquidated, fixed or contingent,  
23 matured or unmatured, disputed or undisputed, legal or equitable,  
24 judicial or extra-judicial, secured or unsecured, whether asserted  
25 affirmatively or defensively, related in any way to any loan or  
26 commitment to lend made by the Failed Bank [WaMu] prior to  
27 failure, or to any loan made by a third party in connection with a  
28 loan which is or was held by [WaMu], or otherwise arising in  
connection with [WaMu’s] lending or loan purchase activities are  
specifically not assumed by the Assuming Bank [JPMorgan & Co.].  
(emphasis added).

1           29. Los Angeles is not a borrower, it is not pursuing a derivative claim on  
2 behalf of any borrower, and is not seeking damages on behalf of any borrower.  
3 Therefore, the exclusion for borrower claims set forth in Section 2.5 of the Agreement  
4 does not enable JPMorgan & Co. to avoid liability corresponding to claims pertaining  
5 to WaMu's mortgage originations at issue herein. Rather, in accordance with Section  
6 2.1, JPMorgan & Co. is liable for these mortgage originations.

7           30. According to JPMorgan's 2012 10-K, "Mortgage Banking includes  
8 mortgage origination and servicing activities, as well as portfolios comprised of  
9 residential mortgages and home equity loans, including the purchased credit impaired  
10 ("PCI") portfolio acquired in the Washington Mutual transaction."

11           31. Defendant JPMorgan Chase Bank, N.A. ("JPMorgan Bank") is organized  
12 as a national banking association under the laws of the United States. Upon  
13 information and belief, its corporate headquarters are located in New York, New York.  
14 It maintains multiple offices in the State of California and specifically in the City of  
15 Los Angeles, for the purposes of soliciting applications for and making residential  
16 mortgage loans and engaging in other business activities. JPMorgan Bank also  
17 acquired JPMorgan Manhattan Bank USA, N.A. ("JPMorgan Manhattan").

18           32. Defendant Chase Manhattan Bank USA, N.A. is headquartered in New  
19 York, New York. Upon information and belief, Plaintiffs allege that JPMorgan  
20 Manhattan engaged in residential mortgage lending in California and other states  
21 throughout the country.

22           33. The Defendants in this action are, or were at all relevant times, subject to  
23 Federal laws governing fair lending, including the FHA and the regulations  
24 promulgated under each of those laws. The FHA prohibits financial institutions from  
25 discriminating on the basis of, *inter alia*, race, color, or national origin in their  
26 residential real estate-related lending transactions.





1 **IV. FACTUAL BACKGROUND**

2 **A. Background Regarding Discriminatory Loan Practices, Reverse Redlining,**  
3 **and Redlining**

4 39. Prior to the emergence of subprime lending, most mortgage lenders made  
5 only “prime” loans. Prime lending offered uniformly priced loans to borrowers with  
6 good credit, but individuals with lower credit were not eligible for prime loans.

7 40. Subprime lending developed and began growing rapidly in the mid-1990s  
8 as a result of technological innovations in risk-based pricing and in response to the  
9 demand for credit by borrowers who were denied prime credit by traditional lenders.  
10 Advances in automated underwriting allowed lenders to predict with improved  
11 accuracy the likelihood that a borrower with lower credit will successfully repay a  
12 loan. These innovations gave lenders the ability to adjust the price of loans to match  
13 the different risks presented by borrowers whose credit records did not meet prime  
14 standards. Lenders found that they could now accurately price loans to reflect the  
15 risks presented by a particular borrower. When done responsibly, this made credit  
16 available much more broadly than had been the case with prime lending.

17 41. Responsible subprime lending has opened the door to homeownership to  
18 many people, especially low- to moderate-income and minority consumers, who  
19 otherwise would have been denied mortgages. At the same time, however, subprime  
20 lending has created opportunities for unscrupulous lenders to target minorities and  
21 engage in discriminatory, irresponsible lending practices that result in loans that  
22 borrowers cannot afford. This, in turn, leads directly to defaults and foreclosures.

23 42. Enticed by the prospect of profits resulting from exorbitant origination  
24 fees, points, and related pricing schemes, some irresponsible subprime lenders took  
25 advantage of a rapidly rising real estate market to convince borrowers to enter into  
26 discriminatory loans that had unfair terms that they could not afford. Often this was  
27 accomplished with the help of deceptive practices and promises to refinance at a later  
28

1 date. These abusive subprime lenders did not worry about the consequences of default  
2 or foreclosure to their business because, once made, a significant number of the loans  
3 were sold on the secondary market.

4 43. As the subprime market grew, the opportunities for abusive practices  
5 grew with it. As a consequence, the federal government has found that abusive and  
6 predatory practices “are concentrated in the subprime mortgage market.”<sup>12</sup> These  
7 practices, which in recent years have become the target of prosecutors, legislators, and  
8 regulators, include the following:

9 a. Placing borrowers in subprime loans even though they qualify for  
10 loans on better terms.

11 b. Failing to prudently underwrite hybrid adjustable rate mortgages  
12 (ARMs), such as 2/28s and 3/27s.<sup>13</sup> After the borrower pays a low “teaser rate” for the  
13 first two or three years, the interest rate on these loans resets to a much higher rate that  
14 can continue to rise based on market conditions. Subprime lenders often underwrite  
15 these loans based only on consideration of whether the borrower can make payments  
16 during the initial teaser rate period, without regard to the sharply higher payments that  
17 will be required for the remainder of a loan’s 30-year term. Irresponsible lenders  
18 aggressively market the low monthly payment that the borrower will pay during the  
19 teaser rate period, misleading borrowers into believing that they can afford that same  
20 low monthly payment for the entire 30-year term of the loan, or that they can refinance  
21 their loan before the teaser rate period expires.

22  
23  
24 <sup>12</sup> United States Department of Housing & Urban Development and United States  
25 Department of the Treasury, *Curbing Predatory Home Mortgage Lending* (2000), at 1  
(*available at* <http://www.huduser.org/Publications/pdf/treasrpt.pdf>) (“HUD/Treasury  
Report”).

26 <sup>13</sup> In a 2/28 ARM, the “2” represents the number of years the mortgage will be fixed  
27 over the term of the loan, while the “28” represents the number of years the interest  
28 rate paid on the mortgage will be variable. Similarly, in a 3/27 ARM, the interest rate  
is fixed for three years and variable for the remaining 27-year amortization.

1           c.       Failing to prudently underwrite refinance loans, where borrowers  
2 substitute unaffordable mortgage loans for existing mortgages that they are well-suited  
3 for and that allow them to build equity. Such refinanced loans strip much or even all  
4 of that equity by charging substantial new fees, often hiding the fact that the high  
5 settlement costs of the new loan are also being financed. Lenders that aggressively  
6 market the ability of the borrower to pay off existing credit card and other debts by  
7 refinancing all of their debt into one mortgage loan mislead borrowers into believing  
8 that there is a benefit to debt consolidation, while obscuring the predictable fact that  
9 the borrower will not be able to repay the new loan. The refinanced loans are  
10 themselves often refinanced repeatedly with ever-increasing fees and higher interest  
11 rates, and with ever-decreasing equity, as borrowers seek to stave off foreclosure.

12           d.       Allowing mortgage brokers to charge “yield spread premiums” for  
13 qualifying a borrower for an interest rate that is higher than the rate the borrower  
14 qualifies for and can actually afford.

15           e.       Failing to underwrite loans based on traditional underwriting  
16 criteria such as debt-to-income ratio, loan-to-value ratio, FICO score, and work  
17 history. Properly applying these criteria ensure that a borrower is obtaining a loan that  
18 he or she has the resources and assets to repay, and ignoring them results in many  
19 loans that bear no relation to borrowers’ ability to repay them. This allows the lender  
20 to make a quick profit from the origination, but sets the borrower up for default and  
21 foreclosure.

22           f.       Requiring substantial prepayment penalties that prevent borrowers  
23 whose credit has improved from refinancing their subprime loan to a prime loan.  
24 Prepayment penalties not only preclude borrowers from refinancing to a more  
25 affordable loan, but reduce the borrowers’ equity when a subprime lender convinces  
26 borrowers to needlessly refinance one subprime loan with another.



1           47. A seminal report on foreclosure activity by Mark Duda and William  
2 Apgar documents the negative impact that rising foreclosures have on low-income and  
3 low-wealth minority communities, using Chicago as a case study. Mr. Apgar is a  
4 Senior Scholar at the Joint Center for Housing Studies of Harvard University, and a  
5 Lecturer on Public Policy at Harvard's John F. Kennedy School of Government. He  
6 previously served as the Assistant Secretary for Housing/Federal Housing  
7 Commissioner at the U.S. Department of Housing and Urban Development, and also  
8 Chaired the Federal Housing Finance Board. Mr. Apgar holds a Ph.D. in Economics  
9 from Harvard University. Mr. Duda is a Research Fellow at the Joint Center for  
10 Housing Studies. The Apgar-Duda report has continually been cited by subsequent  
11 governmental, public sector, and private sector reports due to its clarity and  
12 thoroughness with respect to the negative impact foreclosures have on lower-income  
13 and minority neighborhoods.<sup>14</sup>

14           48. This significant report highlights the foreseeability of foreclosures arising  
15 from predatory lending practices and their attendant harm, demonstrating that such  
16 foreclosures impose significant and predictable costs on borrowers, municipal  
17 governments, and neighboring homeowners.

18           49. Another report, by the Center for Responsible Lending, uses a national  
19 dataset to show that the foreclosure rate for low- and moderate-income African-  
20 Americans is approximately 1.8 times higher than it is for low- and moderate-income  
21 non-Hispanic whites. The gap is smaller for Latinos, especially among low-income  
22 households, but even among low-income Latinos the foreclosure rate is 1.2 times that  
23 of low-income whites. Racial and ethnic disparities in foreclosure rates cannot be  
24 explained by income, since disparities persist even among higher-income groups. For  
25

26 <sup>14</sup> See W. Apgar, M. Duda & R. Gorey, *The Municipal Costs of Foreclosures: A*  
27 *Chicago Case Study* (2005) (available at  
28 <http://www.nw.org/network/neighborworksProgs/foreclosuresolutions/documents/2005Apgar-DudaStudy-FullVersion.pdf>).

1 example: approximately 10 percent of higher-income African-American borrowers  
 2 and 15 percent of higher-income Latino borrowers have lost their home to foreclosure,  
 3 compared with 4.6 percent of higher income non-Hispanic white borrowers. Overall,  
 4 low- and moderate-income African-Americans and middle- and higher-income  
 5 Latinos have experienced the highest foreclosure rates.<sup>15</sup>

6 50. Nearly 20 percent of loans in high-minority neighborhoods have been  
 7 foreclosed upon or are seriously delinquent, with significant implications for the long-  
 8 term economic viability of these communities.<sup>16</sup>

9 **2. Minority neighborhoods are disproportionate recipients of predatory**  
 10 **loans.**

11 51. There is a substantial body of empirical evidence demonstrating the  
 12 prevalence of reverse redlining in the subprime mortgage market. These studies show  
 13 that, even after controlling for creditworthiness and other legitimate underwriting  
 14 factors, subprime loans and the predatory practices often associated with subprime  
 15 lending are disproportionately targeted at minority neighborhoods.<sup>17</sup>

16  
 17 <sup>15</sup> Center for Responsible Lending, *Lost Ground, 2011: Disparities in Mortgage*  
 18 *Lending and Foreclosures* (2011) (available at [www.responsiblelending.org/-](http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf)  
 19 [mortgage-lending/research-analysis/Lost-Ground-2011.pdf](http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf)).

20 <sup>16</sup> *Id.*

21 <sup>17</sup> See Abt Associates, *Using Credit Scores to Analyze High-Cost Lending in*  
 22 *Central City Neighborhoods* (2008); Center for Responsible Lending, *Lost Ground,*  
 23 *2011: Disparities in Mortgage Lending and Foreclosures* (2011) (available at [www.-](http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf)  
 24 [responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf](http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf));  
 25 Center for Responsible Lending, *Unfair Lending: The Effect of Race and Ethnicity on*  
 26 *the Price of Subprime Mortgages* (2006) (available at  
 27 <http://www.responsiblelending.org/mortgage-lending/research-analysis/rr011->  
 28 [Unfair Lending-0506.pdf](http://www.responsiblelending.org/mortgage-lending/research-analysis/rr011-)); Finance and Economics Discussion Series Divisions of  
 Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C.,  
*Subprime Mortgages: What, Where, and to Whom?* (2008) (available at  
[http://www.nber.org/papers/w14083.pdf?new\\_window=1](http://www.nber.org/papers/w14083.pdf?new_window=1) ); C. Reid and E. Laderman,  
 Federal Reserve Bank of San Francisco, *The Untold Costs of Subprime Lending:*  
*Examining the Links among Higher-Priced Lending, Foreclosures and Race in*  
*California*, Presented at Brandeis University (2009) (available at  
[http://iasp.brandeis.edu/pdfs/Author/reid-](http://iasp.brandeis.edu/pdfs/Author/reid-carolin/The%20Untold%20Costs%20of%20Subprime%20Lending%203.pdf)  
[carolin/The%20Untold%20Costs%20of%20Subprime%20Lending%203.pdf](http://iasp.brandeis.edu/pdfs/Author/reid-carolin/The%20Untold%20Costs%20of%20Subprime%20Lending%203.pdf) ).

1           52. In general, as recently observed by the Federal Reserve in December  
2 2012, both African-American and Hispanic borrowers were far more likely (in fact,  
3 nearly twice as likely) to obtain higher-priced loans than were white borrowers. These  
4 relationships hold both for home-purchase and refinance lending and for non-  
5 conventional loans. These differences are reduced, but not eliminated, after  
6 controlling for lender and borrower characteristics. “Over the years, analyses of  
7 HMDA data have consistently found substantial differences in the incidence of higher-  
8 priced lending [] across racial and ethnic lines, differences that cannot be fully  
9 explained by factors included in the HMDA data.”<sup>18</sup>

10           53. African-Americans and Hispanics were much more likely to receive  
11 subprime loans and loans with features that are associated with higher foreclosures,  
12 specifically prepayment penalties and hybrid or option ARMs. These disparities were  
13 evident even comparing borrowers within the same credit score ranges. In fact, the  
14 disparities were especially pronounced for borrowers with higher credit scores. For  
15 example, among borrowers with a FICO score of over 660 (indicating good credit),  
16 African-Americans and Latinos received a high interest rate loan more than three  
17 times as often as white borrowers.<sup>19</sup>

18           54. In addition to receiving a higher proportion of higher-rate loans, African-  
19 Americans and Latinos also were much more likely to receive loans with other risky  
20 features, such as hybrid and option ARMs and prepayment penalties. Disparities in  
21 the incidence of these features are evident across all segments of the credit spectrum.<sup>20</sup>

22  
23  
24 <sup>18</sup> Federal Reserve Bulletin, *The Mortgage Market in 2011: Highlights from the*  
25 *Data Reported under the Home Mortgage Disclosure Act* (Dec. 2012) (available at  
[http://www.federalreserve.gov/pubs/bulletin/2012/PDF/2011\\_HMDA.pdf](http://www.federalreserve.gov/pubs/bulletin/2012/PDF/2011_HMDA.pdf)).

26 <sup>19</sup> Center for Responsible Lending, *Lost Ground, 2011: Disparities in Mortgage*  
27 *Lending and Foreclosures* (2011) (available at [www.responsiblelending.org/-](http://www.responsiblelending.org/-mortgage-lending/research-analysis/Lost-Ground-2011.pdf)  
[mortgage-lending/research-analysis/Lost-Ground-2011.pdf](http://www.responsiblelending.org/-mortgage-lending/research-analysis/Lost-Ground-2011.pdf)).

28 <sup>20</sup> *Id.*



1           55. A 2010 Report from the California Reinvestment Coalition finds: “[The]  
2 hardest-hit communities are racially concentrated, low to moderate income areas of  
3 African-Americans and Latinos that were saturated with high-cost, subprime lending  
4 since 2000. Neighborhoods once redlined – where lenders refused to lend in  
5 neighborhoods of color without regard to the actual financial qualifications of  
6 residents – were flooded in the past decade with high-cost subprime loans and abusive  
7 option ARM loans. These loans were often unaffordable and unsustainable for  
8 working class families, and inevitably led to large scale foreclosures. In the past two  
9 years, borrowers and communities struggling to preserve their primary asset – their  
10 home – have found that banks are not willing to work with them to restructure their  
11 mortgages or to offer new loans.”<sup>21</sup> Key findings from the 2010 Report include:

- 12           (a) In 2008, minority neighborhoods contained roughly  
13           63% of the housing in Los Angeles, but suffered over  
14           90% of the City’s foreclosures.
- 15           (b) While predatory and fraudulent lending helped  
16           precipitate the foreclosure crisis, a wave of a resetting  
17           option ARM loans threatens to keep California  
18           immobilized by foreclosure beyond 2010.
- 19           (c) California cities are more likely than the national  
20           average to be saturated with low documentation loans  
21           (e.g., stated income loans). In Los Angeles, 74% of  
22           all loans in the sample were made with limited  
23           documentation, as compared to only 56% for all loans  
24           in the sample.
- 25           (d) Minority neighborhoods saw a dramatic decrease in  
26           lower cost prime loans in 2008. The drop off from  
27           2006 to 2008 was stunning. In Los Angeles, less than  
28           1/3<sup>rd</sup> as many prime loans were made available by big  
29           bank lenders in minority neighborhoods in 2008, as  
30           compared to 2006.
- 31           (e) In 2008, nearly one out of two African-Americans and  
32           Latinos seeking a home loan or refinance were denied,  
33           as compared to only about one in four whites.

34           <sup>21</sup> California Reinvestment Coalition, *From Foreclosure to Re-Redlining* (2010)  
35           (available at <http://www.community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stein-gwynn.pdf> ).

- 1 (f) Even though high-cost lending began to decrease  
2 significantly by 2008, when it occurred, it was still  
3 more likely to occur in minority neighborhoods as  
4 compared to white neighborhoods. The big bank  
5 lenders still were more than twice as likely to sell  
6 subprime loans in minority neighborhoods in Los  
7 Angeles, as compared to white neighborhoods.
- 8 (g) In many cases, minority borrowers were overburdened  
9 not only by subprime lending but by other onerous  
10 loan terms, such as prepayment penalties, yield spread  
11 premiums, option ARMs, and HELOCs, all of which  
12 have been conducive to foreclosures.
- 13 (h) In a March 2009 survey, two-thirds of housing  
14 counselors reported that they believed borrowers of  
15 color were receiving worse foreclosure prevention  
16 outcomes than white borrowers.
- 17 (i) In the wake of the subprime meltdown, as  
18 underwriting tightened for all loans, higher cost FHA  
19 mortgage loans were the “only game in town” left for  
20 many new homebuyers.

21 56. Since 2008, as the data discussed below makes clear, there has been a  
22 shift in the types of loans issued – and not issued – by the Bank. For example, the  
23 Bank shifted from offering new subprime loans toward issuing more Home Equity  
24 Lines of Credit (“HELOCs”) and higher cost FHA/VA loans.<sup>22</sup> FHA and VA  
25 government loans are characterized as higher risk loans because (1) they are typically  
26 more expensive for a borrower than conventional loans and include fees and costs not  
27 associated with conventional loans, and (2) several of the government loan programs  
28 permit negative amortization.<sup>23</sup> At the same time, in the last several years, the Bank  
tightened lending requirements in a manner that drastically limited the ability of

---

24 <sup>22</sup> While FHA/VA loans are not inherently predatory, these loans have higher risk  
25 features such as higher fees and higher interest rates. When banks target minorities for  
26 FHA/VA loans and issue more of them to minorities, they are acting in a  
27 discriminatory manner.

28 <sup>23</sup> California Reinvestment Coalition, *et al.*, *Paying More for the American Dream  
VI, Racial Disparities in FHA/VA Lending* (July 2012); [www.fha.com/fha\\_loan\\_types](http://www.fha.com/fha_loan_types);  
[www.benefits.va.gov/homeloans](http://www.benefits.va.gov/homeloans).

1 minority borrowers to refinance or otherwise modify the subprime loans previously  
2 issued by the Bank.

3 57. A 2011 Report from the California Reinvestment Coalition found that,  
4 between 2008 and 2009, in Los Angeles, the number of conventional refinance loans  
5 made in predominantly white neighborhoods more than doubled (increasing by about  
6 200%), while conventional refinance loans declined in the City's minority  
7 neighborhoods, where such refinancing was most desperately needed.<sup>24</sup>

8 58. At the same time that conventional credit has contracted over the past five  
9 years, FHA lending has expanded dramatically. During the subprime boom, FHA  
10 lending fell as subprime lenders targeted minority communities. Now, with little or no  
11 subprime lending, and conventional credit restricted, FHA lending has shot up.  
12 Overall, the share of loans with government backing went from 5% in 2005 to 26.6%  
13 in 2010.<sup>25</sup>

14 59. For African-Americans, the share of mortgages used to purchase a home  
15 and backed by a government program increased to almost 80% in 2010; for Latinos  
16 the share increased to 73%. But for whites, the share increased to only 49%. At  
17 present, most minority borrowers cannot gain access to the conventional mortgage  
18 market, and instead, are relegated to more expensive FHA loans.<sup>26</sup>

19 60. A 2012 Report from the California Reinvestment Coalition “shows that  
20 black and Latino borrowers and borrowers in communities of color received  
21 government-backed loans – insured by the Federal Housing Administration (FHA) or

22 <sup>24</sup> California Reinvestment Coalition, *et al.*, *Paying More for the American Dream*  
23 *V: The Persistence and Evolution of the Dual Market* (2011) (available at  
24 <http://www.community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-crc-et-al.pdf>).

25 <sup>25</sup> Center for Responsible Lending, *The State of Lending in America & its Impact*  
26 *on U.S. Households* (2012) (available at <http://www.responsiblelending.org/state-of-lending/State-of-Lending-report-1.pdf>).

27 <sup>26</sup> Center for Responsible Lending, *The State of Lending in America & its Impact*  
28 *on U.S. Households* (2012) (available at <http://www.responsiblelending.org/state-of-lending/State-of-Lending-report-1.pdf>).

1 guaranteed by the Department of Veterans Affairs (VA) – significantly more often  
 2 than did white borrowers. The findings indicate persistent mortgage redlining and  
 3 raise serious concerns about illegal and discriminatory loan steering.... [T]he report  
 4 shows a pattern of two-tiered lending, in which borrowers and communities of color  
 5 received disproportionately fewer conventional mortgages and disproportionately  
 6 more government-backed loans than did white borrowers and communities.... [T]he  
 7 disproportionate prevalence of FHA loans in communities of color raises fair lending  
 8 flags.” In particular, the 2012 Report observes that: “In Los Angeles, homebuyers in  
 9 neighborhoods of color received government-backed loans five times more often than  
 10 did those in predominantly white neighborhoods.... [H]omeowners in communities of  
 11 color received FHA or VA refinance loans 6.5 times more often than did homeowners  
 12 in predominantly white neighborhoods.”<sup>27</sup>

13 **B. JPMorgan Intentionally Discriminated Against Minority Borrowers in**  
 14 **Violation of the Fair Housing Act, as Demonstrated by Former Bank**  
**Employees**

15 61. Confidential Witnesses (“CWs”) are former employees of JPMorgan and  
 16 WaMu. The CWs were responsible for making, processing, and/or underwriting loans  
 17 in the greater Los Angeles region. CWs describe how JPMorgan and WaMu targeted  
 18 minorities and residents of minority neighborhoods in and around Los Angeles for  
 19 predatory lending practices.

20 62. CW1 worked for JPMorgan in two branches in Los Angeles County as a  
 21 mortgage loan officer. CW1 worked for JPMorgan for approximately two years in the  
 22 2008-2010 timeframe. She was previously employed as a mortgage loan officer at  
 23 WaMu for about a year before JPMorgan purchased WaMu. She worked almost  
 24

25 \_\_\_\_\_  
 26 <sup>27</sup> California Reinvestment Coalition, *Paying More for the American Dream VI:*  
 27 *Racial Disparities in FHA/VA Lending* (2012) (available at  
 28 [http://calreinvest.org/system/resources/W1siZiIsIjIwMTIvMDcvMTgvMTZfMzVfMjNfMV9wYXlpbmdfb3JlVklfbXVsdGlzdGF0ZV9qdWx5MjAxMI9GSU5BTC5wZGYiXV0/payingmoreVI\\_multistate\\_july2012-%20FINAL.pdf](http://calreinvest.org/system/resources/W1siZiIsIjIwMTIvMDcvMTgvMTZfMzVfMjNfMV9wYXlpbmdfb3JlVklfbXVsdGlzdGF0ZV9qdWx5MjAxMI9GSU5BTC5wZGYiXV0/payingmoreVI_multistate_july2012-%20FINAL.pdf)).

1 entirely with minority (largely Hispanic) customers, almost all of whom sought  
2 refinancing or loan modifications.

3 63. CW2 worked in the mortgage industry for about eight years; he worked  
4 for JPMorgan at multiple branch locations in the greater Los Angeles region as a  
5 mortgage loan originator in the 2011-2012 timeframe.

6 64. CW3 worked as an underwriter at the Bank's corporate office in Los  
7 Angeles during the 2009-2011 timeframe. She was previously employed at WaMu,  
8 where she was hired in 2002. She worked at WaMu through the period when  
9 JPMorgan purchased it in 2009, and then she became a JPMorgan employee. She  
10 worked as a loan modification underwriter with customers who were behind on their  
11 mortgage payments.

12 65. CW4 worked as a loss mitigation negotiator and underwriter at a  
13 JPMorgan branch in Los Angeles during the 2009-2010 timeframe. He worked with  
14 customers who had missed mortgage payments, and he was responsible for making  
15 loan modifications for customers in the default process.

16 66. CW5 worked as a senior loan officer for WaMu in the 2003 to 2007 time  
17 frame, originating loans throughout the Los Angeles area. During the course of his  
18 work, CW5 observed that WaMu targeted marketing materials and high-cost loan  
19 products for low-income minorities, and WaMu incentivized the sales force to make  
20 high-cost loans.

21 67. The CWs confirm that JPMorgan has engaged in predatory and otherwise  
22 discriminatory lending practices directly and through acquired lenders (including  
23 WaMu).

24 **1. JPMorgan targets minorities for predatory loan terms (and pays its**  
25 **employees more for doing so).**

26 68. CW5 observed that WaMu tailored marketing materials for certain  
27 minorities. "If you wanted to target the Hispanic community you had to have certain  
28

1 words in there that you'd want to use to attract (the borrowers)," he said. CW5  
2 understood that certain mortgage loan products, like negative amortization loans, were  
3 tailored toward low-income minorities. "It was tailored for minorities, but it was not  
4 specifically just for them," he added.

5 69. According to CW5, WaMu incentivized salespeople through  
6 commissions and bonuses to push applicants into negative amortization and other non-  
7 conventional loans.

8 **2. JPMorgan underwrites adjustable rate loans that borrowers cannot**  
9 **afford.**

10 70. CW3, who worked with customers who were behind on their mortgage  
11 payments, explained that most of these customers had received variable-rate loans that  
12 they could no longer afford after the rates adjusted upward.

13 71. According to CW5, "a lot of [minorities] hold onto their cash instead of  
14 putting it in the bank. That's the client; we had a program for them. We would take  
15 non-traditional credit." WaMu would qualify these minority borrowers for much more  
16 expensive subprime loans and large negative amortization loans with extremely low  
17 introductory monthly payments. "At one point WaMu did not have a credit score  
18 requirement," he said. "It was easy to throw them into that program and get them  
19 approved for that program at the one percent rate" – and loan officers and underwriters  
20 only had to qualify the borrowers for the lowest monthly payment required during the  
21 introductory period. CW5 explained that loan officers did not always fully explain the  
22 onerous repercussions of such loans. "That's where a lot of clients were misled," he  
23 said. "They thought it was a 1 percent fixed (rate)."

24 72. In CW5's experience, loan officers tended to push negative amortization  
25 loans on low-income minorities. He observed that many borrowers got into deep  
26 financial trouble after taking out these types of loans. "The (initial monthly) cost was  
27 bare minimum" for the borrower, he said. "But the possibilities were there that it could  
28

1 turn out to be the worst case (scenario) for the borrowers, and that's exactly what  
2 happened."

3 73. JPMorgan (directly and through acquired lenders) does not properly  
4 underwrite these loans when made to minorities and in minority neighborhoods.  
5 JPMorgan does not adequately consider the borrowers' ability to repay these loans,  
6 especially after the teaser rate expires and the interest rate increases. The fact that  
7 these loans would result in delinquency, default, and foreclosure for many borrowers  
8 was, or should have been, clearly foreseeable to JPMorgan at the time the loans were  
9 made.

10 **3. JPMorgan tends to require prepayment penalties more often from**  
11 **minority borrowers.**

12 74. Prepayment penalties typically make it more difficult for borrowers to  
13 refinance into new and better loans.

14 75. CW3 observed that JPMorgan tended to require prepayment penalties  
15 more often from minority borrowers.

16 76. CW5 explained that WaMu incentivized sales people with big bonuses  
17 for locking borrowers into loans with prepayment penalties.

18 **4. JPMorgan induced foreclosures by failing to offer refinancing or**  
19 **loan modifications to minority customers on fair terms, and**  
20 **otherwise limiting equal access to fair credit.**

21 77. The CW statements show that JPMorgan induced foreclosures by failing  
22 to offer refinancing or loan modifications to minority customers on fair terms – which  
23 constitutes a particularly egregious form of redlining, given that minority borrowers  
24 sought refinancing or loan modifications with respect to bad loans that the Bank  
25 previously made to them.

26 78. CW1 believes that JPMorgan adopted overly-stringent loan qualification  
27 requirements that resulted in an unnecessarily high rate of refinancing rejections for  
28 minority borrowers. She encountered months-long delays and very few successes

1 when attempting to refinance minority customers. She estimates that 90% of the  
2 minority borrowers who came to her branches desperate for refinancing would not  
3 qualify. They usually did not have enough income or enough equity in their homes,  
4 she said.

5 79. CW1 explained that many minority borrowers who had previously  
6 received “no doc” loans were now asked to provide documentation of income and  
7 other assets, and could not. She described seeing customers who only owed “\$50,000  
8 to \$60,000” on a property worth \$250,000 who could not refinance because they either  
9 didn’t have a job or did have a job but had insufficient documentation. Many others  
10 had income but too little equity in their homes because of falling real estate values.

11 80. CW1 said some of these customers were rejected even though she  
12 believed they should not have been rejected. According to CW1, JPMorgan’s  
13 refinancing qualification guidelines became “much more conservative” than those set  
14 by federal guidelines. “That was really heartbreaking,” she said. “Seeing people  
15 sitting there crying. ... Those were kind of hard.”

16 81. According to CW1, borrowers who did not qualify for refinancing, and  
17 thus sought loan modifications, were essentially encouraged not to make payments on  
18 their homes at all. She said the Bank informed them that a prerequisite for loan  
19 modification was missing payments. This created more problems, she explained,  
20 because some of these same borrowers would follow the guidance, skip payments, but  
21 then not receive loan modifications. After that, “they were just waiting for the sheriff  
22 to come around” and foreclose, she said.

23 82. CW1 said that, when refinancing did take place in her minority  
24 neighborhood branches, it usually came with higher-than-usual interest rates that  
25 corresponded with rising LTV ratios.

26 83. During CW1’s employment, JPMorgan withdrew mortgage officers from  
27 both minority neighborhood branches where she worked because “it just wasn’t  
28



1 feasible to have a loan officer there,” she said. “The loans just weren’t going through  
2 in that area,” she said. “It wasn’t worth it to have someone there.”

3 84. CW2 said that JPMorgan has tightened its lending requirements since  
4 2008, making almost all loans “fully-doc’d” loans, setting higher standards  
5 (“overlays”) for refinancing than those established under HAMP. “The banks said,  
6 ‘we’re not going to refinance you,’” he said. “The purpose of the [HAMP] program  
7 was to get people out of these bad loans, and the banks refused to do it. And this is  
8 still going on today.”

9 85. The Bank operated few, if any, branches in minority neighborhoods of  
10 Los Angeles; CW2 strongly believes that this evidenced an intentional form of  
11 minority “discrimination.” In the last few years, it became increasingly difficult to  
12 serve minority customers given where the Bank chose to locate its branches, he  
13 explained. To find out “how they are discriminating, look at the position of the  
14 branches,” he said. “That’s going to show you.”

15 86. JPMorgan is opening “huge numbers” of branches all across California,  
16 none of which are located in the inner city, according to CW2. In the upper-middle-  
17 class neighborhood where he lives, JPMorgan is opening what he said appeared to be  
18 as many as seven branches, maybe more. Another 300 are slated to open in Southern  
19 California, part of 2,000 that will be opening across the state, he said. “But none of  
20 this is happening in minority neighborhoods,” he added. “That, in itself, is the biggest  
21 indication of discrimination that you can find.”

22 87. CW2 confirmed that JPMorgan recorded minority status information in  
23 the loan application process. CW2 believed that some of the minority borrowers he  
24 saw at JPMorgan should have qualified for refinancing, but they did not qualify for  
25 reasons that were unclear to him. He suspected that minority status played a role in  
26 decision-making by JPMorgan on who to finance. “The redlining and stuff like that,  
27 that still goes on.”

1 88. CW2 explained that JPMorgan might offer some minority borrowers  
2 “subprime” refinancing, if they were ineligible for HAMP loan modifications. Such  
3 loans typically offered interest rates that gradually increased over several years.

4 89. CW3 said: “There were a lot of things with which I didn’t agree” at  
5 JPMorgan. She said there were generally “a lot of policy changes ... things that  
6 would happen that the customer wouldn’t know about.” For example, she noted:  
7 “Customers would send in their information and we would get it,” then documents  
8 would go missing. “Everything was messy,” she said, due to the Bank’s “bad  
9 managers.” As a result, she said, borrowers fell deeper behind on payments and into  
10 foreclosure. “A lot of times there was no mercy,” she said, referring to the Bank’s  
11 practices of putting people into foreclosure while loan modifications were pending.

12 90. CW4 observed that JPMorgan denied minority borrowers loan  
13 modifications in large percentages in the City of Los Angeles because many who were  
14 in foreclosure under old stated-income mortgages were unable to get approved under  
15 the Bank’s new document-based income guidelines.

16 **5. JPMorgan engages in other abusive lending practices.**

17 91. The CW statements further demonstrate that the Bank increased the  
18 costliness of non-conventional loans at the expense of minority borrowers.

19 92. CW3 estimated that about 35% of the borrowers she dealt with had been  
20 victims of unethical lending practices by JPMorgan. CW3 also observed that minority  
21 borrowers tended to receive higher interest rates. Addressing the type of minority  
22 borrowers that tended to face higher interest rates at JPMorgan, she said, “the people  
23 who didn’t understand English and stuff like that.”

24 93. CW3 also observed that smaller home loans at JPMorgan – somewhere  
25 between \$75,000 and \$100,000 and below – tended to come with much higher interest  
26 rates (*e.g.*, 3%-4% higher), which inevitably impacted minority borrowers more than  
27 non-minority borrowers.

28

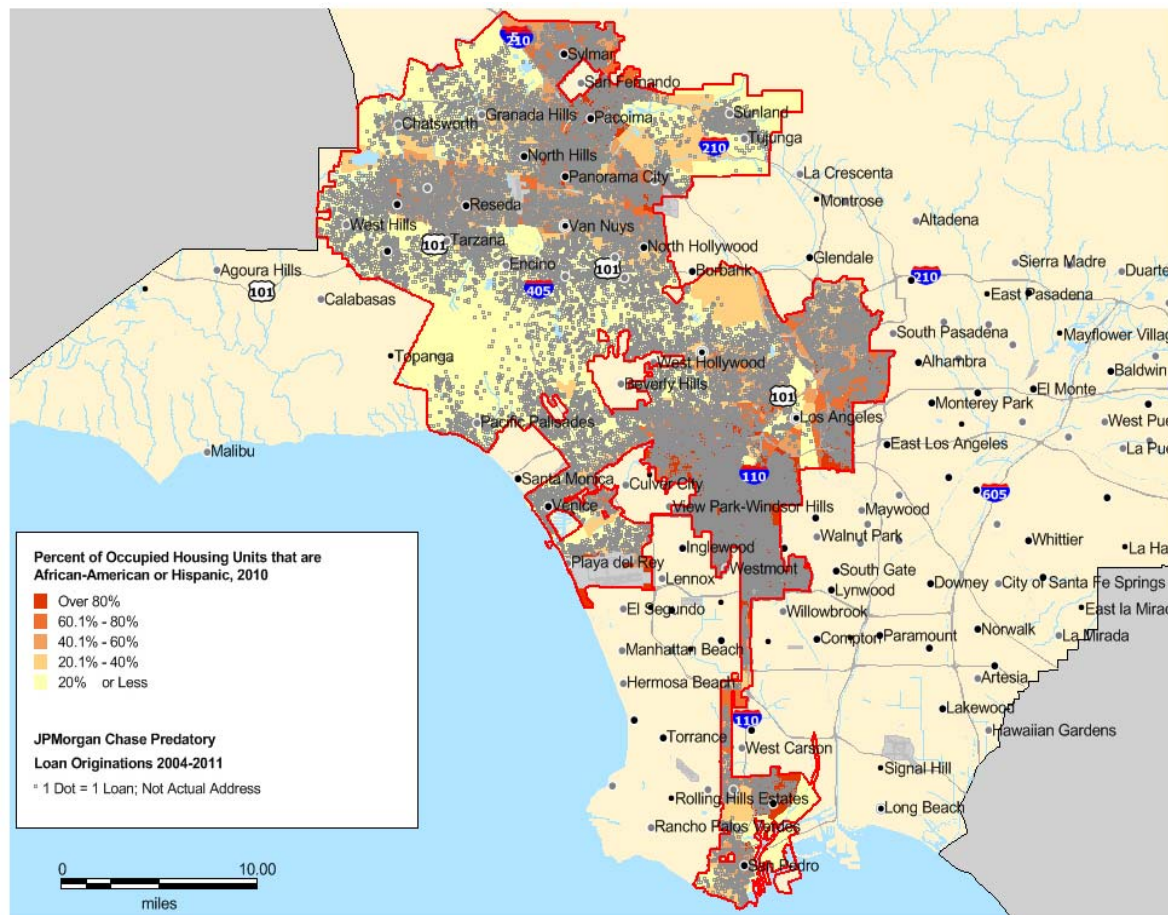
1 **C. Minorities in Fact Receive Predatory Loan Terms from JPMorgan**

2 94. As discussed herein, JPMorgan's *predatory* loans include: high-cost  
3 loans (*i.e.*, loans with an interest rate that was at least three percentage points above a  
4 federally-established benchmark), subprime loans, interest-only loans, balloon  
5 payment loans, loans with prepayment penalties, negative amortization loans, no  
6 documentation loans, and/or ARM loans with teaser rates (*i.e.*, lifetime maximum rate  
7 > initial rate + 6%).

8 95. Data reported by the Bank and available through public databases shows  
9 that in 2004-2011, 26.3% of loans made by JPMorgan to African-American and  
10 Latino customers in Los Angeles were high cost, but only 7.4% of loans made to white  
11 customers in Los Angeles were high cost. This data demonstrates a pattern of  
12 statistically significant<sup>28</sup> differences in the product placement for high cost loans  
13 between minority and white borrowers.

14 96. The following map of JPMorgan predatory loans originated in Los  
15 Angeles between 2004-2011 illustrates the geographic distribution of predatory loans  
16 in African-American and Latino neighborhoods and white neighborhoods in Los  
17 Angeles. This map demonstrates that JPMorgan's predatory loans are  
18 disproportionately located in minority neighborhoods.

19  
20  
21  
22  
23  
24  
25  
26 <sup>28</sup> Statistical significance is a measure of probability that an observed outcome  
27 would not have occurred by chance. As used in this Complaint, an outcome is  
28 statistically significant if the probability that it could have occurred by chance is less  
than 5%.



97. The fact that predatory loans involving all of JPMorgan’s loan products are more heavily concentrated in minority neighborhoods in Los Angeles is consistent with the practice of reverse redlining and, upon information and belief, has contributed significantly to the disproportionately high rates of foreclosure in minority communities in Los Angeles.

**D. Minorities in Los Angeles Receive Such Predatory Loan Terms from JPMorgan Regardless of Creditworthiness**

98. According to *Discretionary Pricing, Mortgage Discrimination, and the Fair Housing Act*, 45 HARVARD CIVIL RIGHTS-CIVIL LIBERTIES LAW REV. 375, 398 (2010), several studies dating back to 2000 have established that minority borrowers were charged higher interest rates/fees than similar creditworthy white borrowers.

1           99. Likewise, according to *A Racial Financial Crisis*, 83 TEMPLE LAW REV.  
2 941, 947, 949 (2011), one study concluded that “even after controlling for  
3 underwriting variables, African-American borrowers were 6.1% to 34.3% more likely  
4 than whites to receive a higher rate subprime mortgage during the subprime boom.”  
5 And another study found that significant loan pricing disparity exists among low risk  
6 borrowers – African-American borrowers were 65% more likely to receive a subprime  
7 home purchase loan than similar creditworthy white borrowers, and 124% more likely  
8 to receive a subprime refinance loan.

9           100. Similarly, the Center for Responsible Lending’s November 2011 Report,  
10 *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, stated that  
11 “racial and ethnic differences in foreclosure rates persist even after accounting for  
12 differences in borrower incomes.” Further, the Center stated it is “particularly  
13 troublesome” that minorities received riskier loans “even within [similar] credit  
14 ranges.” For example, among borrowers having FICO scores above 660, the incidence  
15 of higher rate loans among various groups was as follows: whites – 6.2%; African-  
16 American – 21.4%; and Latino – 19.3%.

17           101. Moreover, data reported by the Bank and available through public  
18 databases shows that minorities in Los Angeles received predatory loan terms from  
19 JPMorgan more frequently than white borrowers, regardless of creditworthiness.

20           102. A regression analysis of this data controlling for borrower race and  
21 objective risk characteristics such as credit history, loan to value ratio, and the ratio of  
22 loan amount to income demonstrates that, from 2004-2011, an African-American  
23 borrower in Los Angeles was 1.795 times more likely to receive a predatory loan than  
24 was a white borrower possessing similar underwriting and borrower characteristics.  
25 The regression analysis further demonstrates that the odds that a Latino borrower in  
26 Los Angeles would receive a predatory loan were 1.576 times the odds that a white  
27 borrower possessing similar underwriting and borrower characteristics would receive a  
28

1 predatory loan. These odds ratios demonstrate a pattern of statistically significant  
2 differences between African-American and white borrowers and between Latino and  
3 white borrowers.<sup>29</sup>

4 103. The regression analysis also shows that these disparities persist when  
5 comparing only Los Angeles-based borrowers with FICO scores above 660. An  
6 African-American borrower with a FICO score above 660 was 2.026 times more likely  
7 to receive a predatory loan than was a white borrower with similar underwriting and  
8 borrower characteristics. A Latino borrower with a FICO score above 660 was 1.796  
9 times more likely to receive a predatory loan than was a white borrower with similar  
10 underwriting and borrower characteristics. These odds ratios demonstrate a pattern of  
11 statistically significant differences between African-American and white borrowers  
12 and between Latino and white borrowers.

13 104. A similar regression analysis taking into account the racial makeup of the  
14 borrower's neighborhood rather than the individual borrower's race shows that  
15 borrowers in heavily minority neighborhoods in Los Angeles were more likely to  
16 receive predatory loans than borrowers in heavily white neighborhoods. For example,  
17 a borrower in a heavily minority census tract (census tract consisting of at least 80%  
18 African-American or Latino households) was 2.261 times more likely than was a  
19 borrower with similar characteristics in a heavily white neighborhood (census tract  
20 with at least 80% white households) to receive a predatory loan. These odds ratios  
21 demonstrate a pattern of statistically significant differences between African-  
22 American and white borrowers and between Latino and white borrowers.

23 105. This data also establishes that JPMorgan disproportionately issued  
24 government loans with higher risk features (FHA/VA) to African-American and  
25 Latino borrowers in Los Angeles from 2009-2011. A regression analysis controlling  
26

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27 <sup>29</sup> As alleged throughout the Complaint, all references to the date range 2004-2011  
28 are intended to include the time period up to and including December 31, 2011.

1 for borrower race and objective risk characteristics such as ratio of loan amount to  
2 income demonstrates that an African-American borrower was 2.660 times more likely  
3 to receive a higher risk government loan than was a white borrower possessing similar  
4 borrower and underwriting characteristics. The regression analysis further  
5 demonstrates that a Latino borrower was 2.857 times more likely to receive a higher  
6 risk government loan than was a white borrower possessing similar borrower and  
7 underwriting characteristics. These odds ratios demonstrate a pattern of statistically  
8 significant differences between African-American and white borrowers and between  
9 Latino and white borrowers in the City.

10 106. Thus, the disparities are not the result of, or otherwise explained by,  
11 legitimate non-racial underwriting criteria.

12 **E. JPMorgan's Targeting of Minorities who in Fact Receive Predatory Loan**  
13 **Terms Regardless of Creditworthiness Causes Foreclosures**

14 **1. Data shows that JPMorgan's foreclosures are disproportionately**  
15 **located in minority neighborhoods in Los Angeles.**

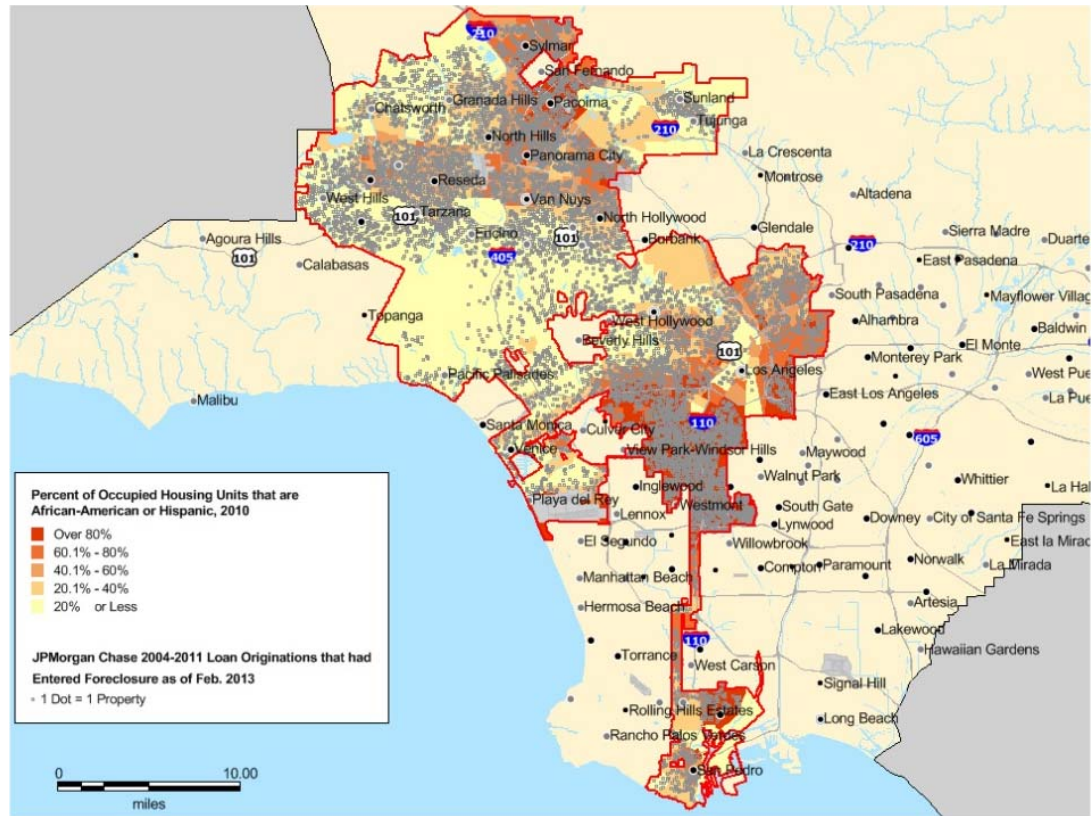
16 107. JPMorgan has intentionally targeted predatory practices at African-  
17 American and Latino neighborhoods and residents. Far from being a responsible  
18 provider of much-needed credit in minority communities, JPMorgan is a leading cause  
19 of stagnation and decline in African-American and Latino neighborhoods where its  
20 foreclosures are concentrated. Specifically, since at least 2000, its foreclosures have  
21 been concentrated in neighborhoods with African-American or Latino populations  
22 exceeding 80%.

23 108. Although only 20.4% of JPMorgan's loan originations in Los Angeles  
24 from 2004 to 2011 were in census tracts that are at least 80% African-American or  
25 Latino, 24.5% of loan originations that had entered foreclosure by February 2013 were  
26 in those census tracts. Similarly, while only 36.0% of JPMorgan's loan originations in  
27 Los Angeles from 2004 to 2011 occurred in census tracts that are at least 50%  
28 African-American or Latino, 43.3% of JPMorgan's loan originations that had entered

1 foreclosure by February 2013 were in those census tracts. Moreover, while 39.4% of  
2 JPMorgan's loan originations in Los Angeles from 2004 to 2011 occurred in census  
3 tracts that were less than 20% African-American or Latino, only 30.2% of JPMorgan's  
4 loan originations that had entered foreclosure by February 2013 were in those census  
5 tracts. This data demonstrates a pattern of statistically significant differences between  
6 African-American and white borrowers and between Latino and white borrowers.

7 109. The following map represents the concentration of JPMorgan's loan  
8 originations from 2004 through 2011 that had entered foreclosure by February 2013 in  
9 African-American and Latino neighborhoods. In addition to the disproportionate  
10 distribution of JPMorgan foreclosures in African-American and Latino neighborhoods,  
11 disparate rates of foreclosure based on race further demonstrate JPMorgan's failure to  
12 follow responsible underwriting practices in minority neighborhoods. While 19.2% of  
13 JPMorgan's loans in predominantly (greater than 80%) African-American or Latino  
14 neighborhoods result in foreclosure, the same is true for only 9.8% of its loans in  
15 predominantly (greater than 80%) white neighborhoods. In other words, a JPMorgan  
16 loan in a predominantly African-American or Latino neighborhood is 2.190 times  
17 more likely to result in foreclosure as is a JPMorgan loan in a predominantly white  
18 neighborhood. These odds ratios demonstrate a pattern of statistically significant  
19 differences between African-American and white borrowers and between Latino and  
20 white borrowers.





110. Thus, JPMorgan’s discretionary lending policies and pattern or practice of targeting of minorities, who in fact receive predatory loan terms regardless of creditworthiness, have caused and continue to cause foreclosures in Los Angeles.

**2. Data shows that JPMorgan’s loans to minorities result in especially quick foreclosures.**

111. A comparison of the time from origination to foreclosure of JPMorgan’s loans originated in Los Angeles shows a marked disparity with respect to the speed with which loans to African-Americans and Latinos and whites move into foreclosure. The average time to foreclosure for African-American borrowers is 2.906 years, and for Latino borrowers is 2.739 years. By comparison, the average time to foreclosure for white borrowers is 3.250 years. These statistically significant disparities demonstrate that JPMorgan aggressively moved minority borrowers into foreclosure as compared with how the Bank handled foreclosures for white borrowers.

1           112. This disparity in time to foreclosure is further evidence that JPMorgan is  
2 engaged in lending practices consistent with reverse redlining. The disparity in time  
3 to foreclosure demonstrates that JPMorgan is engaged in irresponsible underwriting in  
4 African-American and Latino communities that does not serve the best interests of  
5 borrowers. If JPMorgan were applying the same underwriting practices in African-  
6 American and Latino neighborhoods and white neighborhoods in Los Angeles, there  
7 would not be a significant difference in time to foreclosure. Were JPMorgan  
8 underwriting borrowers in both communities with equal care and attention to proper  
9 underwriting practices, borrowers in African-American and Latino communities  
10 would not find themselves in financial straits significantly sooner during the lives of  
11 their loans than borrowers in white communities. The faster time to foreclosure in  
12 African-American and Latino neighborhoods is consistent with underwriting practices  
13 in minority communities that are less concerned with determining a borrower's ability  
14 to pay and qualifications for the loan than they are in maximizing short-term profit.

15           113. The HUD/Treasury Report confirms that time to foreclosure is an  
16 important indicator of predatory practices: “[t]he speed with which the subprime  
17 loans in these communities have gone to foreclosure suggests that some lenders may  
18 be making mortgage loans to borrowers who did not have the ability to repay those  
19 loans at the time of origination.”<sup>30</sup>

20           **3. Data shows that the discriminatory loan terms cause the foreclosures.**

21           114. JPMorgan's discriminatory lending practices cause foreclosures and  
22 vacancies in minority communities in Los Angeles.

23           115. Steering borrowers into loans that are less advantageous than loans for  
24 which they qualify, including steering borrowers who qualify for prime loans into  
25 subprime loans, can cause foreclosures because the borrowers are required to make  
26 higher loan payments. The difference between what a borrower who is steered in this

27           <sup>30</sup> HUD/Treasury Report at 25.

1 manner must pay and the lower amount for which the borrower qualified can cause the  
2 borrower to be unable to make payments on the mortgage. In such instances, the  
3 borrower would have continued to make payments on the mortgage and remained in  
4 possession of the premises had JPMorgan made the loan without improperly steering  
5 the borrower into a subprime, or less advantageous loan. Steering borrowers in this  
6 manner, therefore, causes foreclosures and vacancies.

7 116. Giving a loan to an applicant who does not qualify for the loan, especially  
8 a refinance or home equity loan, can also cause foreclosures and vacancies. Some  
9 homeowners live in properties that they own subject to no mortgage. Other  
10 homeowners live in properties with modest mortgages that they can comfortably  
11 afford to pay. Where a lender, such as JPMorgan, solicits such a homeowner to take  
12 out a home equity loan on his or her property, or alternatively, to refinance his or her  
13 existing loan into a larger loan without proper underwriting to assure that the borrower  
14 can make the monthly payments for the new, larger loan, the result is likely to be that  
15 the borrower will be unable to make payments on the mortgage. This is particularly  
16 true where the borrower is refinanced from a fixed-rate loan into an adjustable rate  
17 loan that the lender knows the borrower cannot afford should interest rates rise. In  
18 some instances, the lender may refinance the borrower into a new loan that the lender  
19 knows the borrower cannot sustain, given the borrower's present debt obligations and  
20 financial resources. In such circumstances, the likely result of such practices is to  
21 cause homeowners who are otherwise occupying properties without a mortgage, or  
22 comfortably making payments on a modest existing mortgage, to be unable to make  
23 payment on a new, unaffordable loan. This, in turn, causes foreclosures and  
24 vacancies. If these unaffordable refinance and home equity loans had not been made,  
25 the subject properties would not have become vacant.

26 117. A regression analysis of loans issued by JPMorgan in Los Angeles from  
27 2004-2011, controlling for objective risk characteristics such as credit history, loan to  
28

1 value ratio, and the ratio of loan amount to income demonstrates that a predatory loan  
2 is 1.726 times more likely to result in foreclosure than is a non-predatory loan.

3 118. The regression analysis further demonstrates that a predatory loan in a  
4 heavily minority neighborhood (census tract consisting of at least 80% African-  
5 American and Latino households) is 2.946 times more likely to result in foreclosure as  
6 is a non-predatory loan with similar risk characteristics in a heavily white  
7 neighborhood (census tract with at least 80% white households). These odds ratios  
8 demonstrate a pattern of statistically significant differences between African-  
9 American and white borrowers and between Latino and white borrowers.

10 119. The regression analysis also demonstrates that a predatory loan made to  
11 an African-American borrower was 1.657 times more likely to result in foreclosure as  
12 was a non-predatory loan made to a white borrower with similar borrower and  
13 underwriting characteristics. A predatory loan made to a Latino borrower was 2.232  
14 times as likely to result in foreclosure as was a non-predatory loan made to a white  
15 borrower with similar risk characteristics. These odds ratios demonstrate a pattern of  
16 statistically significant differences between African-American and white borrowers,  
17 and between Latino and white borrowers.

18 120. A regression analysis of government loans (FHA/VA) issued by  
19 JPMorgan in Los Angeles from 2009-2011, controlling for borrower race and  
20 objective risk characteristics such as ratio of loan amount to income, demonstrates that  
21 a government loan is 5.559 times more likely to result in foreclosure as is a non-  
22 government loan. These odds ratios demonstrate a pattern of statistically significant  
23 differences between African-American and white borrowers and between Latino and  
24 white borrowers.

1                   **VI. INJURY TO LOS ANGELES CAUSED BY JPMORGAN’S**  
2                   **DISCRIMINATORY LOAN PRACTICES**

3           121. Los Angeles has suffered financial injuries as a direct result of  
4 JPMorgan’s pattern or practice of reverse redlining and the resulting  
5 disproportionately high rate of foreclosure on JPMorgan loans to African-Americans  
6 and Latinos in minority neighborhoods in Los Angeles. Los Angeles seeks redress for  
7 these injuries. The City does not seek redress in this action for injuries resulting from  
8 foreclosures on mortgages originated by lenders other than JPMorgan.

9           122. JPMorgan continues to engage in the discriminatory pattern or practice  
10 described herein with similar and continuing deleterious consequences to the City.

11           123. The City seeks damages based on reduced property tax revenues based on  
12 (a) the decreased value of the foreclosed properties themselves, and (b) the decreased  
13 value of properties surrounding the foreclosed properties. In addition, the City seeks  
14 damages based on municipal services that it still must provide to remedy blight and  
15 unsafe and dangerous conditions which exist at vacant properties that entered  
16 foreclosure as a result of JPMorgan’s illegal lending practices.

17           **A. Los Angeles has been Injured by a Reduction in Property Tax Revenues**  
18           **from Foreclosures Caused by Discriminatory Loans Issued by JPMorgan**

19           124. As stated in a September 2011 Report by the Alliance of Californians for  
20 Community Empowerment and the California Reinvestment Coalition, entitled *The*  
21 *Wall Street Wrecking Ball: What Foreclosures are Costing Los Angeles*  
22 *Neighborhoods* (“Cost to Los Angeles Report”), “[w]hen a home falls into foreclosure,  
23 it affects the property value of the foreclosed home as well as the values of other  
24 homes in the neighborhood.” These decreased property values in turn reduce property  
25 tax revenues to the City.

26           125. “As property values drop an estimated \$78.8 billion, Los Angeles  
27 communities could lose as much as \$481 million in property tax revenue” from the  
28

1 decreased value of the foreclosed homes themselves and those in the surrounding  
2 neighborhoods.<sup>31</sup>

3 126. To be clear, vacancies and short sales even prior to completion of  
4 foreclosure also result in diminished home values. Indeed, “[i]n 12 states, including  
5 California, Florida, Arizona, New York and New Jersey, pre-foreclosure sales actually  
6 outnumbered REO sales.”<sup>32</sup> Such distressed sales reduce property values.<sup>33</sup>

7 **1. The decreased value of the properties foreclosed by JPMorgan result**  
8 **in reduced property tax revenues.**

9 127. The *Cost to Los Angeles* Report states that “[i]t is estimated that homes in  
10 foreclosure experience a 22% decline in value.”<sup>34</sup>

11 128. For example, “[t]hat means the impact of the 200,000 foreclosures  
12 estimated for the period 2008 through 2011 will be more than \$26 billion in lost home  
13 value in communities across Los Angeles.”<sup>35</sup> A portion of this lost home value is  
14 attributable to homes foreclosed as a result of JPMorgan’s discriminatory loan  
15 practices.

16 129. The decreased property values of foreclosed homes in turn reduce  
17 property tax revenues to the City and constitute damages suffered by Los Angeles.

18 **2. The decreased value of properties in the neighborhoods surrounding**  
19 **foreclosed properties results in reduced property tax revenues.**

20 130. JPMorgan foreclosure properties and the problems associated with them  
21 likewise cause especially significant declines in surrounding property values because  
22 the neighborhoods become less desirable. This in turn reduces the property tax  
23 revenues collected by Los Angeles.

24 <sup>31</sup> *Cost to Los Angeles* Report at 3.

25 <sup>32</sup> See <http://www.realtytrac.com/content/news-and-opinion/short-sales-increasing-in-2012--short-sale-process----realtytrac-7204>.

26 <sup>33</sup> See <http://www.realtytrac.com/content/foreclosure-market-report/us-foreclosure-sales-and-short-sales-report-q1-2013-7732>.

27 <sup>34</sup> *Id.*

28 <sup>35</sup> *Id.*

1           131. Property tax losses suffered by Los Angeles as a result of JPMorgan's  
2 foreclosures are fully capable of empirical quantification.

3           132. Routinely maintained property tax and other data allow for the precise  
4 calculation of the property tax revenues lost by the City as a direct result of particular  
5 JPMorgan foreclosures. Using a well-established statistical regression technique that  
6 focuses on effects on neighboring properties, the City can isolate the lost property  
7 value attributable to JPMorgan foreclosures from losses attributable to other causes,  
8 such as neighborhood conditions. This technique, known as hedonic regression, when  
9 applied to housing markets, isolates the factors that contribute to the value of a  
10 property by studying thousands of housing transactions. Those factors include the size  
11 of a home, the number of bedrooms and bathrooms, whether the neighborhood is safe,  
12 whether neighboring properties are well-maintained, and more. Hedonic analysis  
13 determines the contribution of each of these house and neighborhood characteristics to  
14 the value of a home.

15           133. The number of foreclosures in a neighborhood is one of the neighborhood  
16 traits that hedonic analysis can examine. Hedonic analysis allows for the calculation  
17 of the impact on a property's value of the first foreclosure in close proximity (*e.g.*,  $\frac{1}{8}$   
18 or  $\frac{1}{4}$  of a mile), the average impact of subsequent foreclosures, and the impact of the  
19 last foreclosure.

20           134. Foreclosures attributable to JPMorgan in minority neighborhoods in Los  
21 Angeles can be analyzed through hedonic regression to calculate the resulting loss in  
22 the property values of nearby homes. This loss can be distinguished from any loss  
23 attributable to non-JPMorgan foreclosures or other causes. The loss in property value  
24 in minority neighborhoods in Los Angeles attributable to JPMorgan's unlawful acts  
25 and consequent foreclosures can be used to calculate the City's corresponding loss in  
26 property tax revenues.

1           135. Various studies establish that hedonic regression can be used for this  
2 purpose. A study published by the Fannie Mae Foundation, using Chicago as an  
3 example, determined that each foreclosure is responsible for an average decline of  
4 approximately 1.1% in the value of each single-family home within an eighth of a  
5 mile.<sup>36</sup>

6           136. Other studies have focused on the impact of abandoned homes on  
7 surrounding property values. A study in Philadelphia, for example, found that each  
8 home within 150 feet of an abandoned home declined in value by an average of  
9 \$7,627; homes within 150 to 299 feet declined in value by \$6,810; and homes within  
10 300 to 449 feet declined in value by \$3,542.<sup>37</sup>

11           137. These studies highlight the foreseeability of tax related harm to the City  
12 as the result of foreclosures arising from discriminatory loans.

13           138. And most recently, the *Cost to Los Angeles* Report stated, “[i]t is  
14 conservatively estimated that each foreclosed property will cause the value of  
15 neighboring homes within an eighth of a mile to drop 0.9%.” Thus, “[i]n Los Angeles,  
16 impacted homeowners could experience property devaluation of \$53 billion.” This  
17 decreased property value of neighboring homes in turn reduces property tax revenues  
18 to the City.

19           139. Application of such Hedonic regression methodology to data regularly  
20 maintained by Los Angeles can be used to quantify precisely the property tax injury to  
21 the City caused by JPMorgan’s discriminatory lending practices and resulting  
22 foreclosures in minority neighborhoods.

23  
24  
25           <sup>36</sup> See Dan Immergluck & Geoff Smith, *The External Costs of Foreclosure: The*  
26 *Impact of Single-Family Mortgage Foreclosures on Property Values*, 17 HOUSING  
POLICY DEBATE 57 (2006) at 69.

27           <sup>37</sup> See Anne B. Shlay & Gordon Whitman, *Research for Democracy: Linking*  
28 *Community Organizing and Research to Leverage Blight Policy*, at 21 (2004).



1 **B. Los Angeles Is Injured Because It Still Must Provide Costly Municipal**  
2 **Services for Properties in Minority Neighborhoods that Have Become**  
3 **Vacant as a Direct Result of Discriminatory Loans Originated or**  
4 **Purchased by JPMorgan**

5 140. Vacant JPMorgan foreclosure properties cause direct costs to the City  
6 because the City is required to provide increased municipal services at these  
7 properties. Even prior to completion of the foreclosure process, data shows that 20%  
8 of homes are vacated.<sup>38</sup> These increased municipal services would not have been  
9 necessary if the properties were occupied.

10 141. For example, the City's Police Department must send personnel and  
11 police vehicles to vacant JPMorgan foreclosure properties to respond to public health  
12 and safety threats that arise at these properties because the properties are vacant.  
13 Because violent crime has been found to increase 2.33% for every 1% increase in  
14 foreclosures, among other services, LAPD must respond to calls reporting suspicious  
15 activity at vacant properties, perform ongoing investigations involving criminal  
16 activity, including gang activity, at vacant properties.

17 142. Likewise, the Code Enforcement Bureau of the Los Angeles Building and  
18 Safety Department ("Building and Safety Department") must devote personnel time  
19 and out-of-pocket funds to inspect vacant properties and issue orders for violations of  
20 the municipal code to be fixed. When the municipal code violations are not fixed, the  
21 Building and Safety Department is required to perform certain services, including, but  
22 not limited to, removing excess vegetation at vacant properties, hauling away trash  
23 and debris at vacant properties, boarding vacant property from casual entry, putting up  
24 fencing to secure vacant properties, putting up fencing to prevent access to swimming  
25 pools by young children at vacant properties, coordinating with the Los Angeles  
26 County Health Department to chemically treat the pools at vacant properties to prevent  
27 mosquitos from breeding, painting and removing graffiti at vacant properties,

28 <sup>38</sup> See <http://www.realtytrac.com/content/foreclosure-market-report/owner-vacated-foreclosure-update-7771>.

1 condemning and demolishing vacant structures deemed an imminent hazard to public  
2 safety, and having vacant properties frequented by gangs declared a public nuisance  
3 and demolished on that basis.

4 143. As stated by the *Cost to Los Angeles* Report, “[l]ocal government  
5 agencies have to spend money and staff time on blighted foreclosed properties,  
6 providing maintenance, inspections, trash removal, increased public safety calls, and  
7 other code enforcement services .... Responding to these needs is a gargantuan task  
8 that involves multiple agencies and multiple levels of local government.”<sup>39</sup>

9 144. Moreover, as discussed above, the Apgar-Duda report underscores the  
10 foreseeability of municipal costs as the result of foreclosures arising from  
11 discriminatory loans.

## 12 **VII. SAMPLE FORECLOSURE PROPERTIES IN THE CITY OF LOS** 13 **ANGELES**

14 145. Plaintiff has already identified two thousand five hundred and sixty-four  
15 (2,564) discriminatory loans issued by JPMorgan in Los Angeles between 2004-2011  
16 that resulted in commencement of foreclosure proceedings.<sup>40</sup> The City has already  
17 incurred, or will incur in the future, damages corresponding to each of these  
18 properties. A sample of property addresses corresponding to these foreclosures is set  
19 forth below:

20 2814 Altura St., 90031

21 7411 S. Hoover St., 90044

22 3905 Wisconsin St., 90037  
23

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24 <sup>39</sup> *Id.* at 3.

25 <sup>40</sup> Plaintiff anticipates that it will be able to identify significantly more foreclosures  
26 resulting from the issuance of discriminatory loans during this time period with the  
27 benefit of discovery. This conclusion derives from the fact that, because of certain  
28 reporting limitations, the publicly available mortgage loan databases utilized by  
Plaintiff are not as comprehensive as the mortgage loan databases maintained by and  
in the possession of an issuing bank.

1 1451 E. 54th St. 90011  
2 5107 Alhambra Ave., 90032  
3  
4 238 E. Century Blvd., 90003  
5 4965 Westhaven St., 90016  
6 15413 S. Orchard Ave., 90247  
7  
8 1217 Bay View Ave., 90744  
9 2016 E. 112th St., 90059

10 **VIII. STATUTE OF LIMITATIONS AND CONTINUING VIOLATIONS**  
11 **DOCTRINE**

12 146. As alleged herein, Defendant JPMorgan has engaged in a continuous  
13 pattern and practice of mortgage discrimination in Los Angeles since at least 2004 by  
14 imposing different terms or conditions on a discriminatory and legally prohibited  
15 basis. In order to maximize profits at the expense of the City of Los Angeles and  
16 minority borrowers, JPMorgan adapted its unlawful discrimination to changing market  
17 conditions. This unlawful pattern and practice conduct is continuing through the  
18 present and has not terminated. Therefore, the operative statute of limitations  
19 governing actions brought pursuant to the Federal Fair Housing Act has not  
20 commenced to run.

21 **IX. CLAIMS FOR RELIEF**

22 **FIRST CLAIM FOR RELIEF**

23 **(Violation of the Federal Fair Housing Act, 42 U.S.C. §§ 3601, *et seq.*)**

24 147. Plaintiff repeats and incorporates by reference all allegations contained in  
25 the preceding paragraphs as if fully set forth herein.

26 148. The Fair Housing Act's stated purpose is to provide, "within  
27 constitutional limitations, for fair housing throughout the United States."  
28

1           149. In contravention of that purpose, JPMorgan's acts, policies, and practices  
2 as described constitute intentional lending discrimination on the basis of race.  
3 JPMorgan has intentionally targeted residents of predominantly African-American and  
4 Latino neighborhoods in Los Angeles for different treatment than residents of  
5 predominantly white neighborhoods in Los Angeles with respect to mortgage lending.  
6 JPMorgan has intentionally targeted residents of these neighborhoods for high-cost  
7 loans without regard to their credit qualifications and without regard to whether they  
8 qualify for more advantageous loans, including prime loans. JPMorgan has  
9 intentionally targeted residents of these neighborhoods for increased interest rates,  
10 points, and fees, and for other disadvantageous loan terms including, but not limited  
11 to, adjustable rates, prepayment penalties, and balloon payments. JPMorgan has  
12 intentionally targeted residents of these neighborhoods for unfair and deceptive  
13 lending practices in connection with marketing and underwriting mortgage loans.

14           150. JPMorgan's acts, policies, and practices have had an adverse and  
15 disproportionate impact on African-Americans and Latinos and residents of  
16 predominantly African-American and Latino neighborhoods in Los Angeles as  
17 compared to similarly situated whites and residents of predominantly white  
18 neighborhoods in Los Angeles. This adverse and disproportionate impact is the direct  
19 result of JPMorgan's policies of providing discretion to loan officers and others  
20 responsible for mortgage lending; failing to monitor this discretion to ensure that  
21 borrowers were being placed in loan products on a nondiscriminatory basis when  
22 JPMorgan had notice of widespread product placement disparities based on race and  
23 national origin; giving loan officers and others responsible for mortgage lending large  
24 financial incentives to issue loans to African-Americans and Latinos that are costlier  
25 than better loans for which they qualify; otherwise encouraging and directing loan  
26 officers and others responsible for mortgage lending to steer borrowers into high-cost  
27 loans or loans with adjustable rates, prepayment penalties, or balloon payments  
28

1 without regard for whether they qualify for better loans; and setting interest rate caps.  
2 These policies have caused African-Americans and Latinos and residents of  
3 predominantly African-American and Latino neighborhoods in Los Angeles to receive  
4 mortgage loans from JPMorgan that have materially less favorable terms than  
5 mortgage loans given by JPMorgan to similarly situated whites and residents of  
6 predominantly white neighborhoods in Los Angeles, and that are materially more  
7 likely to result in foreclosure.

8 151. JPMorgan’s residential lending-related acts, policies, and practices  
9 constitute reverse redlining and violate the Fair Housing Act as:

10 (a) Discrimination on the basis of race and national origin in making  
11 available, or in the terms and conditions of, residential real estate-related transactions,  
12 in violation of 42 U.S.C. § 3605(a); and

13 (b) Discrimination on the basis of race and national origin in the terms,  
14 conditions, or privileges of sale of a dwelling, in violation of 42 U.S.C. § 3604(b).

15 152. JPMorgan’s policies or practices are not justified by business necessity or  
16 legitimate business interests.

17 153. JPMorgan’s policies and practices are continuing.

18 154. The City is an “aggrieved person” as defined by 42 U.S.C. § 3602(i) and  
19 has suffered damages as a result of JPMorgan’s conduct.

20 155. The City’s damages include lost tax revenues and the need to provide  
21 increased municipal services. The loss of tax revenues at specific foreclosure sites and  
22 at closely neighboring properties in predominantly minority neighborhoods of the City  
23 was a foreseeable consequence that was fairly traceable to JPMorgan’s discriminatory  
24 lending. Likewise, the need to provide increased municipal services at blighted  
25 foreclosure sites in predominantly minority neighborhoods of the City was a  
26 foreseeable consequence that was fairly traceable to JPMorgan’s discriminatory  
27 lending.



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**DEMAND FOR JURY TRIAL**

Pursuant to Fed. R. Civ. P. 38(b), the City demands a trial by jury on all issues so triable.

**PRAYER FOR RELIEF**

WHEREFORE, the City respectfully prays that the Court grant it the following relief:

- A. Enter a declaratory judgment that the foregoing acts, policies, and practices of JPMorgan violate 42 U.S.C. §§ 3604 and 3605;
- B. Enter a permanent injunction enjoining JPMorgan and its directors, officers, agents, and employees from continuing the discriminatory conduct described herein, and directing JPMorgan and its directors, officers, agents, and employees to take all affirmative steps necessary to remedy the effects of the discriminatory conduct described herein, and to prevent additional instances of such conduct or similar conduct from occurring in the future, pursuant to 42 U.S.C. § 3613(c)(1);
- C. Award compensatory damages to the City in an amount to be determined by the jury that would fully compensate the City of Los Angeles for its injuries caused by the conduct of JPMorgan alleged herein, pursuant to 42 U.S.C. § 3613(c)(1);
- D. Order JPMorgan to disgorge its wrongfully obtained profits and to provide restitution to the City as alleged herein;
- E. Award punitive damages to the City in an amount to be determined by the jury that would punish JPMorgan for the willful, wanton, and reckless conduct alleged herein, and that would effectively deter similar conduct in the future, pursuant to 42 U.S.C. § 3613(c)(1);
- F. Award the City its reasonable attorneys’ fees and costs, pursuant to 42 U.S.C. § 3613(c)(2);
- G. Require payment of pre-judgment interest on monetary damages; and
- H. Order such other relief as this Court deems just and equitable.

1 DATED: May 30, 2014

By /s/ Michael Feuer

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