

IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF OHIO  
WESTERN DIVISION

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	CIVIL ACTION NO. 1:16CV1172
	)	
v.	)	
	)	
UNION SAVINGS BANK, and	)	
GUARDIAN SAVINGS BANK, FSB,	)	
	)	
Defendants.	)	
_____	)	

**COMPLAINT**

INTRODUCTION

1. The United States brings this action against Union Savings Bank (“Union”) and Guardian Savings Bank (“Guardian”) under the Fair Housing Act (“FHA”), 42 U.S.C. §§ 3601-3619 and the Equal Credit Opportunity Act (“ECOA”), 15 U.S.C. §§ 1691-1691f, for engaging in a pattern or practice of unlawful redlining by structuring its business so as to avoid the credit needs of majority-black neighborhoods in its residential mortgage lending from at least 2010 through 2014, and thereby engaging in acts or practices directed at prospective applicants that discouraged applicants in these neighborhoods from applying for credit.

2. The FHA and the ECOA prohibit creditors from discriminating on the basis of, among other characteristics, race and color in their residential mortgage lending practices. The FHA makes it unlawful for any bank to discriminate against any person in making available residential mortgage loans on the basis of, among other characteristics, race and color. 42 U.S.C. §§ 3604(a)-(b), 3605(a). The ECOA makes it illegal for a creditor to discriminate against an

applicant in any aspect of a credit transaction on the basis of, among other characteristics, race and color. 15 U.S.C. § 1691(a); 12 C.F.R. § 1002.4(a). The ECOA also prohibits any statements, acts, or practices that would or could discourage on a prohibited basis a prospective applicant from applying for credit. 15 U.S.C. § 1691(a); 12 C.F.R. § 1002.4(b); 12 C.F.R. pt. 1002, Supp. I, ¶ 1002.4(b)(1).

3. In March 2015, the United States opened an investigation into whether Union had engaged in unlawful redlining.

4. Union and Guardian (collectively the “Banks” or “defendants”) engaged in unlawful redlining throughout their main lending areas by discouraging applicants in majority-black neighborhoods<sup>1</sup> in at least four Metropolitan Statistical Areas (“MSAs”): Cincinnati, Ohio; Dayton, Ohio; Columbus, Ohio, and Indianapolis, Indiana. Union and Guardian both generate the vast majority of their mortgage loan applications for properties within these four MSAs.<sup>2</sup> In 2014, for example, Union drew over 90 percent of its mortgage loan applications for properties within these four MSAs, with 35 percent from the Cincinnati MSA, 17 percent from the Dayton MSA, 22 percent from the Columbus MSA, and 17 percent from the Indianapolis MSA. In 2014, for example, Guardian drew 80 percent of its mortgage loan applicants for properties within the Cincinnati MSA.

5. Union’s and Guardian’s policies and practices that discouraged consumers in majority-black census tracts from applying for credit from Union or Guardian include but are not necessarily limited to: locating their branches to avoid serving majority-black neighborhoods;

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<sup>1</sup> A “majority-black neighborhood” is a census tract in which more than 50% of the residents are identified in the U.S. Census as “Black or African American.”

<sup>2</sup> “Mortgage loan applications” include all applications that Union and Guardian were required to report under the Home Mortgage Disclosure Act, 12 U.S.C. §§ 2801-2810.

training and incentivizing their loan officers to focus their activities in predominately white neighborhoods and to avoid majority-black areas; failing to effectively market their mortgage products to majority-black neighborhoods; and knowing of, but failing to address, the significant disparities in their lending compared with similar lenders in majority-black neighborhoods.

#### JURISDICTION AND VENUE

6. This Court has subject-matter jurisdiction of this action pursuant to 28 U.S.C. § 1345, 42 U.S.C. § 3614, and 15 U.S.C. § 1691e(h).

7. Venue is appropriate in this judicial district pursuant to 28 U.S.C. § 1391 because Union and Guardian both conduct business and have their principal places of business in this judicial district.

#### PARTIES

8. Plaintiff, the United States, brings this action to enforce the FHA and the ECOA. The Attorney General is authorized to initiate a civil action in federal district court whenever she has reasonable cause to believe that a pattern or practice of discrimination in violation of the FHA has occurred or that any group of persons has been denied rights granted by the FHA and such denial raises an issue of general public importance. 42 U.S.C. § 3614(a). The Attorney General is authorized to initiate a civil action in federal district court whenever she has reasonable cause to believe that a pattern or practice of discrimination in violation of the ECOA has occurred. 15 U.S.C. § 1691e(h).

9. Defendant Union Savings Bank is a privately-held bank chartered by the State of Ohio that is headquartered in the northeast outskirts of Cincinnati, Ohio.

10. Union operates primarily within the Cincinnati, Ohio; Dayton, Ohio; Columbus, Ohio, and Indianapolis, Indiana Metropolitan Statistical Areas (“MSAs”). As of June 30, 2016,

Union had assets totaling \$2.7 billion. Union is subject to the regulatory authority of the Federal Deposit Insurance Corporation.

11. Defendant Guardian Savings Bank is a federally chartered bank that is headquartered in West Chester, Ohio and is a wholly owned subsidiary of Guardian Bancorp, Inc., a one-bank privately-held holding company based in Cincinnati, Ohio.

12. Guardian operates primarily in the Cincinnati MSA. As of June 30, 2016, Guardian reported assets of \$902 million. Guardian is subject to the regulatory authority of the Office of the Comptroller of the Currency.

13. Union and Guardian Bancorp, Inc. are both owned, in their entirety, by the same two individuals.

14. Union provides certain operational services to Guardian pursuant to written service level agreements.

15. Union and Guardian both offer the traditional services of a financial depository and lending institution, including the receipt of monetary deposits and the financing of residential housing.

16. Union and Guardian are each subject to the federal laws governing fair lending, including the FHA and the ECOA and their respective implementing regulations, the fair housing regulations of the Department of Housing and Urban Development, 24 C.F.R. § 100.1 *et seq.*, and Regulation B of the Consumer Financial Protection Bureau, 12 C.F.R. § 1002.1 *et seq.*

17. Union and Guardian are each engaged in “residential real estate-related transactions” within the meaning of the FHA, 42 U.S.C. § 3605, and are each a “creditor” within the meaning of the ECOA, 15 U.S.C. § 1691a(e).

FACTUAL ALLEGATIONS

18. Union and Guardian engaged in unlawful redlining by structuring their businesses so as to avoid majority-black neighborhoods within the Cincinnati, Dayton, Columbus, and Indianapolis MSAs from at least 2010-2014, and thereby engaged in acts or practices directed at prospective applicants that discouraged applicants in these majority-black neighborhoods from applying for credit, as described in the following paragraphs.

19. Based on 2010 Census data, the total population and racial makeup of the four MSAs in which Union and Guardian conduct the vast majority of their lending are as follows:

<b>MSA</b>	<b>Total Population</b>	<b>% Non-Hispanic White</b>	<b>% Black</b>
Cincinnati	2,130,151	82%	13%
Columbus	1,836,536	76%	16%
Dayton	841,502	79%	16%
Indianapolis	1,756,241	75%	16%

20. Each of these MSAs contains areas with highly concentrated black populations. Based on 2010 Census data and a measure called the dissimilarity index,<sup>3</sup> Cincinnati was the eighth most highly segregated between black and non-Hispanic white residents of the nation's 102 metropolitan areas with populations above 500,000. Based on the same measure, Dayton was the 14th most highly segregated, Indianapolis was the 15th most highly segregated, and Columbus was the 33rd most highly segregated.

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<sup>3</sup> Residential segregation can be measured by several indices; the most-widely used measure is called the dissimilarity index. Dissimilarity, which ranges from 0 (complete integration) to 1 (complete segregation), measures the percentage of a group's population that would have to change residences for each neighborhood to have the same percent of that group as the metropolitan area overall.

### Branch Locations

21. Union and Guardian have engaged in a race-based pattern of locating branch offices. They have located branch offices in a manner designed to serve the banking and credit needs of the residents of majority-white census tracts, but not those of residents of majority-black census tracts.

22. Union has twelve full-service branches in the Cincinnati MSA, seven full-service branches in the Columbus MSA, six full-service branches in the Dayton MSA, and one full-service branch in the Indianapolis MSA. Union's full-service branches offer deposit products and services and loan products, including home-mortgage lending.

23. Guardian has nine full-service branches in the Cincinnati MSA. Guardian's full-service branches offer deposit products and services and loan products, including home-mortgage lending.

24. Since 1990, Union has opened or relocated twenty-six full-service branches in majority-white census tracts in the Cincinnati, Dayton, Columbus, and Indianapolis MSAs, and none in majority-black census tracts in those MSAs. At present, all of Union's branches are located in majority-white census tracts. *See* Maps attached as Exhibit A- D. With the exception of one branch that Union opened only because it was instructed to do so by its regulator at the time, its branches in the Cincinnati MSA circle the majority-black core of the City of Cincinnati, with the majority of its branches, as well as its regional headquarters, located in the outer suburbs far from the majority-black areas. *See* Exhibit A. Similarly, Union's six branches in the Dayton MSA form a horseshoe far to the north, east, and south of the majority-black core of the City of Dayton. *See* Exhibit B. In the Columbus MSA, none of Union's branches are located in majority-black census tracts and five of its seven branches are located in the majority-white

outer-suburbs. *See* Exhibit C. Union has one branch in the Indianapolis MSA, which, at its closest point, is located approximately four miles north of the closest of that city's majority-black census tracts. *See* Exhibit D.

25. Since 1994, Guardian has opened or relocated six full-service branches in majority-white census tracts in the Cincinnati MSA and none in majority-black census tracts in that MSA. At present, all of Guardian's branches are located in majority-white census tracts. *See* Map attached as Exhibits E. All but one of Guardian's full-service branches form a circle surrounding, yet far from, the center of the majority-black portions of the Cincinnati MSA. *See id.*

Applications and Originations from Majority-Black Neighborhoods

26. Union and Guardian are required to delineate assessment areas for federal regulators to use in evaluating whether they are "meet[ing] the credit needs of [their] community" pursuant to the Community Reinvestment Act ("CRA"). 12 C.F.R. § 345.41(a); 12 C.F.R. § 25.41(a). Union maintains assessment areas within the Cincinnati, Dayton, Columbus, and Indianapolis MSAs, and Guardian maintains an assessment area within the Cincinnati MSA.<sup>4</sup>

27. Statistical analyses of both Union's and Guardian's mortgage loan applications and originations for each year from 2010 to 2014, and for the five years combined, show that Union and Guardian served the credit needs of the residents of majority-white census tracts in

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<sup>4</sup> Union's assessment area within the Cincinnati MSA is comprised of Butler, Clermont, Hamilton and Warren Counties ("Union's Cincinnati AA"). Union's assessment area within the Dayton MSA is comprised of Greene, Miami and Montgomery Counties ("Dayton AA"). Union's assessment area in the Columbus MSA is comprised of Delaware, Fairfield and Franklin Counties ("Columbus AA"). Union's assessment area in the Indianapolis MSA is comprised of Hamilton and Marion Counties ("Indianapolis AA"). Guardian's assessment area within the Cincinnati MSA is comprised of Butler, Clermont, Hamilton Counties in Ohio, as well as Boone, Campbell and Kenton Counties in Kentucky ("Guardian's Cincinnati AA").

their Cincinnati, Dayton, Columbus, and Indianapolis AAs to a significantly greater extent than they each served the residential real estate-related credit needs of the residents of majority-black census tracts within those assessment areas. During that time, there were statistically significant disparities with respect to both Union's and Guardian's residential real estate lending activity when compared with similar lenders. Those disparities remained significant throughout the analyzed five-year period.

28. From 2010-2014, Union generated 54,949 mortgage loan applications in its Cincinnati AA. Only 1.9% of these applications were received from majority-black tracts. During that same time period, comparable lenders in Union's Cincinnati AA received 6.2% of their mortgage loan applications from majority-black census tracts – over three times the rate of Union applications.

29. From 2010-2014, Union generated 26,273 mortgage loan applications in its Dayton AA. Only 1.5% of these applications were received from majority-black tracts. During that same time period, comparable lenders in Union's Dayton AA received 6.2% of their mortgage loan applications from majority-black census tracts – over four times the rate of Union applications.

30. From 2010-2014, Union generated 29,942 mortgage loan applications in its Columbus AA. Only 1.6% of these applications were received from majority-black tracts. During that same time period, comparable lenders in Union's Columbus AA received 5.0% of their mortgage loan applications from majority-black census tracts – over three times the rate of Union applications.

31. From 2010-2014, Union generated 20,329 mortgage loan applications in its Indianapolis AA. Only 2.9% of these applications were received from majority-black tracts.



During that same time period, comparable lenders in Union's Indianapolis AA received 7.7% of their mortgage loan applications from majority-black census tracts – almost three times the rate of Union applications.

32. From 2010-2014, Guardian generated 41,802 mortgage loan applications in its Cincinnati AA. Only 2.6% of these applications were received from majority-black tracts. During that same time period, comparable lenders in Guardian's Cincinnati AA received 5.7% of their mortgage loan applications from majority-black census tracts – over twice the rate of Guardian applications.

33. The results in Paragraphs 28-32 show a statistically significant failure by both Union and Guardian to provide residential loan services and draw applications from majority-black tracts on a non-discriminatory basis when compared with similar lenders.

34. Of the 43,193 residential loans that Union originated in its Cincinnati AA from 2010-2014, only 1.6% were secured by residential property located in majority-black census tracts. By contrast, 4.6% of residential loans originated by comparable lenders operating in its Cincinnati AA during the same period were secured by residential property located in majority-black tracts – almost three times the rate of Union originations.

35. Of the 19,746 residential loans that Union originated in its Dayton AA from 2010-2014, only 1.0% were secured by residential property located in majority-black census tracts. By contrast, 4.2% of residential loans originated by comparable lenders operating in its Dayton AA during the same period were secured by residential property located in majority-black tracts – over four times the rate of Union originations.

36. Of the 21,402 residential loans that Union originated in its Columbus AA from 2010-2014, only 1.0% were secured by residential property located in majority-black census

tracts. By contrast, 3.4% of residential loans originated by comparable lenders operating in its Columbus AA during the same period were secured by residential property located in majority-black tracts – over three times the rate of Union originations.

37. Of the 16,191 residential loans that Union originated in its Indianapolis AA from 2010-2014, only 2.5% were secured by residential property located in majority-black census tracts. By contrast, 5.8% of residential loans originated by comparable lenders operating in its Indianapolis AA during the same period were secured by residential property located in majority-black tracts – over two times the rate of Union originations.

38. Of the 31,677 residential loans that Guardian originated in its Cincinnati AA from 2010-2014, only 2.0% were secured by residential property located in majority-black census tracts. By contrast, 4.2% of residential loans originated by comparable lenders operating in its Cincinnati AA during the same period were secured by residential property located in majority-black tracts – over two times the rate of Guardian originations.

39. The results in Paragraphs 34-38 show a statistically significant failure by both Union and Guardian to provide residential loan services and draw applications from majority-black tracts on a non-discriminatory basis when compared with similar lenders.

40. Since at least 2010, Union knew, but failed to address, that it was under-serving majority-minority communities in its Cincinnati, Dayton, Columbus, and Indianapolis AAs as Union's board of directors and senior management were regularly made aware that Union was receiving only approximately two percent of its loan applications from black applicants or from residents of "substantially-minority" census tracts. This information was compiled by Union's in-house compliance group and presented to Union's Board of Directors and its Audit Committee on a quarterly basis from at least 2010 through 2014. Union prepared reports that

were presented to its Board of Directors indicating that it was underperforming peer banks with regard to its applications received from black applicants.

41. Based on information and belief, Guardian similarly knew, but failed to address, that it was under-serving potential black borrowers and majority-minority communities in its Cincinnati AA from at least 2010 through 2014.

Failure to Compensate for Lack of Branches in Majority-Black Neighborhoods

42. Union and Guardian operate under substantially similar policies and practices related to advertising, marketing, loan officer training and incentives, as well as fair lending oversight.

43. Union and Guardian took inadequate steps to market their mortgage lending services to black borrowers or in majority-black census tracts in the Cincinnati, Dayton, Columbus, and Indianapolis MSAs between 2010 and 2014. While the banks spent a small portion of their advertising budget in newspapers aimed at black audiences in these MSAs, that advertising did not refer to their available government lending programs – programs that in recent years have been most effective in serving minority and low to moderate-income borrowers nationally. Further, that advertising did not refer to downpayment assistance/grant programs, or to branches located in close proximity to majority-black census tracts. The banks do not monitor the effectiveness of their marketing efforts in reaching residents of majority-black census tracts in these MSAs.

44. Union and Guardian failed to train or incentivize their mortgage loan officers to lend in majority-black census tracts in the Cincinnati, Dayton, Columbus, and Indianapolis MSAs between 2010 and 2014. The banks did not make efforts to hire loan officers experienced with serving, or with ties to referral sources in, the majority-black portions of these MSAs.

Instead, loan officers have been largely hired by other loan officer experienced with only serving, and with ties to referral sources only in, majority-white areas.

45. The totality of Union's policies and practices described herein constitutes the redlining of majority-black areas in the Cincinnati, Dayton, Columbus and Indianapolis MSAs for its home lending business. Union's policies and practices are intended to deny and discourage, or have the effect of denying or discouraging, an equal opportunity to the residents of the majority-black neighborhoods of the Cincinnati, Dayton, Columbus and Indianapolis MSAs, on account of the racial composition of those neighborhoods, to obtain residential real estate-related loans. These policies and practices are not justified by business necessity or legitimate business considerations.

46. The totality of Guardian's policies and practices described herein constitutes the redlining of majority-black areas in the Cincinnati MSA for its home lending business. Guardian's policies and practices are intended to deny and discourage, or have the effect of denying or discouraging, an equal opportunity to the residents of the majority-black neighborhoods of the Cincinnati MSA, on account of the racial composition of those neighborhoods, to obtain residential real estate-related loans. These policies and practices are not justified by business necessity or legitimate business considerations.

47. Defendants' actions as alleged herein constitute:

a. Discrimination on the basis of race or color in making available, or in the terms or conditions of residential real estate-related transactions, in violation of the Fair Housing Act, 42 U.S.C. § 3605(a);

b. The making unavailable or denial of dwellings to persons because of race or color in violation of the Fair Housing Act, 42 U.S.C. § 3604(a);

c. Discrimination on the basis of race or color in the terms, conditions, or privileges of the provision of services or facilities in connection with the sale or rental of dwellings, in violation of the Fair Housing Act, 42 U.S.C. § 3604(b); and

d. Discrimination against applicants with respect to credit transactions, on the basis of race or color, in violation of the Equal Credit Opportunity Act, 15 U.S.C. § 1691(a)(1).

48. Defendants' policies and practices as alleged herein constitute:

a. A pattern or practice of resistance to the full enjoyment of rights secured by the Fair Housing Act, 42 U.S.C. §§ 3601 *et seq.*, and the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691 *et seq.*; and

b. A denial of rights granted by the Fair Housing Act to a group of persons that raises an issue of general public importance.

49. Persons who have been victims of defendants' discriminatory policies and practices are aggrieved persons as defined in 42 U.S.C. § 3602(i) and aggrieved applicants as defined in the Equal Credit Opportunity Act, 15 U.S.C. § 1691e, and have suffered damages as a result of defendants' conduct in violation of both the Fair Housing and the Equal Credit Opportunity Acts, as described herein.

50. The discriminatory policies and practices of defendants have been intentional and willful, and implemented with reckless disregard for the rights of individuals based on their race.

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

(1) Declares that the policies and practices of defendants constitute a violation of the Fair Housing Act and the Equal Credit Opportunity Act;

(2) Enjoins defendants, their agents, employees, and successors, and all other persons in active concert or participation with defendants, from:

(A) Discriminating on account of race or color in any aspect of their lending business practices;

(B) Failing or refusing to take such affirmative steps as may be necessary to restore, as nearly as practicable, the victims of defendants' unlawful practices to the position they would be in but for the discriminatory conduct;

(C) Failing or refusing to take such affirmative steps as may be necessary to prevent the recurrence of any discriminatory conduct in the future and to eliminate, to the extent practicable, the effects of defendants' unlawful practices, and providing policies and procedures to ensure all segments of defendants' market areas are served without regard to prohibited characteristics;

(3) Awards monetary damages to all the victims of defendants' discriminatory policies and practices for the injuries caused by defendants, pursuant to 42 U.S.C. § 3614(d)(1)(B) and 15 U.S.C. § 1691e(h); and

(4) Assesses a civil penalty against defendants in an amount authorized by 42 U.S.C. § 3614(d)(1)(C), in order to vindicate the public interest.

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

Dated: This 28<sup>th</sup> day of December, 2016.

Respectfully submitted,

For the United States:

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