



Morgan Stanley Sued for Racial Discrimination in Pushing Predatory Loans to Black Homeowners

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Landmark Lawsuit First to Link Bundling of Mortgage-Backed Securities and Racial Discrimination; Suit Charges Violation of Fair Housing Act

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CONTACT: (212) 549-2666; media@aclu.org

NEW YORK – Morgan Stanley discriminated against black homeowners and violated federal civil rights laws by providing strong incentives to a subprime lender to originate mortgages that were likely to be foreclosed on, according to a groundbreaking lawsuit filed today.

The lawsuit, filed in U.S. District Court in New York, is the first that connects racial discrimination to the securitization of mortgage-backed securities, which were sold to institutional investors and pension funds. It is also the first case where a prospective class of victimized homeowners is suing an investment bank directly rather than the subprime lender whose loans the bank bought.

The lawsuit was filed by the American Civil Liberties Union, the ACLU of Michigan, the National Consumer Law Center, and Lieff Cabraser Heimann & Bernstein, a San Francisco-based law firm, on behalf of five Detroit residents and Michigan Legal Services. The complaint asks the court to certify the case as a class action. As many as 6,000 black homeowners in the Detroit area may have suffered similar discrimination.

While the case concerns lending abuses in Detroit, these practices were common throughout the financial services industry and victimized black and Latino neighborhoods nationwide, according to Anthony D. Romero, ACLU executive director.

"With this lawsuit, real victims of the subprime lending scandal are stepping forward to hold investment banks like Morgan Stanley accountable for the devastation the banks wrought in their lives and in our economy," Romero said. "Illegal practices surrounding mortgage-backed securities robbed people of their homes, violated our civil rights laws and left all Americans holding the bag as our economy teetered on the brink of another Great Depression."

The five homeowners in the suit received their loans from now-defunct New Century Mortgage Corp., a one-time major player in subprime lending. As Morgan Stanley ramped up its mortgage-backed securities business starting in 2004, it became New Century's largest buyer of subprime loans.

Morgan Stanley provided funds to New Century to originate the loans, and dictated the terms of the loans it wanted and ultimately purchased for its securitized pools. It pushed New Century to issue certain types of loans with no concern about risk, because it made its profit at the outset, when the securities were created and sold. Because minority residents of the Detroit region have been subjected to decades of housing and lending discrimination, and had fewer alternative sources of credit, they were natural targets for these predatory loans.

“Morgan Stanley actively encouraged the proliferation of irresponsible subprime mortgage loans, the complaint charges, in order to feed its hunger for purchasing, pooling, and securitizing mortgage debt for sale to investors,” said Elizabeth J. Cabraser, a partner at Lief Cabraser Heimann & Bernstein, and co-counsel for the plaintiffs. “The targeting of communities of color for loans that unfairly raises the risk of default and foreclosure is the quintessential ‘reverse-redlining’ outlawed by the Federal Fair Housing Act.”

First enacted in 1968, the Fair Housing Act prohibits discrimination in housing transactions, including unfair lending practices. The lawsuit also alleges violations of the Equal Credit Opportunity Act, which bans discrimination for credit transactions, including consumer loans such as mortgages.

“Congress enacted these civil rights statutes to require that banks like Morgan Stanley are responsible for ensuring that their policies and practices do not perpetuate historical patterns of discrimination and banks have the duty to provide a level playing field for all consumers,” noted Stuart Rossman, director of litigation at the National Consumer Law Center. “Ultimately, economic justice is a civil right in our country. This landmark case brought on behalf of African-American homeowners asserts their rights under those laws and seeks to protect the greater Detroit community from continuing to be burdened because of past acts and patterns of discrimination.”

Among those affected is Rubbie McCoy, who said her mortgage broker falsified information on her loan application even though she objected. The broker also omitted critical details, including the fact that after two years, New Century would no longer pay the taxes or insurance on her loan. Those added costs have prevented her from making a payment since 2011.

“I’ve seen firsthand the devastation banks like Morgan Stanley have caused in communities like mine. When I first moved into my home, I knew every neighbor and most of the homes were occupied. Today, the majority of homes stand abandoned and stripped,” McCoy said. “I don’t like to say that I am losing my home, instead I tell my family that I’m fighting for my home. The truth is I’m afraid that today will be the day a sheriff kicks us out. No one should live with this fear.”

To see the complaint, go to: www.aclu.org/racial-justice/adkins-et-al-vs-morgan-stanley-o

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