

DOJ settles redlining lawsuit against KleinBank

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The U.S. Department of Justice announced earlier this week that it has reached an agreement with KleinBank, a state-chartered Minnesota bank, to settle the redlining lawsuit that the DOJ filed against the bank in January 2017, only a week before President Trump's inauguration. The agreement represents the first fair lending settlement entered into by the DOJ under the Trump administration.

The DOJ's complaint, which related to the bank's residential mortgage lending business, alleged that KleinBank violated the Fair Housing Act and the Equal Credit Opportunity Act by engaging in a pattern or practice of unlawful redlining of the majority-minority neighborhoods in the Minneapolis-St. Paul metropolitan area. From 2010 to at least 2015, the bank was alleged to have avoided serving the credit needs of individuals seeking residential mortgage loans in majority-minority census tracts in the Metropolitan Statistical Area encompassing Minneapolis and St. Paul (MSA).

The redlining claim was based, in part, upon an allegation that KleinBank established and maintained a discriminatory Community Reinvestment Act (CRA) assessment area that was "horseshoe-shaped," "include[d] the majority white suburbs, and carve[d] out the urban areas of Minneapolis and St. Paul that have higher proportions of minority populations." Specifically, the complaint alleges that the bank's main CRA assessment area excluded 78 of 97 majority-minority census tracts in the MSA, "all but two of which are located in Hennepin and Ramsey Counties." The DOJ alleged that, in addition to the main CRA assessment area of the bank, the "proper CRA assessment area would include the entirety of Hennepin and Ramsey Counties."

Unlike other redlining lawsuits that the DOJ had recently filed when it sued KleinBank, the DOJ's action against KleinBank was contested by the bank which issued a statement in which it vigorously disputed the alleged redlining claims and called them an "unprecedented reach by the government." Although [supported by](#) the American Bankers Association, the Independent Community Bankers Association, the Minnesota Bankers Association, and forty other state bankers associations, the bank's motion to dismiss the complaint was unsuccessful.

Under the [settlement agreement](#), the DOJ agrees to jointly stipulate with KleinBank to the dismissal of the lawsuit and KleinBank agrees to take various actions including:

- Opening one full-service brick and mortar office within a majority-minority census tract within Hennepin County
- Continuing to develop partnerships with community organizations to help establish a presence in majority-minority census tracts in Hennepin County
- Employing a full-time Community Development Officer who is a member of management to oversee the development of the bank's lending in majority-minority census tracts in Hennepin County
- Spending a minimum of \$300,000 on advertising, outreach, education, and credit repair initiatives over the next 3 years
- Providing at least 2 outreach programs annually for real estate brokers and agents, developers, and public or private entities already engaged in residential and real estate-related business in majority-minority census tracts in Hennepin County to inform them of the products offered by KleinBank
- Investing a minimum of \$300,000 over 3 three years in a special purpose credit program that will offer residents of majority-minority census tracts in Hennepin County home mortgage and home improvement loans on a more affordable basis than otherwise available from KleinBank, with such more affordable terms to be provided through one or more of the following means:
 - Originating or brokering a loan at an interest rate that is at least 1/2 of a percentage point (50 basis points) below the otherwise prevailing rate
 - Providing a direct grant of a portion of the loan amount for the purpose of down payment assistance, up to a maximum of 3.5%
 - Providing closing cost assistance in the form of a direct grant of a minimum of \$500 and a maximum of \$1,500
 - Paying the initial mortgage insurance premium on loans subject to mortgage insurance
 - Using other means approved by the DOJ

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