



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

March 27, 2015

MEMORANDUM NO:
2015-CF-1804

Memorandum

TO: Dane M. Narode
Associate General Counsel, Office of Program Enforcement, CACC

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FROM: Kimberly Randall
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: Borrower Settled Allegations of Not Complying With the
Primary Residence Requirement of the Federal Housing Administration Program

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), conducted a civil investigation of an alleged loan origination fraud scheme involving a cash-out refinance loan that was insured by the Federal Housing Administration (FHA). The investigation began with a referral from HUD's Quality Assurance Division at the Santa Ana Homeownership Center. An FHA-approved lender had reported to the Division that the subject borrower had closed on an FHA-insured cash-out refinance loan and allegedly moved out of the property 1 month later, violating HUD occupancy requirements.

BACKGROUND

FHA provides mortgage insurance on loans made by FHA-approved lenders to creditworthy borrowers to purchase or refinance one- to four-unit properties. This program allows borrowers to qualify for mortgages using less strict underwriting guidelines. Borrowers must occupy the properties as their primary residence for at least 1 year. Borrowers certify to their intent to occupy the property when signing the uniform residential loan application and an addendum to the loan application. FHA permits cash-out refinance transactions only on owner-occupied principal residences.

RESULTS OF INVESTIGATION

HUD alleged that the borrower falsely certified to HUD in her refinance application documents that she would occupy the subject property as her primary residence. However, she allegedly used the proceeds from her FHA-insured cash-out refinance for a downpayment on another home, which she purchased 1 month after closing the refinance loan and moved into soon thereafter. The borrower initially rented out the property with the FHA-insured loan but later evicted the tenants and defaulted on the loan. FHA incurred a loss when it paid an insurance claim to the lender and sold the property.

HUD further alleged that the borrower was liable for the false claim for FHA mortgage insurance under the Program Fraud Civil Remedies Act, 31 U.S.C. (United States Code) 3801-3812, and its implementing regulations at 24 CFR (Code of Federal Regulations) Part 28.

The borrower denied that she had violated the Act or HUD regulations. However, on February 11, 2015, she settled with HUD for \$15,000 to avoid further expense and administrative proceedings and to reach a satisfactory resolution of the matter. The agreement did not constitute an admission of liability or fault on the part of HUD or the borrower.

RECOMMENDATION

We recommend that HUD's Office of General Counsel, Office of Program Enforcement,

- 1A. Allow HUD OIG to record the \$15,000 settlement in HUD's Audit Resolution and Corrective Action Tracking System as an ineligible cost.