



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

September 30, 2019

MEMORANDUM NO:
2019-CF-1803

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: Pacific Horizon Bancorp, Inc., and Two Loan Officers 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 HUD's Office of Program Enforcement in a civil investigation of Pacific Horizon Bancorp, Inc., and two former loan officers at Pacific Horizon. Pacific Horizon has its principal place of business in La Crescenta, CA.

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 is funded by a lending institution, such as a mortgage company or bank, and FHA insures the mortgage.

Pacific Horizon became an FHA direct endorsement lender in 1996. 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 Pacific Horizon 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

Based on OIG's civil investigation, on April 2, 2019, HUD notified Pacific Horizon and the two loan officers that it believed they were liable under the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. (United States Code) 3801-3812,¹ for violating HUD requirements in connection with four FHA-insured loans for Pacific Horizon and two FHA-insured loans for the loan officers. On April 22, 2019, HUD filed an amended complaint detailing its allegations. To avoid the time and expense of further administrative proceedings and to reach a satisfactory resolution of the matter, all of the involved parties entered into settlement agreements. The agreements did not constitute an admission of liability or fault on the part of any party.

On July 1, 2019, Pacific Horizon entered into an agreement to pay \$325,000 plus accrued interest to HUD. Pacific Horizon paid \$75,000 at the signing of the agreement, and the remaining balance of \$250,000 will be paid in annual payments of \$50,000 over 5 years. Accrued interest totaling \$7,500 will be paid on July 1, 2024.

On July 11, 2019, the two loan officers entered into an agreement and collectively agreed to pay a total amount of \$15,000 to HUD.

RECOMMENDATION

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

- 1A. Acknowledge that the attached settlement agreement of \$325,000 represents an amount due HUD from Pacific Horizon.

As of July 1, 2019, the settlement agreement had been reached, and \$325,000 plus interest represents an amount due HUD. Under the terms of the repayment agreement, Pacific Horizon paid \$75,000 on June 28, 2019. Annual payments of \$50,000 plus interest are due for the next 5 years, with a final payment expected by July 1, 2024. In accordance with HUD Handbook 2000.6, REV 4, the final action target date will be set at August 1, 2024 (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.

- 1B. Acknowledge that the attached settlement agreement for \$15,000 represents an amount due HUD from the two loan officers.

As of the date of this memorandum, the settlement amount due HUD of \$15,000 had been paid in full. 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 Program Fraud Civil Remedies Act establishes remedies for false statements and false claims valued at \$150,000 or less that are submitted to the Federal Government or to intermediaries of the Government.