

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

UNITED STATES OF AMERICA,
c/o U.S Department of Justice
P.O. Box 65998
Washington, D.C. 20035-5998

U.S. Attorney's Office
555 4th Street, NW
Washington, D.C. 20001
Plaintiff,

v.

CHEVY CHASE FEDERAL SAVINGS BANK,
8401 Connecticut Avenue
Chevy Chase, Maryland

and

B.F. SAUL MORTGAGE COMPANY,
8401 Connecticut Avenue
Chevy Chase, Maryland
Defendants.

COMPLAINT

The United States of America alleges:

1. This action is brought by the United States to enforce the provisions of Title VIII of the Civil Rights Act of 1968 (the Fair Housing Act), as amended by the Fair Housing Amendments Act of 1988, 42 U.S.C. §§3601-3619, and the Equal Credit Opportunity Act, 15 U.S.C. §§1691-1691f.
2. This court has jurisdiction of this action pursuant to 28 U.S.C. §1345, 42 U.S.C §3614, and 15 U.S.C. §1691(h).
3. Defendant Chevy Chase Federal Savings Bank (hereinafter "Chevy Chase"), is a federally chartered savings and loan association doing business in the District of Columbia, Maryland and Virginia. Chevy Chase offers the traditional services of a financial depository institution, including the receipt of monetary deposits, the financing of residential housing, business, commercial and consumer loans, and other types of credit transactions. As of March 31, 1993, Chevy Chase had over \$3.8 billion in total deposits, and consolidated assets of \$4.7 billion, making it the largest savings institution based in the Washington, D.C. metropolitan area.
4. Defendants B.F. Saul Mortgage Company was established in 1975, and has been a wholly owned subsidiary of Chevy Chase since 1984. The institution is responsible for effectuating the development of real estate-related transactions for Chevy Chase. The mortgage company solicits

and originates real estate-related financing transactions, both residential and commercial, in the District of Columbia, and in the states of Virginia and Maryland.

5. Chevy Chase commenced operations in 1969 as a Maryland chartered savings institution, and began operating as a federally chartered institution on April 8, 1986. Chevy Chase is subject to the regulatory authority of the Office of Thrift Supervision and its deposits are insured by the Federal Deposit Insurance Corporation.
6. Chevy Chase is subject to federal laws governing fair lending, including the Fair Housing Act, the Equal Credit Opportunity Act, and the Community Reinvestment Act of 1977 (12 U.S.C. §§2901-2906). The Community Reinvestment Act and its implementing regulations require Defendant Chevy Chase to help to meet the credit needs of the entire community in which it operates, including the credit needs of low- and moderate-income neighborhoods.
7. Although Chevy Chase first began its operation in Chevy Chase, Maryland, it subsequently has expanded its business, and that of its mortgage subsidiary, to substantial portions of the Washington, D.C. metropolitan area.
8. A major component of the expansion of defendants' business has been the establishment of branches of Chevy Chase and offices of the B.F. Saul Mortgage Company. New branches and mortgage offices are designed to better serve existing customers and to attract new customers to the services of the institutions. Persons who become depository account customers of Chevy Chase are likely to inquire of the institution when they desire mortgage or other credit transactions, and the proximity of mortgage offices enhances business opportunities for the institutions.
9. The offices of the B.F. Saul Mortgage Company, in addition to servicing customers referred by Chevy Chase branches, actively solicit residential real estate-related financing business from real estate professionals and builders, particularly those real estate professionals and builders that operate in the area near the B.F. Saul Mortgage Company offices. The companies also have relied upon newspaper and radio advertising to increase the effectiveness of the business marketing programs.
10. By 1994, Chevy Chase has grown to a network of seventy-eight branch offices, and the subsidiary B.F. Saul Mortgage Company has grown to a network of twenty mortgage offices.
11. Residential housing data for the Washington, D.C. metropolitan area show significant patterns of racial segregation. According to the 1990 Census, over 74.3 percent of the African American population of the Washington, D.C. metropolitan area resides in the District of Columbia and Prince George's County; African Americans constitute 65.1 percent of the population of the District of Columbia. African American residents of the Washington, D.C. metropolitan areas are concentrated in majority African American census tracts encompassing well defined, predominately African American neighborhoods. Approximately 90.3 percent of the 395,213 African American residents of the District of Columbia reside in 126 majority African American census tracts, most of which are located in the Northeast, Southeast, and Southwest quadrants of the city; the vast majority (85.9 percent) of the District's white residents live in the Northwest quadrant. Approximately 76.7 percent of the African American residents of Prince George's County live in majority African American census tracts, most of which are concentrated in the central and southern portions of the county.

12. In expanding their business, defendants have acted to meet the savings and lending needs of the identifiably white residential areas of the Washington, D.C. metropolitan area and have intentionally avoided the servicing of identifiably African American residential areas.
13. As of June 29, 1993, the date the Department of Justice notified the defendants of its investigation which led to the commencement of this action, seventy (70) of the then existing seventy-four (74) branches of Chevy Chase were located in census tracts in which a majority of the residents are not African American [hereinafter referred to as white census tracts]. The location of two of the branches in majority African American census tracts was not selected by defendants, but rather the branches were acquired as part of a purchase of another institution. A third branch located in majority African American residential area was first opened by the defendants as a time that the census tract was white. The remaining branch located in a majority African American census tract is outside the Washington, D.C. metropolitan area. A map showing the locations of the Chevy Chase branches in the Washington, D.C. metropolitan area, and the racial residential patterns of the metropolitan area, is attached as [Exhibit A](#).
14. As of June 29, 1993, seventeen (17) of B.F. Saul's then existing eighteen (18) mortgage offices were located in white census tracts. The only office located in a majority African American census tract was opened in May, 1993. A map showing the locations of the B.F. Saul Mortgage Company offices in the Washington, D.C. metropolitan area, and the racial residential patterns of the metropolitan area, is attached as [Exhibit B](#).
15. Although the defendants have considered and applied various standards in selecting locations for branches and mortgage offices (such as customer-deposit statistics, location of competitors, and the location of other businesses that may attract customers), the branch location factors have not been applied uniformly throughout the metropolitan area. Race has remained a factor in the selection of branch and mortgage office location, and the consideration of race has caused the absence of Chevy Chase branches and B.F. Saul Mortgage Company offices in African American neighborhoods.
16. The consideration of race in the business practices and customer solicitation efforts of the defendants is also evident from the service area boundaries that defendants have established under the Community Reinvestment Act. In 1986, Chevy Chase determined to include the entire District of Columbia within its delineated area, but in 1989 decided that the District of Columbia would not be served and thus dropped the District of Columbia in its entirety from the Chevy Chase delineated area. At the time the District of Columbia was dropped, Chevy Chase operated a branch within the District of Columbia. In 1992, after receiving criticism from the Office of Thrift Supervision for the decision to exclude the District of Columbia from its delineated area, Chevy Chase added a portion of the District to its delineated area; the portion chosen has the highest percentage of white residents of any area of the District of Columbia.
17. Employees of the B.F. Saul Mortgage Company have actively and aggressively solicited real estate-related financial transactions through real estate professionals and builders serving white residential areas, but intentionally have avoided seeking such business from real estate professionals serving African American residential areas. In 1980, the company established a policy not to seek financial transactions secured by District of Columbia properties located south of Calvert Street, N.W. or east of Connecticut Avenue, N.W. The portion of the District of Columbia that was designated for company business is the area with highest percentages of white residents. While exceptions to this policy were made in some circumstances, the extent of the policy and the racial impact of the policy are revealed by the business that the company transacted in the District of Columbia. From 1991 through 1993, only 21.1 percent of the mortgage loans that

the defendants originated in the District of Columbia were secured by properties located in majority African American census tracts and 78.9 percent were secured by properties located in white census tracts.

18. Other business practices utilized by the defendants, at least until the United States began its investigation, furthered the objective of servicing white residential areas and not servicing residential areas in which African Americans reside. As examples:
 - A. Defendants have utilized a commission structure to compensate the mortgage company's loan officer/originators and thus have provided an incentive to solicit and originate mortgage loans on higher-priced homes, and not on lower-priced homes in the Washington, D.C. area. Census statistics demonstrate that, on the average, residential properties in African American neighborhoods of the Washington, D.C. metropolitan area sell for lower prices than properties in white residential areas.
 2. The B.F. Saul Mortgage Company has employed few African Americans in the position of loan officer/originator. Since 1985, the company employed approximately 234 persons in these positions of whom 5 (2.1 percent) were African American.
 3. In advertising its mortgage products through the media, defendants have rarely or never utilized newspapers, radio stations, or other media that are oriented to the African American community in the Washington, D.C. area.
19. The policies and practices described in the preceding paragraphs have achieved the intended racial impact, as demonstrated by statistics revealing the number of home mortgage applications received by defendants from residents of African American neighborhoods of the Washington, D.C. metropolitan area, and by the number of home mortgage loans made by the defendants to residents of African American neighborhoods of the metropolitan area. Examples of those statistics are stated in paragraphs 20 through 24 below.
20. During 1991, Chevy Chase and the B.F. Saul Mortgage Company received 2,515 mortgage loan applications from the Washington, D.C. metropolitan area. Of these applications, 3,432 (97.6 percent) were received from applicants in white census tracts, and 83 (2.4 percent) were received from applicants residing in majority African American census tracts.
21. During 1993, Chevy Chase and the B.F. Saul Mortgage Company received 7,311 mortgage loan applications from the Washington, D.C. metropolitan area. Of these applications, 6,947 (95.0) percent were received from applicants in white census tracts, and 364 (5.0 percent) were received from applicants in majority African American census tracts.
22. During 1998, Chevy Chase and the B.F. Saul Mortgage Company originated 2,050 mortgage loans in the Washington, D.C. metropolitan area. Of these loans, 1,998 (97.5 percent) were secured by properties located in white census tracts, and 52 (2.5 percent) were secured by properties located in majority African American census tracts.
23. During 1991, Chevy Chase and the B.F. Saul Mortgage Company originated 2,744 mortgage loans in the Washington, D.C. metropolitan area. Of these loans, 2,691 (98.1 percent) were secured by properties located in white census tracts, and 53 (1.9 percent) were secured by properties located in majority African American census tracts.

24. During 1993, Chevy Chase and the B.F. Saul Mortgage Company originated 6,524 mortgage loans in the Washington, D.C. metropolitan area. Of these loans, 6,206 (95.1% percent) were secured by properties located in white census tracts, and 318 (4.9 percent) were secured by properties located in majority African American census tracts.
25. Exhibit C contains maps depicting the location of properties secured by mortgage loans initiated by the defendants in the Washington, D.C. metropolitan area in the years [1978](#), [1985](#), [1990](#), [1991](#) and [1992](#), as well as the racial composition of the neighborhoods in which the properties are located.
26. The racial disparities in the defendants' loan application and loan origination rates cannot be explained by differences in demand for mortgages in majority white areas as compared with majority African American areas. An analysis of the defendants' share of the total mortgage loans made in white and majority African American census tracts shows that defendants have a slightly greater market share in white census tracts than in majority African American census tracts. For example, from 1990 through 1992, the defendants' share of all purchase money mortgages originated in white census tracts ranged from 1.5 percent to 2.1 percent. During the same period, the defendants' share of such mortgages originated in majority African American census tracts ranged from 0.2 percent to 0.4 percent. These disparities in the market share of loan originations are statistically significant -- the units of standard deviation range from 2.9 to 4.8 -- and cannot be explained by random, non-racial variations in the defendants' marketing and loan solicitation practices.
27. Certain mortgage products, such as loans insured through the Federal Housing Administration (FHA) or the Veterans' Administration (VA), are in greater demand in African American residential areas than in white residential areas. While the defendants offer both FHA and VA loans, they rarely advertise the availability of such loans and have made only a small number of such loans. Most of the loans made have been directed to the white, rather than the African American, community. For example, from 1985 through 1992 defendants originated 2,312 FHA and VA loans in the Washington, D.C. metropolitan area, 2,243 (97.0 percent) of which were secured by properties located in white census tracts, and 69 (3.0 percent) of which were secured by properties located in majority African American census tracts.
28. The defendants have also originated the vast majority of their home improvement loans and non-occupancy (investor loans) in majority white areas. For example, in 1992, the defendants originated a total of 26 home improvement loans in the Washington, D.C. metropolitan area of which 23 (88.5 percent) were secured by properties located in white census tracts, and 3 (11.5 percent) were secured by properties located in majority African American census tracts. From 1985 through 1992, the defendants originated a total of 198 non-occupancy loans in the Washington, D.C. metropolitan area of which 189 (95.5 percent) were secured by properties located in white census tracts, and 9 (4.5 percent) were secured by properties located in majority African American census tracts.
29. The vast majority of defendants' residential construction and commercial loans also support properties and businesses in white residential areas, with little corresponding support for properties and businesses located in African American residential areas. For example, according to the minutes of Chevy Chase's loan committees, the defendants made at least 502 residential construction and commercial loans from the late 1970's to the early 1990's in the four most populous jurisdictions in the Washington metropolitan area (Montgomery County and Prince Georges' County, Maryland Fairfax County, Virginia and the District of Columbia). More than 90 percent of those loans were made in the very heavily white jurisdictions of Fairfax County and

Montgomery County, 29 (5.7 percent) were made in the majority African American District of Columbia, and 18 (3.5 percent) were made in the majority African American Prince George's County. Also, virtually all of the loans made in the District of Columbia were in predominantly white areas of the District.

30. From 1976 through 1992, the defendants made approximately 29,846 mortgage loans totaling \$3,739,116,000.00 to borrowers in the Washington, D.C. metropolitan area. Of the total number of loans, 28,888 (96.8 percent) were secured by properties located in white residential areas, and 958 (3.2 percent) were secured by properties located in African American residential areas. Of the total dollar amount, \$3,627,977,000.00 supported properties in white census tracts, and \$111,138,000.00 supported properties in majority African American census tracts.
31. The totality of the policies and practices described herein amount to a redlining of African American residential neighborhoods of the Washington, D.C. metropolitan area as off-limits for the defendants' business. The policies and practices are intended to deny, and have the effect of denying, an equal opportunity to residents of African American neighborhoods, on account of the racial identity of the neighborhood, to obtain mortgage financing and other types of credit transactions. The policies and practices causing the racial impact are not justified by business necessity.
32. The defendants' actions as alleged herein constitute:
 - a. Discrimination on the basis of race in making available residential real estate-related transactions in violation of Section 805 of the Fair Housing Act, 42 U.S.C. §3605(a);
 2. The making unavailable or denial of dwellings to persons, because of race, in violation of Section 804(a) of the Fair Housing Act, 42 U.S.C. §3604(a);
 3. Discrimination on the basis of race in the terms, conditions, or privileges of the provisions of services or facilities in connection with the sale or rental of dwellings, in violation of Section 804(b) of the Fair Housing Act; and
 4. Discrimination against applicants with respect to credit transactions, on the basis of race, in violation of the Equal Credit Opportunity Act, 15 U.S.C. §1691(a)(1)
33. Defendants' policies or practices as alleged herein constitute:
 - a. A pattern or practice of resistance to full enjoyment of rights secured by the Fair Housing Act, as amended, 42 U.S.C. §3601, *et seq.*, and the Equal Credit Opportunity Act, 15 U.S.C. §1691e(h); and
 2. A denial of rights granted by the Fair Housing Act, as amended, to a group of persons that raises an issue of general public importance.
34. Persons who have been victims of defendants' discriminatory policies and practices are aggrieved persons as defined in 42 U.S.C. §2602(i), and have suffered damages as a result of the defendants' conduct as described herein.
35. The racially discriminatory policies and practices of defendants were, and are, intentional and willful, and have been implemented with reckless disregard for the rights of residents of African

American neighborhoods.

WHEREFORE, pursuant to Federal Rule of Civil Procedure 38(b), the United States requests that a jury decide defendants' liability under the Fair Housing Act and the Equal Credit Opportunity Act for the pattern or practice of racial discrimination alleged herein and the amount of damages owed to the victims of defendants' discrimination. Furthermore, the United States requests that the Court issue an appropriate injunctive Order, including a prospective remedial plan to correct the effects of defendants' past discrimination and bring the defendants into compliance with federal fair lending law, and assess appropriate civil money penalties as to each defendant.

WHEREFORE, the United States prays that the Court enter an ORDER that:

1. Declares that the totality of the policies and practices of defendants constitute a violation of Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Act of 1988, 42 U.S.C. §§3601-3619, and the Equal Credit Opportunity Act, 15 U.S.C. §§1691-1691f;
2. Enjoins defendants, their agents, employees and successors, and all other persons in active concert or participation with them, from discriminating on account of race in any aspect of their business practices;
3. Requires defendants to develop and submit to the Court for its approval a detailed plan that: (a) defines a service area for defendants' business without regard to race and provides policies and procedures to ensure all segments of the defined area are served without regard to race, and (b) remedies the vestiges of defendants' discriminatory policies and practices;
4. Awards such damages as decided by a jury that would fully compensate the victims of defendants' discriminatory policies and practices for the injuries caused by the defendants;
5. Awards punitive damages in an amount to be determined by a jury to the victims of defendants' discriminatory policies and practices; and
6. Assesses a civil penalty against each defendant, in order to vindicate the public interest.

The United States further prays for such additional relief as the interests of justice may require.

JANET RENO
ATTORNEY GENERAL

DEVAL L. PATRICK
ASSISTANT ATTORNEY GENERAL

PAUL F. HANCOCK
Chief, Housing and Civil Enforcement Section
Bar # 159327

VALERIE R. O'BRIAN
FREDERICK B. RIVERA
Attorneys, Housing and Civil Enforcement Section
Civil Rights Division
U.S. Department of Justice

P.O. Box 65998
Washington, D.C. 20035-5998
(202)514-4751

ERIC H. HOLDER, JR.
UNITED STATES ATTORNEY
Bar # 303115

JOHN D. BATES
Assistant U.S. Attorney
Bar # 934927

MADelyn E. JOHNSON
Assistant U.S. Attorney
Bar # 292318