



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

March 19, 2019

MEMORANDUM NO:
2019-CF-1802

Memorandum

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

//Signed//

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

SUBJECT: Final Civil Action: Gateway Funding Diversified Mortgage Services, LP, Now Known as Finance of America Mortgage, 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 (DOJ) and the U.S. Attorney's Office for the Northern District of New York in a civil investigation of Gateway Funding Diversified Mortgage Services, LP, now known as Finance of America Mortgage, LLC (FAM). Gateway was a Federal Housing Administration (FHA)-approved mortgage lender. On May 31, 2015, FAM's parent company acquired Gateway. FAM has its principal place of business in Horsham, PA.

BACKGROUND

FHA is a component of HUD. It provides mortgage insurance for a person to purchase or refinance a principal residence. The mortgage is funded by a lending institution, such as a mortgage company or bank, and FHA insures the mortgage.

Between January 2007 and December 2014, Gateway was an FHA-approved direct endorsement lender. HUD's direct endorsement program authorizes private-sector mortgage lenders to approve mortgage loans for FHA insurance. Through the direct endorsement lender program,

approved lenders such as Gateway are authorized to originate, underwrite, and approve mortgage loans to be insured by FHA without prior HUD review or approval. 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. The lender that holds the mortgage note may submit a claim for insurance benefits to FHA to cover losses if the borrower defaults on or is unable to repay the mortgage.

RESULTS OF INVESTIGATION

On December 7, 2018, FAM entered into a settlement agreement with the Federal Government to pay \$14.5 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation. As part of the settlement, FAM agreed that Gateway engaged in certain conduct and omissions related to FHA-insured mortgages in connection with its origination and underwriting of single-family residential mortgage loans insured by FHA. The settlement agreement was neither an admission of liability by FAM nor a concession by the United States that its claims were not well founded.

As a result of Gateway's conduct and omissions, HUD insured loans approved by Gateway 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 these loans. Of the total \$14.5 million settlement, HUD FHA received \$7.23 million, and the remaining \$7.27 million was paid to other Federal entities and the relator.¹

RECOMMENDATION

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

- 1A. Acknowledge that \$7.23 million of the \$14.5 million in the attached settlement agreement represents an amount due HUD, less DOJ's civil debt collection fees.²

As of the date of this memorandum, 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 and Corrective Action Tracking System, along with the supporting payment information, to show that final action was completed.

¹ The False Claims Act allows private persons to file suit for violations of the False Claims Act on behalf of the Government. A suit filed by an individual on behalf of the Government is known as a "qui tam" action, and the person bringing the action is known as a "relator."

² 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.