



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

September 25, 2014

MEMORANDUM NO:
2014-CF-1810

Memorandum

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

FROM: *//signed//*
Kimberly Randall
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: Reunion Mortgage, Inc. Settled Allegations of Making False Claims to the Federal Housing Administration

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) assisted the U.S. Attorney's Office of the Northern District of California in the civil investigation of Reunion Mortgage, Inc. (Reunion). Reunion is a former Federal Housing Administration (FHA)-approved mortgage lender, with its principal place of business located in Milpitas, CA.

BACKGROUND

The FHA program is a component of HUD. The program provides mortgage insurance for a person to purchase or refinance a principal residence. The mortgage loan is funded by a lending institution, such as a mortgage company or bank, and the mortgage is insured by FHA.

The direct endorsement lender program authorizes private-sector mortgage lenders to approve mortgage loans for insurance by FHA. Lenders approved for the program must follow various FHA requirements and provide annual and per loan certifications that the lender complied with these requirements when underwriting and approving loans for FHA insurance.

Reunion became an FHA-approved direct endorsement lender on January 24, 2001, and voluntarily withdrew as a direct endorsement lender on May 10, 2012.

RESULTS OF INVESTIGATION

Based in large part on our review of loans underwritten by Reunion between December 2007 through October 2009, the U.S. Attorney's Office of the Northern District of California filed a civil complaint against Reunion under the False Claims Act, 31 U.S.C. (United States Code) 3729-3733; multiple common law theories;¹ and the Federal Debt Collection Procedures Act, 28 U.S.C. 3304.² The initial complaint alleged that Reunion engaged in reckless underwriting of certain loans and falsely certified to FHA that those certain loans met HUD's requirements and were eligible for FHA insurance when they were not actually eligible. Further, that FHA relied on Reunion's certifications when insuring the loans, and as the borrowers on those loans defaulted, FHA incurred losses that it should not have incurred. The U.S. Attorney's Office subsequently amended its complaint and further alleged that Reunion improperly issued dividends to its former co-owners that rendered the company insolvent and unable to pay its debts to the United States, in violation of the Federal Debt Collections Procedures Act.

On May 16, 2014, Reunion and its former co-owners entered into a settlement agreement to pay \$1.04 million to settle allegations that the company submitted false claims to FHA in violation of the False Claims Act, multiple common law theories, and the Federal Debt Collection Procedures Act. The parties to the settlement agreement entered into the agreement to avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the alleged claims. The parties also agreed the settlement was neither an admission of liability by Reunion or its former co-owners, nor a concession by the United States that its claims were not well founded.

RECOMMENDATION

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

- 1A. Allow HUD OIG to record the \$1,040,000 settlement in HUD's Audit Resolution and Corrective Actions Tracking System as an ineligible cost.

¹ The multiple common law theories consisted of the theories of Negligence, Unjust Enrichment, Payment Under Mistake of Fact, and Breach of Fiduciary Duty.

² The Federal Debt Collection Act is a United States Federal law passed in 1990, affecting collection of money owed to the United States government. The Act preempts State remedy laws in most circumstances.