

Fleet to pay \$100m loan bias settlement

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After two years of denying that it exploited poor, mostly black homeowners, Fleet Financial Group Inc. will today pledge \$100 million in loans, refunds and other relief to Georgia residents, according to people familiar with the agreement.

The money -- \$70 million in a loan fund and roughly \$30 million in payments to borrowers -- will settle a yearlong investigation by the Georgia attorney general into allegations that Fleet's Atlanta-based mortgage subsidiary preyed on minority borrowers by charging high fees and interest rates. Fleet will not admit guilt in the expected settlement.

Georgia authorities and Fleet officials declined to comment on the deal, which is scheduled to be announced today at a news conference in Atlanta.

The settlement comes on the heels of US Attorney General Janet Reno's warning that the Clinton administration will not tolerate banks that discriminate against minority borrowers. Reno made that statement Monday as the Justice Department announced a deal under which it ended its investigation into possible discriminatory mortgage lending by Shawmut National Corp.

The Federal Reserve had rejected an application by Shawmut, which is headquartered in Boston and Hartford, to acquire New Dartmouth Bank in New Hampshire while the Justice Department investigation was pending. There was immediate speculation that Fleet's Georgia settlement is designed to clear the way for takeovers that will solidify its hold as New England's largest banking corporation.

Providence-based Fleet has agreed to buy Sterling Bancshares Corp. of Waltham and is expected to seek the Federal Reserve's approval for the takeover.

"There has been an epiphany in the industry. A lot of institutions are realizing they need to get their house in order before the regulators or the Justice Department gets to them," said Karen Shaw, president of the Institute for Strategy Development, a bank consulting firm.

Separately, Fleet is on the verge of settling a Georgia class-action suit that accused it of targeting black neighborhoods for loans at unfairly high interest rates, people familiar with the case said. Fleet is expected to pay \$18 million to \$20 million to end that case, they said.

Fleet also is moving to resolve a dispute with the Atlanta Legal Aid Society, which represents a handful of black homeowners who claim various misdeeds by the company.

Last year in Massachusetts, Fleet paid \$23 million to settle cases involving allegations of second-mortgage wrongdoing.

Even those settlements would not clear up all of Fleet's legal problems. Several lawsuits are still pending in Georgia and Alabama.

Fleet's second-mortgage subsidiary, Fleet Finance Inc., made about 20,000 loans in Georgia. It could not be immediately determined how many would be affected by the settlement. Fleet Finance operates in 23 states.

People familiar with the deal, however, said the settlement had two main elements.

- First, Fleet will provide \$70 million to a loan program that will be administered by a state agency. The loans will be made available to low-income borrowers for first and second mortgages, down-payment assistance and home-improvement loans.

- The second element, expected to cost Fleet \$30 million, calls for the company to provide direct relief for Fleet borrowers who paid high fees or had high-interest loans. The program covers borrowers who had loans as of Jan. 1, 1991.

For instance, interest rates will be reduced by 4 to 11 percentage points on mortgages that carried an original interest rate of 21 percent or higher, or had an interest rate of 18 percent and carried fees equal to 13 percent or more of the loan amount.

In addition, Fleet will make payments to Georgia borrowers whose homes were foreclosed upon; provide a "fresh-start" forgiveness program for borrowers who are behind on their payments; pay for the cost of the attorney general's investigation; create a consumer education program for would-be borrowers; and agree to refrain from future practices that would damage minority and low-income borrowers, the sources said.

The settlement with Georgia Attorney General Michael Bowers will be in addition to a \$30 million refinancing program Fleet created in 1992 in an unsuccessful effort to end the uproar over its practices in Georgia. That program became bogged down in legal disputes and was only partially implemented.

With pressure on Fleet to resolve its legal problems, the banking company is also scrambling to settle private lawsuits outstanding in Georgia, say people familiar with the cases.

Fleet has agreed to pay up to \$20 million to some 2,500 borrowers in a Georgia class action claiming the company charged blacks substantially higher interest rates than white customers, said people close to the case. The original suit was brought by Keith Alexander, who claimed he was seeking a second mortgage to finance home repairs and ended up with a loan carrying a 19.5 percent annual interest rate.

Fleet has agreed to provide interest-rate relief, cash rebates for excessive fees and an average \$5,000 for people who lost their homes through foreclosure, according to people familiar with the case. That settlement is in addition to the attorney general's settlement.

The private settlement has not been made final but may be announced as early as today, the people said.

Augusta attorney Jack Long, who is representing clients in the class action, declined to comment.

Bill Brennan, director of the home defense program for Atlanta Legal Aid, said his clients have all agreed "in principle" to settle with Fleet. He declined to reveal terms of the settlement but said it

was "very satisfactory to our clients."

Atlanta attorney Howard Rothbloom, who is representing 14,000 Fleet borrowers in another class-action suit, criticized the attorney general's settlement for not providing victims adequate relief.

"We have no plans to be a part of the settlement tomorrow because there has to be a meaningful resolution of this matter which won't result in thousands of homeowners losing their homes just shortly after the ink dries," Rothbloom said.

Rothbloom's clients claim Fleet made improper charges for insurance, late fees and interest in violation of federal loan-sharking laws.

Separately, other private lawsuits are pending, including one brought by Annie Diggs of Augusta, an elderly widow who is black. Diggs, who took out a \$15,000 loan to repair a leaky roof, claims she was charged 21 points in closing costs and an 18.9 percent interest rate.

John Hamill, president of Fleet Bank of Massachusetts, admitted in hearings before the Senate Banking Committee earlier this year the Diggs loan "should never have been made."

And in Alabama, Fleet is facing a number of lawsuits on charges similar to those filed in Georgia. Five families in mostly rural Barbour County claimed a broker charged excessive interest rates for Fleet loans in violation of Alabama law that requires a bank to disclose such a relationship with a broker.

"This was their practice all over the state of Alabama," said Tom Methvin with Montgomery law firm Beasley & Wilson. A class action in Birmingham is also pending against Fleet, Methvin said.

A Fleet spokesman declined to comment on pending cases.

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