

Q&A – Chrysler Discriminatory Class-Action Lawsuit

All of the following information is drawn from the class-action complaint filed on February 3, 2003, and amended on March 25, 2003 in U.S. District Court for the Northern District of Illinois. For more information, or to view the entire complaint, visit www.hagens-berman.com.

GENERAL QUESTIONS

Q. What is this lawsuit about?

- A. In a classic case of racial redlining, the suit claims that DaimlerChrysler Services North America, L.L.C. and Chrysler Financial Company L.L.C. (“Chrysler”) violated the civil rights of consumers in three specific areas of Chicago and throughout Illinois and parts of Iowa. The three areas of Chicago cited in the suit are neighborhoods with large minority populations.

Q. Specifically, what is Chrysler accused of doing?

- A. According to the complaint, Chrysler discriminated against customers by:
- Systematically refusing to approve auto loans or extend promotional offers regardless of the customer’s qualified credit rating based on Chrysler’s presumption of race
 - Unlawfully repossessing as many as 70 vehicles from black customers – including some who had not defaulted on their car loans – without following procedures or providing proper notice
 - Allowing Chrysler management at the regional level to repeatedly refer to blacks and other minorities in outrageously racist and derogatory terms
 - Threatening to cease business with the two dealerships located in areas with large minority populations unless the dealerships complied with Chrysler’s racist practices, including the rejection of creditworthy black applicants and the unlawful repossession of cars.

Q. Where did this happen?

- A. The suit states that Chrysler illegally denied financing to black and other customers in two Chicago neighborhoods, namely the Marquette and Midlothian areas. The suit also argues that Hispanics in the Berwyn suburb were denied financing or offered financing with inflated interest rates.

The suit contends there are as many as several thousand customers in Illinois and Iowa who have been rejected for financing in similar circumstances despite their creditworthiness. Attorneys filing the suit also believe Chrysler’s refusal to finance customers on the basis of race may exist nationwide due to the high-level knowledge and tolerance of racist tendencies at Chrysler.

Q. When did the alleged redlining take place?

- A. According to the complaint, Chrysler management illegally refused to finance customers from the Marquette and Midlothian dealerships beginning in 2001. The complaint contends that since early 2003, Hispanics at the Berwyn dealership have been denied financing or offered financing with extraordinarily high interest rates. The plaintiffs believe that the practice has been in place for much longer at these dealerships.

Other events outlined in the complaint, including repeated derogatory references to blacks by Chrysler management, began in January 2001, and the company began unlawfully repossessing vehicles from black customers of the Marquette dealership in February 2001.

Q. Why would Chrysler blatantly discriminate against blacks in these two areas of Chicago?

- A. The complaint details dramatic, and often troubling, accounts of comments made by Chrysler senior staff that point to deep-seated racism within the decision-makers at Chrysler. These comments, filled with invectives of the worst kind, claim that blacks in these neighborhoods are incapable of making car payments and present a higher credit risk, regardless of their credit history or financial condition. The suit contends that the decision-makers at Chrysler refused to accept finance contracts from two dealerships located in neighborhoods with high percentages of minorities.

Q. What is redlining?

- A. “Redlining” is the process of drawing a red line around a geographic area and denying lending to residents based on the demographic characteristics of the area. Instead of relying on predictive factors, such as objective credit history, racial redlining makes discriminatory assumptions that people of color, by nature of their race, are unable or unwilling to repay loans. According to the U.S. Department of Housing and Urban Development, redlining may include the requirement of larger down payments, higher closing costs, and higher loan interest rates.

ADDITION OF HISPANICS TO THE SUIT

Q. Why have Hispanics been added to the class description?

- A. Since the earlier suit was filed, many minority customers have come forward with claims of similar denial of financing or financing offers with inflated interest rates from Chrysler.

Q. Did the alleged discrimination occur at the same dealerships described in the earlier version of the suit?

- A. No, these customers purchased their vehicles from a different dealership, Suburban Dodge of Berwyn, located in the Chicago suburb of Berwyn.

Q. What specifically links the claims of African American and Hispanic plaintiffs together?

- A. All plaintiffs claim similar circumstances of being denied financing from Chrysler and receiving financing from other financial institutions at significantly higher interest rates than they should have received from Chrysler.

Also, all of the dealerships mentioned in the complaint, including Suburban Dodge of Berwyn, claim to have witnessed racist or derogatory remarks from Chrysler executives.

CHRYSLER’S DENIAL OF FINANCING

Q. How did Chrysler discriminate against minorities by refusing financing?

- A. In some cases, Chrysler refused to extend promotional offers, such as zero percent financing, to customers in the three named areas of Chicago, although promotional offers were available to customers with similar credit ratings in suburban or predominantly white neighborhoods, according to

the complaint. The plaintiffs later obtained loans from commercial banks but at much higher interest rates than they should have qualified for at Chrysler, the suit states.

Q. How does Chrysler's auto finance system work normally?

- A. Chrysler's finance approval process is designed to be largely automated. When a customer applies for a loan from Chrysler, the dealership submits the application to DaimlerChrysler's North America Headquarters for processing. Chrysler uses an automated computer program called the ACE (Automated Credit Evaluation) System to evaluate applications based on objective criteria related to the customer's finances and credit history. Customers are then given a letter grade from "A" to "F."

Q Where does Chrysler get the credit information to determine the ACE score?

- A. Chrysler obtains credit information from the major credit bureaus. To come up with the ACE score, they may add other information or use a proprietary formula to 'grade' the scores.

Q. Who usually qualifies under the Chrysler system?

- A. According to documents obtained by plaintiffs' counsel, Chrysler typically provides financing to customers who receive a "B" or higher on the ACE System. Customers with an "A++," the highest grade on the system, automatically qualify for zero percent financing, and an "A+" or "A" automatically merits 1.9 percent or 2.9 percent financing.

Q. How do the plaintiffs know their scores did not meet the ACE criteria?

- A. Plaintiffs' counsel in this case has obtained the Empirica scores for each plaintiff, and they are all very positive (see complaint for actual numbers). Empirica, formally known as Trans Union, along with Equifax and Experian, are the three largest credit-reporting bureaus in the United States. While it is common for there to be some differences in a person's credit file between the three bureaus, the discrepancies are typically very minor.

Q. Is there a clear linkage between Empirica scores and ACE scores?

- A. Though research of past Chrysler approvals, plaintiffs' counsel has created an equivalency for Empirica scores that roughly corresponds to ACE scores. According to these guidelines, the plaintiffs would qualify for preferred financing from Chrysler in all instances.

Q. How did Chrysler override its automated, colorblind credit assessment?

- A. According to the complaint, Chrysler modified the ACE System software with a "disabling switch" that, when activated, overrides the ACE System's colorblind, objective assessment of applications from dealerships.

Once the disabling switch is activated, the ACE System scores every application with a "Z" or marks it as "branch pending" and kicks it out to be subjectively examined by an employee at Chrysler's Regional Headquarters. Chrysler bypasses the unbiased, neutral design of the ACE System, redlining applications from selected dealerships in neighborhoods with large minority populations, the suit states.

Q. Were any other minority groups discriminated against, other than blacks?

- A. Although the discrimination is targeted at predominantly black or Hispanic neighborhoods, it affects customers of any ethnicity who apply for loans through redlined dealerships.

Q. What dealerships are involved in this suit?

- A. The Marquette dealership is located in a Chicago area known as the “South Side” in a neighborhood where approximately 90 percent of the residents are black.

The Midlothian dealership in Midlothian, Ill. is located in a neighborhood where approximately 30 percent of residents are black.

Suburban Dodge of Berwyn in Berwyn, Ill. Is located in a neighborhood where nearly 40 percent of the population is Hispanic.

Q. Why did the dealerships comply with Chrysler’s racist practices?

- A. Chrysler gave them little choice. When the Marquette and Midlothian dealerships fought Chrysler, Chrysler stopped providing them financing to sell cars and made other threats that imperiled their ability to do business. Without the ability to offer financing, a dealership cannot survive. Chrysler made this Faustian bargain knowing the dealerships had no choice.

Q. Is the redlining still happening?

- A. Yes. The complaint states that since 2002 Chrysler has stopped financing all black customers at the Marquette Dealership, regardless of their creditworthiness. In addition, in 2002, Chrysler began slowing – or reducing the number of – loan application approvals to all customers at the Midlothian dealership, regardless of their creditworthiness. Chrysler continues this practice today, according to the complaint.

CHRYSLER REPOSSESSIONS

Q. How many vehicles did Chrysler repossess?

- A. The complaint states that Chrysler repossessed as many as 70 vehicles purchased from the Marquette dealership.

Q. Why did Chrysler repossess these specific vehicles?

- A. The plaintiffs claim that Chrysler believed these people would eventually default on their loans.

Q. Had all of the customers defaulted on their loans?

- A. No. According to the complaint, many of the vehicles were repossessed from owners who never missed a payment or were only marginally late with a payment.

Q. Did Chrysler notify any of the owners prior to repossessing the vehicles?

- A. No. The complaint states that Chrysler unlawfully failed to provide the owners of the repossessed vehicles with written notice that they were late in making payments, that their vehicles would be repossessed, or that they had the legal right to re-purchase their vehicles after they had been

repossessed. All these actions are in violation of Chrysler's Retail Installment Contract and in criminal violation of the Illinois Motor Vehicle Retail Installment Sales Act.

Q. Did Chrysler notify the Marquette dealership staff before repossessing the vehicles?

- A. No. Contrary to an agreement Chrysler signed with Gerald Gorman, the owner of the Marquette dealership, the defendant never provided Gorman any notice that his customers were late in making their payments and never allowed him the opportunity to help collect on those payments, according to the suit.

RACIAL SLURS

Q. The complaint says that Chrysler managers used offensive, racist language. Why is this important to the suit?

- A. The suit contends that two separate Chrysler managers used offensive, racist language in the presence of other senior Chrysler managers. The plaintiffs believe others within Chrysler share these attitudes that are exemplified through Chrysler's behavior.

Q. What are examples of this language and subsequent behavior?

- A. According to the complaint, Chrysler's Zone Manager, the person in charge of Chrysler Financial's operations in Illinois and part of Iowa, used racial slurs and derogatory statements when speaking about providing financing to black or other minority customers. Examples from the suit include:
- "We found out these 'mulignons' [a derogatory racial slur] were getting [sales contracts] bought and [financing] approved by Chrysler when they should be standing on the bus. And if it weren't for Rosa Parks, those niggers would still be standing in the back of the bus." (par. 77)
 - "My whole office knows that I don't buy nigger paper." [Meaning: My whole office knows that I don't provide financing for black customers.] (par. 78)
 - "Now you can see why I don't buy [financing for] mulignons." (par. 94)
 - *Addressing a question about the disparity between financing customers in minority populated neighborhoods and suburban neighborhoods:* "Well, you've got to give the nigger a little credit for shopping in the suburbs where the washrooms are cleaner, and he has a better chance of getting off the lot with his new ride without getting killed." (par. 105)
 - *Describing a commercial targeted towards Hispanics:* "That's a very 'colorful' commercial you have there. I just hope all those accounts will be collectible." (par. 150)

Q. Is there substantiating evidence to support the racist remarks by the Zone Manager?

- A. The comments made by the Zone Manager in meetings and cited in the complaint were witnessed by a large number of Chrysler officials and staff members from the Marquette and Midlothian dealerships. The citations in the complaint were provided by at least two corroborating witnesses.

Q. Were top Chrysler officials aware of the Zone Manager’s racist comments?

- A. Yes. According to the complaint, Brad Norman, a vice president at Chrysler Financial, was present during at least one meeting and heard the Zone Manager say, “Well guys, what did we decide to do with Gerry’s nigger deals?” The suit states that the Zone Manager was referring to sales contracts made with black customers at the Marquette dealership.

Q. Was the Zone Manager ever disciplined for his racist remarks?

- A. No. The complaint states that Norman never disallowed the Zone Manager’s derogatory comments, nor did he report them to the corporate office, signaling a tacit approval of the racist remarks and practices.

Q. Has Chrysler been accused of discrimination in the past?

- A. Yes. In 1995, Chrysler was sued in New Jersey for charging higher rates of interest on loan financing to African-Americans, and was the subject of a high-profile investigation by the Department of Justice for similar accusations.

PAGES FROM CHRYSLER ACE SYSTEM MANUAL

Q. What is this document?

- A. The pages are part of an internal manual for Chrysler's Automated Credit Evaluation system.

Q. Where did the document come from?

- A. The documents were sent to Hagens Berman from an anonymous source within Chrysler.

Q. What does it show?

- A. Among other technical instructions regarding the ACE system, the document describes how to set “Automated Decision Eligibility” for a dealership. If this option is marked 'No,' all credit applications from a particular dealership will be diverted from the ACE system for manual review. It also describes how Chrysler Zone Managers can alter the automated credit evaluation system to “flag” all incoming customer credit applications from any given dealership for increased scrutiny and explains that zone managers can use “any criteria” in deciding whether to target certain dealerships’ customers for this increased scrutiny.

Q. Why is this document important to the case?

- A. This document is a strong piece of evidence proving that Chrysler has the ability to divert credit applications from an automated, colorblind approval system for manual review. We believe this diversion was the first step in Chrysler's redlining of minority neighborhoods. Once financial applications are diverted from the ACE system, Chrysler has the opportunity to deny or approve financing based on race.

Chrysler has claimed that all credit decisions are based on creditworthiness and are colorblind. This disabling switch calls into question Chrysler’s claims of a colorblind credit approval system.

Q. Isn't this just a tool for Chrysler to handle questionable dealerships? How does this prove that they have discriminated against blacks or other minorities?

- A. According to attorneys, Chrysler has other means of managing questionable dealerships besides targeting certain dealerships' customers for increased scrutiny. This is only the first piece of evidence presented in this suit, and merely shows that Chrysler has the ability to bypass its colorblind system and approve or deny financing based on race. We are confident that as this suit moves forward, more evidence will come to light supporting the allegations in the suit.

THE PLAYERS

Q. Who filed this lawsuit?

- A. A group of customers, who applied for loan financing for a Chrysler vehicle in Illinois and Iowa and were rejected by Chrysler, filed the suit on behalf of themselves and all people of color or Hispanic origin in Chrysler's Illinois sales zone who have been denied financing from Chrysler despite their creditworthiness. The plaintiffs later secured loans from other institutions at significantly higher rates than they should have qualified for through Chrysler and purchased Chrysler vehicles.

Q. Who are the defendants in this case?

- A. DaimlerChrysler Services North America, L.L.C., and Chrysler Financial Company, L.L.C.

Q. Who can participate in this class-action lawsuit?

- A. The class-action lawsuit seeks to represent all people of color or Hispanic origin in Chrysler's Illinois sales zone who have been denied financing from Chrysler despite their creditworthiness.

Q. Are there other suits pending on this issue?

- A. Yes. Two dealerships, Marquette and Midlothian, have filed suit against Chrysler, claiming breached contracts and forced agreements brokered by Chrysler zone managers resulted in severe financial losses.

HOW CLASS ACTIONS WORK

Q. How does a class-action lawsuit work?

- A. A class-action lawsuit is a lawsuit filed by one or more representatives on behalf of many individuals against one or more defendants. The class-action lawsuit is typically used when there are many people who have suffered similar harm, and it would be impractical for each person to individually pursue his or her own claims.

Q. Would I be under any obligation if I participated?

- A. Class members are under no legal obligations other than to be truthful in the submission of information to the court. Generally, class members are not called upon to assist the litigation in any way, although they may voluntarily offer information to the lawyers representing the class in order to help the prosecution of the lawsuit.

Q. I read about this lawsuit in the newspaper or a magazine. How can I get more information about it? How will I be informed of my rights?

- A. If the court allows a case to proceed as a class action, the court authorizes a notice to be sent to class members informing them of their rights. The court will order the best and most practicable method of notice, which is often an advertisement in a newspaper, a first class mailing, or both.

A class member can also stay informed about the progress of the lawsuit by checking our Web site, www.hagens-berman.com, and going to the Chrysler Discrimination link.

Q. How can people who believe they are affected by the lawsuit find out more?

- A. Visit www.hagens-berman.com. Hagens Berman is the law firm that filed the suit on behalf of the plaintiffs. The site contains viewable copies of the complaint and other substantiating documents.

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