



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

September 28, 2017

MEMORANDUM NO:
2017-CF-1807

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: Residential Home Funding Corp. 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 (DOJ) and the U.S. Attorney's Office for the Southern District of New York in a civil investigation of Residential Home Funding Corp. Residential Home is a Federal Housing Administration (FHA)-approved mortgage lender having its principal place of business in White Plains, NY.

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 FHA insures the mortgage.

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 FHA requirements when underwriting and approving loans for FHA insurance.

Residential Home became an FHA-approved direct endorsement lender on June 26, 2006. As a direct endorsement lender, Residential Home 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 Residential Home, 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 September 18, 2017, Residential Home entered into a settlement agreement with the Federal Government to pay \$1.67 million in five equal installments of \$334,000. Residential Home endorsed FHA mortgage insurance loans that did not meet the underwriting requirements. Between 2004 and 2012, Residential Home knowingly (1) submitted or caused to be submitted to HUD false claims for FHA insurance for some loans that were ineligible for FHA insurance, (2) submitted false annual certifications to HUD attesting to compliance with direct endorsement program rules, and (3) submitted false individual loan certifications to HUD attesting that certain loans were eligible for FHA insurance. Also, Residential Home did not maintain a quality control program that complied with HUD requirements.

RECOMMENDATION

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

- 1A. Acknowledge that \$1,670,000 in the attached settlement represents an amount due HUD less DOJ's civil debt collection fees.¹

As of September 18, 2017, the settlement agreement of \$1,670,000 was reached, and represents an amount due HUD. Under the terms of the repayment agreement, Residential Home agreed to pay \$334,000 by October 17, 2017. Annual payments of \$334,000 plus interest are due for the next 4 years, with a final payment expected by August 31, 2021. In accordance with HUD Handbook 2000.06, REV 4, the final action target date will be set at September 30, 2021 (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 DOJ's 1994 Appropriation Act (Public Law 103-121) authorized DOJ to retain up to 3 percent of all amounts collected as the result of its civil debt collection litigation activities.