



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

August 11, 2014

MEMORANDUM NO:
2014-CF-1805

Memorandum

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

//signed//

FROM: Kimberly Randall
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: Borrower Settled Allegations of Making a False Certification to HUD Regarding a Home Purchase Under the Federal Housing Administration Program

INTRODUCTION

The Office of Inspector General (OIG) conducted a civil fraud review of an alleged loan origination fraud scheme involving a borrower purchasing a home in which the loan was insured under the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) program. The alleged scheme involved submitting a false loan application to obtain an FHA-insured loan on a home in Brentwood, CA. The review was initiated as a result of a referral from HUD's Santa Ana Homeownership Center, Quality Assurance Division.

BACKGROUND

FHA provides mortgage insurance on loans made by FHA-approved lenders to creditworthy borrowers to purchase one- to four-unit properties. To ensure that FHA-insured mortgage loans are made to borrowers who intend to occupy the property for at least 1 year, FHA requires a certification signed by the borrower(s). A borrower expressly certifies to the intent to occupy the property when signing the uniform residential loan application as well as an addendum to the loan application. The borrower further certifies that the information provided in the loan application is true and correct and must provide certain documentation supporting that information as part of the overall loan application package.

Based in part on OIG's review, on December 20, 2013, HUD filed a complaint against the borrower under the Program Fraud Civil Remedies Act of 1986 (PFCRA), 31 U.S.C. (United States Code) 3801-3812,¹ as implemented by 24 CFR (Code of Federal Regulations) Part 28. The complaint alleged that the borrower knowingly caused (1) the submission of false, fictitious, or fraudulent statements, certifications, or documents to HUD in connection with an application for an FHA-insured mortgage loan and (2) the submission to FHA of a false, fictitious, or fraudulent claim for insurance benefits.

More specifically, the complaint alleged that the borrower falsely certified in the loan application that he intended to reside in the California property as his primary residence; however, he did not live in the home or intend to do so. HUD also alleged that the borrower caused the submission of false Federal income tax returns to HUD in support of the loan application. The complaint further alleged that the submission of false, fictitious, or fraudulent certifications and supporting tax documentation caused the mortgage holder of the FHA-insured mortgage loan to submit a false, fictitious, or fraudulent claim to FHA for \$749,381 in insurance benefits.

RESULTS OF REVIEW

On January 27, 2014, the borrower entered into a settlement agreement with HUD. He agreed to pay \$57,500 to HUD, with an initial payment of \$5,000, followed by monthly payments until the remaining balance is paid off by January 1, 2018. HUD and the borrower entered into the agreement to avoid litigation and seek a satisfactory resolution of the dispute without the expense and uncertainty of further litigation.

RECOMMENDATION

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

- 1A. Agree to allow HUD OIG to record the \$57,500 settlement in HUD's Audit Resolution and Corrective Actions Tracking System as an ineligible cost.

HUD's Office of General Counsel, Office Program Enforcement, agreed to the recommendation and will monitor the settlement agreement repayment plan.

¹ PFCRA establishes remedies for false statements and false claims valued at \$150,000 or less that are submitted to the Federal Government or intermediaries of the Government.