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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

FAIR HOUSING CENTER OF
METROPOLITAN DETROIT et al

vs.

CASE NO. 95-73844
HON. AVERN COHN

FLAGSTAR BANK, FSB

FILED

JAN 21 2004

CLERK'S OFFICE
U. S. DISTRICT COURT
EASTERN MICHIGAN

REPORT TO UNITED STATES DISTRICT COURT
JUDGE AVERN COHN ON THE IMPLEMENTATION
OF THE SETTLEMENT AGREEMENT BETWEEN THE PARTIES IN

FAIR HOUSING CENTER v FLAGSTAR BANK

and

EXTENDED SETTLEMENT AGREEMENT BETWEEN
FLAGSTAR BANK
AND THE
FAIR HOUSING CENTER OF METROPOLITAN DETROIT

January 20, 2004

REPORT TO UNITED STATES DISTRICT COURT
JUDGE AVERN COHN ON THE IMPLEMENTATION
OF THE SETTLEMENT AGREEMENT BETWEEN THE PARTIES IN

FAIR HOUSING CENTER v FLAGSTAR BANK

Case No. 95-73844

The Settlement AGREEMENT (copy attached) entered into between the Fair Housing Center of Metropolitan Detroit (FHC) and Flagstar Bank (Flagstar), dated November 13, 1998, stated, in Section #10, that:

"The Court shall maintain jurisdiction over this matter until its termination. Violations of the provisions of this Settlement AGREEMENT may constitute and be subject to the contempt sanctions of this Court."

The parties to the Settlement AGREEMENT are now pleased to report to the Court that not only has Flagstar met the terms of the AGREEMENT, but it has exceeded those terms in many notable areas. This report will note some of the actions taken by Flagstar and the FHC to implement the AGREEMENT and then advise the Court on the terms of an EXTENDED AGREEMENT entered into by the parties.

The AGREEMENT's provisions can be aggregated into the following areas:

- a. Actions taken to increase the number of residential mortgage loans to African Americans.
- b. Actions taken to improve the amount and quality of advertising of Flagstar services to potential African American borrowers.
- c. Actions taken to increase the number of ads and requests for media services placed with African American firms.
- d. Actions taken to open a depository in the City of Detroit.
- e. Actions taken to increase the number and amount of contracts with African American appraisers, contractors and sub-contractors.
- f. Actions taken to provide training for Flagstar officers, executives and employees in relation to compliance with fair lending laws.
- g. Actions taken to provide executive level oversight and sufficient staffing to fully implement the AGREEMENT.
- h. Actions taken to monitor Flagstar employee actions in relation to processing and approving/denying loan applications from African American persons.

Flagstar has provided FHC with regular reports and any additional information requested by FHC. FHC has not gathered or received any information that would contradict or call into

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question any of the information received from Flagstar. Those reports confirm that Flagstar has exceeded its commitments included in the AGREEMENT or has used its best faith efforts to implement the AGREEMENT.

Specifically, the reports on issuing of residential loans to African American borrowers indicate that Flagstar has far exceeded its commitment to increase such lending activity by \$300,000,000 during the term of the AGREEMENT. In fact, real estate agents in Detroit who previously had no dealings with Flagstar now report to FHC that they regularly refer home buyers to Flagstar for mortgage loans. The establishment of a depository in the City of Detroit has helped to convey the message to residents of Detroit that Flagstar sees Detroit as a desirable residential loan market.

Similarly, the reports on the use of African American media outlets and firms indicate that Flagstar has far exceeded the monetary commitments included in the AGREEMENT. FHC has, in fact, been contacted by representatives/owners of African American media firms who have expressed their appreciation that the lawsuit has helped them to establish a positive relationship with Flagstar. Flagstar and FHC agree that additional steps will be taken to substantially increase the number of African American appraisers, contractors and sub-contractors that receive contracts for services from Flagstar.

Flagstar has incorporated fair lending training into its training programs and has extended that training to a wide range of its personnel. The best indication of the impact of the training programs has been a very significant reduction in the number of lending discrimination complaints FHC has received concerning Flagstar, and the fact that none of those complaints has resulted in any FHC assisted legal actions against Flagstar.

Flagstar has made substantial improvements and additions to its staff to assist in the implementation of this AGREEMENT and to further compliance with the provisions of the Community Reinvestment Act. While increases in the number and position level of African American employees was not part of the AGREEMENT, those additions and improvements have been made.

Flagstar has described two monitoring programs that appear to be very effective and possibly can serve as models for the industry. Flagstar's covert testing program, using paired teams of persons who pose as loan applicants, is now being used in Flagstar offices throughout the nation. The comparison of the treatment accorded to testers (normally, African American and White testers) is one of the most effective ways available to monitor employee behavior. The second testing program is a program that compares loan files to evaluate the treatment accorded to African American and white applicants for residential loans. Flagstar intends to continue both programs.

Flagstar has implemented and now routinely uses second and third loan review procedures for all rejected residential loan applications and has regularly reported actions taken by the loan review committee in relation to those applications. The major purpose of the review procedure is to identify any applications that could be approved and/or resubmitted for approval. Flagstar intends to continue utilization of the rejected loan review procedures.

The parties to this AGREEMENT are aware of the important role that the Court played in reaching this AGREEMENT. Positive steps for fair lending have been taken as a result of the AGREEMENT, and a strong foundation has been put in place for future fair lending steps by Flagstar. Included among those steps is the signing of an EXTENDED AGREEMENT between FHC and Flagstar. The terms of that EXTENDED AGREEMENT are attached to this report. The EXTENDED AGREEMENT does not anticipate or request Court jurisdiction during the five year term of the EXTENDED AGREEMENT. However, the parties appreciate the role that the Court has played in helping to fashion and provide oversight for the original Settlement AGREEMENT.

* * * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

AUDRA CARSON, ET AL.,)	
)	
Plaintiffs,)	CASE NO. 95-73844
and)	
)	
THE FAIR HOUSING CENTER OF)	
METROPOLITAN DETROIT, a)	
Michigan non-profit)	
corporation,)	
)	
Intervenor,)	
and)	
)	
HEATE THOMAS, DENISE E.)	
MUCKENHIRN, and BLOOMFIELD)	
CENTRE APPRAISAL, INC., a)	
Michigan corporation,)	
)	
Intervenors,)	
vs.)	
)	
FLAGSTAR BANK, FSB, a Federal)	
Savings Bank, f/k/a First)	
Security Savings Bank, FSB,)	
)	
Defendant.)	
)	

SETTLEMENT AGREEMENT

Whereas Plaintiffs Audra Carson, et al. commenced an action against Defendant, Flagstar Bank, FSB, a Federal Savings Bank f/k/a First Security Savings Bank, FSB ("Flagstar"), alleging violations of Title VIII of the Civil Rights Act of 1968, 42 U.S.C. § 3601 et seq.; the Civil Rights Act of 1866, 42 U.S.C. § 1981 and 1982, and

the Michigan Elliott-Larsen Civil Rights Act, M.C.L.A. § 37.2501 et seq.; Whereas the Fair Housing Center of Metropolitan Detroit ("FHC") intervened in said action; Whereas Flagstar filed an Answer to the Complaints filed against it; and whereas the FHC and Flagstar have agreed to the terms of the Settlement set out herein,

IT IS HEREBY AGREED as follows:

1. Flagstar, its officials, employees, agents and successors reaffirms its obligation to refrain from engaging in any act or practice that discriminates on the basis of race in violation of the Fair Housing Act in any aspect of residential real estate-related transactions.
2. Within 30 days of the execution of this AGREEMENT, Flagstar shall take appropriate actions to expand its delineated community as that term is defined by the Community Reinvestment Act, to include the City of Detroit and all other cities located in the Counties of Wayne, Oakland, Macomb and Washtenaw. Except as otherwise provided herein, Flagstar agrees that it will maintain its current level of activity with regard to approving residential mortgage loans to African-American persons in urban or predominantly African-American Communities, contingent upon national or statewide market conditions and Flagstar agrees that during the next five years it will use its best efforts to originate or purchase three hundred million (\$300,000,000) dollars in residential mortgage loans for African-Americans. Flagstar shall establish a depository in the City of Detroit during the year 1999.
3. Within 30 days of the execution of this AGREEMENT, Flagstar shall submit to the Court for approval, a plan to establish a full time executive level position and/or name an individual, who will oversee and be fully responsible for the implementation of

all activities related to compliance with this AGREEMENT.

4. (a) Within 90 days of the execution of this AGREEMENT, Flagstar shall submit to the Court for approval, with a copy to the FHC, a detailed five year plan, setting forth its plan to provide initial and annual, fair lending training to all Flagstar executives and all other employees who are in any way involved in the lending process. The fair lending training shall be provided annually by the FHC or some other entity recommended by the FHC, which shall be reasonably compensated for its services. Flagstar will advise appraisers or other sub-contractors who deal, in any way, with borrowers or the mortgage lending process that compliance with all of the fair lending laws is a prerequisite to contracting with Flagstar;
 - (b) Within 90 days of the execution of this AGREEMENT, Flagstar shall submit to the Court for approval, with a copy to the FHC, a comprehensive fair lending self-testing mortgage lending program.
 - (c) Within 90 days of the execution of this AGREEMENT, Flagstar shall submit to the Court for approval, with a copy to the FHC, a program which sets forth a process by which Flagstar officials, excluding individuals who are involved in the original review process, will conduct a second review of all rejected loan applications in Michigan and maintain all records of such second reviews. Flagstar will institute a process to insure that minorities, especially African-Americans, have the opportunity to be actively involved in the residential mortgage loan review process and the second review process for all rejected mortgage applications;
5. Flagstar agrees that it will submit to the FHC a statement which sets forth the records it presently keeps in the ordinary course of business, with reference to mortgage loan files, and those records

will be maintained during the term of this AGREEMENT.

6. Within 90 days of the execution of this AGREEMENT, Flagstar will develop programs and plans to increase the number of African-American appraisers and other sub-contractors originators and correspondents that are utilized by Flagstar Bank and to increase the amount of sub-contracts with African-American appraisers and sub-contractors. Flagstar's recruiting initiatives and investigation shall include, but not be limited to, such programs as Wayne State University Black Business Students Association. FHC will use its best efforts to assist.
7. Flagstar will designate \$100,000 per year for each of the next five years to advertising programs that are specially designed and available to all persons, including low and moderate income families, and minorities, including African-Americans, in the major urban communities included within Flagstar's CRA service area. In addition, the sum of \$100,000 will be budgeted for contracts with African-American owned media consultants, advertising firms, printing firms, radio or television stations, newspaper, or other groups.
8. Within 90 days of the execution of this AGREEMENT, Flagstar shall produce for approval by the Court, with a copy to the FHC, a marketing strategy to attract African-American persons who might qualify for mortgages in excess of \$200,000.
9. Within 10 days of the execution of this AGREEMENT, Flagstar will compensate the Fair Housing Center of Metropolitan Detroit as follows:
 - (a) Pay the FHC \$150,000 for attorney fees and the diversion of staff and financial resources; and
 - (b) Pay the FHC \$30,000 per year beginning in 1998 and each year thereafter until and including the year 2002 for those activities undertaken by FHC to monitor Flagstar's compliance with the terms set out herein.

10. This AGREEMENT shall terminate on December 31, 2002. Following the termination and until such time as a new AGREEMENT is announced, Flagstar will continue the general pursuit of the objectives set forth herein. The Court shall maintain jurisdiction over this matter until its termination. Violations of the provisions of this Settlement AGREEMENT may constitute and be subject to the contempt sanctions of this Court.
11. This AGREEMENT reflects the entire Agreement between the parties relative to the subject matter contained herein and supersedes all prior or contemporaneous oral or written understandings, statements, representations or promises. This AGREEMENT can only be modified in a writing signed by both parties.
12. This AGREEMENT shall be effective upon execution by both parties. Both parties agree that this settlement agreement and all of the terms contained shall not be disclosed to any other party regardless of circumstances until all claims pending against Flagstar in the lawsuit are resolved.


FAIR HOUSING CENTER OF
METROPOLITAN DETROIT

By: 

EMILY C. HALL, Chairperson
Board of Directors
Fair Housing Center of
Metropolitan Detroit

STATE OF MICHIGAN)
) SS:
COUNTY OF WAYNE)

On this 13th day of November, 1998, before me, a Notary Public in and for said County and State, appeared EMILY C. HALL, to me known to be the person named herein and who executed the foregoing Settlement Agreement.



Notary Public

Wayne County, State of Michigan
My commission expires **MARVIN THOMAS**
~~Notary Public, Wayne County, MI~~
My Commission Expires Aug. 29, 2002

FLAGSTAR BANK, FSB


BY: 

THOMAS J. HAMMOND
Chief Executive Officer
Flagstar Bank, FSB

STATE OF MICHIGAN)
) SS:
COUNTY OF OAKLAND)

On this _____ day of November, 1998, before me, a Notary Public in and for said County and State, appeared THOMAS J. HAMMOND, to me known to be the person named herein and who executed the foregoing Settlement Agreement.

CASYN E. LAMB
Notary Public, Oakland County, MI
My Commission Expires May 27, 2000



Notary Public,
Oakland County, State of Michigan
My commission expires: 05/27/00

**EXTENDED SETTLEMENT AGREEMENT BETWEEN
FLAGSTAR BANK
AND THE
FAIR HOUSING CENTER OF METROPOLITAN DETROIT**

Provision #10 of the November, 1998 Settlement Agreement between the Fair Housing Center of Metropolitan Detroit (FHC) and Flagstar Bank (Flagstar) indicates that the AGREEMENT shall terminate on December 31, 2002 and then states that:

"Following the termination and until such time as a new AGREEMENT is announced, Flagstar will continue the general pursuit of the objectives set forth herein."

In accordance with the above stated provision of the 1998 AGREEMENT, FHC and Flagstar agree to the following **EXTENDED AGREEMENT (EA)** between Flagstar and FHC.

1. Flagstar, its officials, employees, agents and successors reaffirm its obligation to refrain from engaging in any act or practice that discriminates on the basis of race in violation of the Fair Housing Act in any aspect of residential real estate-related transactions.

2. FHC will continue to receive and investigate complaints of unlawful housing/lending discrimination, including any complaints received by FHC concerning transactions involving Flagstar. FHC and Flagstar agree that no provision of this EA will affect or limit the ability of FHC to investigate

and assist in the resolution of any complaint of unlawful housing/lending discrimination received by FHC, including any complaint involving Flagstar, or its officials, employees, agents and successors.

3. Flagstar shall continue to include the City of Detroit and all other cities, villages and townships in the Counties of Wayne, Oakland, Macomb and Washtenaw in its "delineated community" and/or "service area", as those terms are defined in the federal Community Reinvestment Act, and to the extent that the office remains profitable, shall continue to maintain a depository within the City of Detroit during the term of this EA.

4. Flagstar has reported that it has not only maintained its pre-1998 level of activity with regard to approving residential mortgage loans to African American persons, but has exceeded its goal of increasing that loan activity by \$300,000,000 during the term of the first AGREEMENT. Flagstar now agrees to use its best efforts to continue to increase, from its 2000 and 2001 levels, both the total amount and percentage of activity with regard to approving residential mortgage loans to African American persons in its total portfolio of loans, in its Michigan portfolio and in its portfolio of loans in Wayne, Oakland, Macomb and

Washtenaw Counties. Further, Flagstar agrees to submit to FHC, on an annual basis, a full report on all residential loan activity and on loan activity for African American persons. Such reports will be submitted to FHC by March 31 of each of the years during the term of this EA. FHC agrees to review the annual reports and submit to Flagstar on an annual basis its evaluation of those reports and any recommendations it has related to those reports.

5. Flagstar will continue, for the duration of this EA, to maintain a full time executive level position for a person who will oversee and be fully responsible for the implementation of activities related to compliance with this EA, and shall, within 30 days of the signing of this EA, provide FHC the name, title and Job Description for that person and the name title and job responsibilities for all persons employed by Flagstar, who assist that person in the oversight and/or implementation of activities related to compliance with this EA.

6. Flagstar will, for the duration of the EA, continue to provide fair lending training to all Flagstar executives and all other employees who are in any way involved in the lending process. Flagstar will provide FHC with materials utilized for the fair lending training program and will

provide FHC advance notice of all training conducted in Michigan and invite a representative of FHC to attend all fair lending training sessions in Michigan. FHC agrees to review the fair lending training materials and training sessions and may provide Flagstar with periodic written evaluations and recommendations related to the training materials and the conduct of the training sessions.

7. Flagstar will continue to engage in two types of self-testing programs for the duration of the EA.
 - a. Flagstar will continue to engage a qualified fair lending testing organization for the purpose of conducting covert matched pair testing of Flagstar loan officers for the duration of the EA. Within 90 days of the signing of this EA Flagstar will provide FHC with a full description of the testing methodologies, procedures and scope of the testing to be conducted, and, on an annual basis, shall make available for review by FHC at the Flagstar main office a confidential summary of the results of tests conducted and actions taken by Flagstar in relation to any tests that disclosed significant differences in treatment accorded to the testers by any Flagstar loan officers. FHC will provide, on an annual basis, written

evaluations and recommendations related to the covert testing materials, procedures and outcomes.

- b. Flagstar will continue, for the duration of this EA, to conduct random comparisons of .02% of the actions taken by Flagstar with regard to white and African American loan applications for all Flagstar loans, and conduct comparisons of 10% of such actions in all counties in which the denial rate for African American borrowers is greater than two times the denial rate for white borrowers. Flagstar will, on an annual basis, make available for review by FHC at the Flagstar main office a summary of results from the comparisons of loan files and a summary of actions taken by Flagstar to correct any inconsistencies revealed through the loan comparisons. FHC will provide, on an annual basis, written evaluations and recommendations related to the loan file reviews.

8. Flagstar will continue, for the duration of this EA, to implement a second and third review procedure for all rejected residential loan applications and will continue to provide FHC summaries of the results of the application reviews. FHC may provide Flagstar with periodic written evaluations and recommendations related to the second and third loan review process.

9. Flagstar will continue to implement programs to increase the number of African-American appraisers and other sub-contractors, originators and correspondents that are utilized by Flagstar Bank, and shall, on an annual basis, make available for review by FHC at the Flagstar main office the results of those activities to FHC. FHC may provide Flagstar with periodic evaluations and recommendations related to its sub-contracting programs.

10. Flagstar will continue to implement targeted advertising programs for African American persons and will continue to utilize African American advertising and media firms in those, and other, Flagstar advertising programs. Flagstar will provide, for the duration of this EA, annual reports on its advertising programs and the utilization of African American advertising and media firms. FHC may provide Flagstar with periodic evaluations and recommendations related to its advertising and media programs.


11. Flagstar will, within thirty days from the signing of this EA by FHC and Flagstar, pay FHC \$15,000 to assist FHC in the implementation of the terms of this EA, and will pay FHC an additional \$60,000 (\$15,000 annually) for the duration of this EA.

12. This EA shall be effective upon its execution by both parties. This EA will terminate on 12/31/07.

SIGNED:

FAIR HOUSING CENTER OF METROPOLITAN DETROIT

BY:

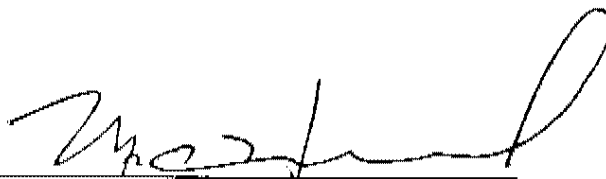


Noel J. Saleh, Chairperson
Board of Directors
Fair Housing Center of
Metropolitan Detroit

Date: 1/20/04

FLAGSTAR BANK

BY:



Mark T. Hammond
Chief Executive Officer
Flagstar Bank

Date: 1/20/04