



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
Region IX  
611 West Sixth Street, Suite 1160  
Los Angeles, California 90017-3101  
(213) 894-8016  
Fax (213) 894-8115

**AUDIT REPORT  
MEMORANDUM NO.  
2008-LA-1801**

September 3, 2008

MEMORANDUM FOR: Dane M. Narode, Acting Associate General Counsel for Program Enforcement, CEP  
*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, 9DGA

SUBJECT: Actions under Program Fraud Civil Remedies Act  
First Source Financial USA  
Henderson, Nevada

**INTRODUCTION**

We completed a review of First Source Financial USA (First Source), a former nonsupervised loan correspondent approved to originate Federal Housing Administration (FHA)-insured loans. We initiated our review based on First Source's large number of loan defaults and claims. The review objective was to determine whether First Source originated FHA loans and had a quality control plan that complied with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

**METHODOLOGY AND SCOPE**

We performed file reviews of 20 loans, amounting to more than \$2.5 million that were in claim status. Our review included but was not limited to interviewing borrowers, employers, First Source independent contractor loan officers, alternate credit sources, and escrow company employees. We also reviewed HUD's FHA case binders and the single-family mortgage insurance program's loan origination procedures.

Our review covered the period January 2001 through April 2004. We conducted the review at the main office of First Source in Henderson, Nevada, from May through October 2004.

## **BACKGROUND**

First Source was incorporated in February 1998 and received HUD approval to originate FHA loans as a nonsupervised loan correspondent on January 10, 2001. On October 13, 2004, First Source requested that HUD terminate its authority to originate FHA-insured loans and cited "...limited loan amounts in our area as well as additional expenses associated with originating Federal Housing Administration loans." Although HUD's Office of Inspector General requested that First Source not be terminated until conclusion of this audit and resolution of an audit performed by the Denver Office of Audit, HUD approved the termination on December 15, 2004.

## **RESULTS OF REVIEW**

Our review determined that First Source

1. Allowed nonemployees and unapproved branches to originate and process FHA loans.
2. Originated and processed FHA loans with false information and known misrepresentations.
3. Allowed questionable lending practices by collecting unearned fees.

We recommended civil money penalties, debarments, and repayment of \$159,663 in losses HUD incurred on six of the loans. Based on our review, HUD's Office of General Counsel initiated administrative sanctions under the Program Fraud Civil Remedies Act of 1986. To date, this action has resulted in the following:

1. A default judgment against First Source's president and chief executive officer, Joseph Giuliano, and a total penalty of \$508,694, assessed by the Office of Administrative Law Judges.
2. A default judgment against independent contractor loan officer, Elizabeth Cortes, for \$126,804.
3. A settlement with independent contractor loan officer, Miguel Vega, for \$200,000.
4. A settlement with independent contractor loan officer, Oz Carmi for \$80,000
5. A settlement with chief financial officer, Gary Stanco, for \$60,000.

As there are other sanctions that remain in process at this time. We would like to have these amounts recorded but leave the recommendation open for one year to post the remaining sanctions.

## **RECOMMENDATION**

We recommend that HUD's Associate General Counsel for Program Enforcement

- 1A. Post \$635,498 in judgments and \$340,000 in settlements to HUD's Audit Resolution and Corrective Actions Tracking System.

## **Schedule of Ineligible Costs**

<u>Recommendation number</u>	<u>Amount</u>
1A	\$975,498

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

If you or your staff has any questions, please contact Helen Sparks, Assistant Regional Inspector General for Audit, at (415) 489-6697 or me at (213) 894-8016.