



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

March 29, 2017

MEMORANDUM NO:
2017-CF-1803

Memorandum

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

//signed//

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

SUBJECT: Final Civil Action: United Shore Financial Services, LLC, 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, Eastern District of Michigan, in the civil investigation of United Shore Financial Services, LLC. United Shore is a Federal Housing Administration (FHA)-approved mortgage lender, with its principal place of business located in Troy, MI.

BACKGROUND

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.

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

United Shore became an FHA-approved direct endorsement lender in March 1988. As a direct endorsement lender, United Shore 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 United Shore, 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 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 December 28, 2016, United Shore entered into a settlement agreement with the Federal Government to pay \$48 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation of certain civil claims the Government stated it had against United Shore. As part of the settlement, United Shore agreed that it engaged in certain conduct in connection with its origination, underwriting, quality control, and endorsement of single-family residential mortgage loans insured by FHA.¹

As a result of United Shore's conduct, HUD insured loans approved by United Shore 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 \$48 million, HUD FHA will receive \$45 million, and the remaining funds will be paid to other Federal entities.

RECOMMENDATION

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

- 1A. Acknowledge that \$45 million in the attached settlement agreement represents an amount due HUD, less the Department of Justice's civil debt collection fees².

As of December 28, 2016, the settlement agreement of \$48 million had been reached, and HUD's portion of \$45 million plus interest represents an amount due HUD. Under the terms of the repayment agreement, United Shore paid \$10 million on December 28, 2016. A second installment of \$13 million plus interest is due on March 28, 2017. Annual payments of \$5 million plus interest are due for the next 5 years, with a final payment expected by March 27, 2022. In accordance with HUD Handbook 2000.6, REV 4, the final action target date will be set at April 26, 2022 (30 days from the date on which final payment is expected). 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, which resulted in claims submitted to HUD on or before June 30, 2013, 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).

² The Department of Justice's (DOJ) 1994 Appropriation Act (PL. 103-121) authorized DOJ to retain up to 3 percent of all amounts collected as the result of its civil debt collection litigation activities.