



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

January 19, 2017

MEMORANDUM NO:
2017-CF-1801

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: Primary Residential Mortgage, Inc., 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 Colorado, in the civil investigation of Primary Residential Mortgage, Inc. Primary has its principal place of business in Salt Lake City, UT.

BACKGROUND

The Federal Housing Administration (FHA) is a component of HUD. It 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.

Primary became an FHA-approved direct endorsement lender on October 15, 1998. The direct endorsement lender 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.

RESULTS OF INVESTIGATION

On September 30, 2016, Primary entered into a settlement agreement with the Federal Government to pay \$5 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation of certain civil claims the Government stated it had against Primary. As part of the settlement, Primary agreed that for 100 FHA-insured loans, it failed to follow all HUD requirements in connection with its origination, underwriting, and endorsement of the loans. The settlement was neither an admission of liability by Primary nor a concession by the United States that its claims were not well founded.

As a result of Primary's conduct, HUD insured loans approved by Primary 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 \$5 million, HUD FHA will receive \$3.1 million.

RECOMMENDATION

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

- 1A. Acknowledge that \$3,129,000 of the \$5 million in the attached settlement agreement represents an amount due HUD.

As of October 4, 2016, the settlement amount due HUD had been paid in full. Therefore, no further action is required by the Office of General Counsel. At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with the supporting payment information to show that final action was completed.