'Redlining Is Racist': $12 Million Settlement Ends Lending Inquiry

Lakeland Bank in New Jersey admitted no wrongdoing, but agreed to set up a $12 million homeownership fund and open two new branches in minority neighborhoods.

By Tracey Tully

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A New Jersey-based bank accused by the Justice Department of redlining to avoid making loans in predominantly Black and Latino neighborhoods agreed on Wednesday to create a $12 million homeownership fund, in one of the largest federal settlements of its kind.

Lakeland Bank admitted no wrongdoing as part of a consent decree brokered by the U.S. Department of Justice, which had been investigating the bank's lending practices between 2015 and last year. But Lakeland has agreed to open two new branches, including one in Newark, and to increase mortgage lending in underserved communities of color in three northern New Jersey counties.

The agreement with Lakeland follows similar settlements negotiated in the past year by the Justice Department with lending institutions in Houston, Memphis and Philadelphia, and is believed to be the third largest of its kind. Only a $25 million settlement with New Jersey-based Hudson City Savings Bank in 2015 and an $18 million settlement with Trident Mortgage involving redlining in the Philadelphia area in July were larger.

"We hope that this settlement sends a strong message regarding our commitment to ending redlining across the nation," Kristen Clarke, assistant attorney general for civil rights, said in announcing the agreement.

"We're creating home-ownership opportunities for borrowers and especially for borrowers of color," she added.

Lakeland, a community bank in the midst of a negotiated merger with a rival institution, Provident, operates 68 branches in central and northern New Jersey and in New York's Hudson Valley. The Justice Department had accused Lakeland of denying or discouraging loans in certain New Jersey neighborhoods based on the race, color or national origin of its residents, a discriminatory practice commonly known as redlining. All its branches were in majority-white neighborhoods, federal officials said, and its loan officers did not serve the credit needs of Black and Latino neighborhoods in and around Newark.

Lakeland's policies, the Justice Department charged, reinforced and perpetuated "segregated housing patterns."

"There were qualified borrowers," said Philip R. Sellinger, the U.S. attorney for New Jersey. "Lakeland just didn't serve them."

Similar banks generated five times as many loan applications from prospective Black and Latino home buyers as Lakeland, Mr. Sellinger said.

"Redlining is racist," he said. "Pure and simple."

Lakeland, in a statement, denied that the bank had acted improperly, and said it had agreed to the settlement to avoid the "distraction of protracted litigation."

The agreement "allows us to focus our time, expertise, and resources towards achieving a shared goal of meeting the credit needs of all residents within our communities, including those who historically have been underserved," said Thomas J. Shara, Lakeland's president and chief executive.

As part of the negotiated settlement, borrowers from affected communities will be eligible for up to $15,000 in benefits set aside to make it easier to purchase or maintain homes.

The $12 million subsidy fund may be used to help buyers make down payments on homes, pay for closing costs or insurance, or shrink interest payments over the life of a loan. No more than 25 percent of the fund may be used for home refinance loans, and Lakeland has also agreed to spend roughly $1 million to develop community partnerships and to advertise the available subsidies.

David D. Troutt, a Rutgers Law professor who in May released a report on housing sales in Newark, "Who Owns Newark?," said the settlement offered practical benefits while sending a powerful message.

“Accountability has been almost entirely missing in discussions of redlining, past and present,” Professor Troutt said. “We’ve done a pretty good job of describing the problems, but have done very little to address them in concrete ways.”

“Twelve million is tens of thousands of mortgages, which means a lot in a region in which homeownership costs have gone up dramatically, making homeownership out of reach to many,” he added.

Lakeland and Provident Banks announced on Tuesday that they had agreed to a $1.3 billion merger to create a “pre-eminent super-community bank.”

A spokesman for Provident Bank, Keith A. Buscio, said Wednesday’s federal settlement, which a judge must approve before it could take effect, would not derail the merger.

“We were aware of the pending settlement and fully considered it when agreeing to the merger with Lakeland,” he said in an email.

Ms. Clarke said that Lakeland would not be permitted to satisfy the terms of the settlement by simply adding Provident branches to its portfolio, and would be required to open an entirely new branch in Newark.

“The problem with redlining is it denies access to opportunity,” said Lyneir Richardson, executive director of the Center for Urban Entrepreneurship and Economic Development at Rutgers Business School in Newark and a senior fellow at the Brookings Institution.

“You can’t get a mortgage. The appraisals will be off. The insurance is higher.”

With less access to home equity, it becomes harder to borrow to start a business or to send a child to college — a cycle that only widens the racial wealth gap, Mr. Richardson said.

“Redlining is overlooking and undervaluing people and places, intentionally,” he said.