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## **African-American Homeowners Charge HUD with Discrimination, Violating Constitutional Due Process Protections and Breach of Contract**

***HUD's Sale of Mortgages Threatens NYC's African-American Neighborhoods***

***Class Action Lawsuit also Seeks Sanctions against Mortgage Buyer and Servicer***

NEW YORK, NY, August 15, 2016—African-American homeowners whose government-guaranteed mortgages were auctioned by the U.S. Department of Housing & Urban Development (HUD) to the highest bidder filed a class action lawsuit on Friday in federal court, exposing the discriminatory impact of HUD's Note Sale Program, compelling HUD to review the disparate racial impact of the Program and demanding that HUD give notice – and an opportunity to be heard – before any future Note Sales are conducted

Represented by MFY Legal Services, Inc. and Emery Celli Brinckerhoff & Abady LLP, the plaintiffs allege that HUD sold some 1,000 delinquent Federal Housing Agency (FHA) mortgages in New York City while ignoring basic due process protections and without informing homeowners that they would no longer have the benefits and protections of an FHA mortgage. HUD provided no opportunity for Plaintiffs to object to the sale of their mortgage or to inform HUD that they were in the midst of obtaining a mortgage modification.

Plaintiff Joseph Washington, a 53-year-old African-American homeowner who bought a modest home in St. Albans with his fiancé with an FHA mortgage, may lose his home. The couple made monthly payments of \$2,281 regularly for two years, which included a \$308 monthly payment to the insurance fund that enables HUD to guarantee FHA mortgages. When the couple split, Mr. Washington fell behind on payments. While in the process of securing a loan modification from his FHA servicer, Mr. Washington's loan was sold to Lone Star Funds, a private equity fund that invests in distressed financial and real estate loans.

“In the midst of applying for a sustainable FHA-HAMP modification, HUD, without informing Mr. Washington, sold his loan out of the FHA Mortgage Program to Lone Star and its mortgage servicer, Caliber, that forced Mr. Washington to accept a predatory five-year, interest-only modification that will balloon to an unaffordable monthly payment in the sixth year, making default inevitable, even though he was eligible for the FHA-HAMP modification,” said Elizabeth M. Lynch, a supervising attorney at MFY Legal Services.

“FHA mortgages are not hand-outs,” said Mr. Washington. “I worked hard and paid a lot into a system that was supposed to provide protections so I could maintain my home. They threw me and a lot of other people out of the system without a word. And now we’re in the clutches of private companies that are skirting the law to increase their profits.”

The lawsuit cites data showing that HUD’s Note Sale Program has had a discriminatory and devastating effect on homeowners in New York City because a disproportionately high number of loans sold through this program are in predominantly African-American neighborhoods, particularly southeast Queens and east Brooklyn.

“Home ownership is the principal way that families of color accumulate wealth,” said Diane Houk, of Emery Celli Brinckerhoff & Abady. “It is stunning that HUD, whose mission is to affirmatively further fair housing for all Americans, would carry out a program with a disparate and destabilizing effect on African-American communities.”

Since the Note Sale Program began in 2010, HUD has sold more than 113,000 mortgages nationwide to private companies. HUD plans to conduct another Note Sale on September 14, 2016.

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