



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

September 19, 2016

MEMORANDUM NO:
2016-CF-1806

Memorandum

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

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FROM: Christeen Thomas
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: Freedom Mortgage Corporation Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), assisted the U.S. Department of Justice, Washington, DC, and the U.S. Attorney's Office, District of New Jersey, in the civil investigation of Freedom Mortgage Corporation. Freedom has its principal place of business in Mount Laurel, NJ.

BACKGROUND

The Federal Housing Administration (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.

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

Freedom has participated in the FHA program since 1991 and became a direct endorsement lender in 1993. As a direct endorsement lender, Freedom was authorized by HUD to originate and underwrite mortgage loans on HUD's behalf, including determining a borrower's

creditworthiness and whether the proposed loan met all applicable requirements. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a direct endorsement lender, such as Freedom, the lender (or its representative) has the option of submitting a claim to HUD to compensate the lender for any loss sustained as a result of the default. Therefore, once a mortgage loan is endorsed for FHA insurance, HUD insures the risk of the borrower's defaulting on that mortgage, which is realized if an insurance claim is submitted.

RESULTS OF INVESTIGATION

On April 15, 2016, Freedom entered into a settlement agreement with the Federal Government to pay \$113 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation of certain civil claims the Government contended that it had against Freedom. As part of the settlement, Freedom agreed that it engaged in certain conduct in connection with its origination, underwriting, quality control, self-reporting of loans with unacceptable risk, certification of compliance with program requirements, and endorsement of certain single-family residential mortgage loans insured by FHA.¹ The settlement was neither an admission of liability by Freedom nor a concession by the United States that its claims were not well founded.

As a result of Freedom's conduct, HUD insured hundreds of loans approved by Freedom that were not eligible for FHA mortgage insurance under the direct endorsement program and that HUD would not otherwise have insured. HUD incurred substantial losses when it paid insurance claims on the loans covered by the settlement agreement. Of the total settlement of \$113 million, HUD FHA will receive \$76 million.

RECOMMENDATION

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

- 1A. Acknowledge that \$76 million of the \$113 million in the attached settlement agreement represents an amount due HUD.

As of April 15, 2016, the settlement agreement of \$113 million had been reached, and HUD's portion of \$76 million represents an amount due HUD. Included in the settlement agreement is a repayment agreement beginning with an initial payment of \$26 million on May 2, 2016, and a final payment expected by May 1, 2019. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at June 1, 2019. At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with any supporting payment information received to date.

¹ Loans covered in the settlement agreement included loans insured by FHA between January 1, 2006, and December 31, 2011, that resulted in claims submitted to HUD on or before June 15, 2015, excluding origination or underwriting of home equity conversion mortgages under 12 U.S.C. (United States Code) 1715z-20 and streamline refinances under 12 U.S.C. 1715n(a)(7).