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

September 28, 2015

MEMORANDUM NO:
2015-CF-1808

Memorandum

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

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

SUBJECT: Final Civil Action: Reverse Mortgage Solutions, Inc., Settled Alleged Violations of Federal Housing Administration Loan Requirements Related to Home Equity Conversion Mortgages

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), assisted in an investigation into alleged violations by Reverse Mortgage Solutions, Inc., of Federal Housing Administration (FHA) regulations related to its Home Equity Conversion Mortgage (HECM) program. The investigation began due to a *qui tam*[1] filed under the False Claims Act, 31 U.S.C. (United States Code) 3729, in the U.S. District Court for the Middle District of Florida.

BACKGROUND

Reverse Mortgage Solutions is a nonsupervised mortgage company authorized on May 8, 2007, to originate and service FHA-insured HECM loans (commonly known as reverse mortgages). Reverse Mortgage Solutions is a wholly owned subsidiary of Walter Investment Management Corporation, with its operations based in Spring, TX.

[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 referred to as a relator. If the Government intervenes (joins) in the *qui tam* action, it has the primary responsibility for prosecuting the action. If the Government prevails, the court may award the relator a share of the False Claims Act award, based on the contributions the relator made to the investigation.

Reverse Mortgage Solutions conducts loan servicing activities for reverse mortgages on behalf of the owners of the loans. The only reverse mortgage insured by the U.S. Government is insured under HUD's HECM program and is available only through an FHA-approved lender. A homeowner, age 62 or older, who has paid off his or her mortgage or paid down a considerable amount and lives in the home as his or her principal residence, may participate in HUD's HECM program. The HECM program enables a homeowner to withdraw a portion of the home's equity, thus creating a reverse mortgage.

Unlike a traditional home equity loan or second mortgage, borrowers do not have to repay the reverse mortgage loan until they no longer use the home as their principal residence or fail to meet the obligations of the mortgage. When a reverse mortgage becomes due and payable, the servicer is required to take steps to collect the amount due on the loan plus allowable costs of servicing by selling the property through a voluntary sale or foreclosure. If the servicer is unable to recover all amounts due, it may submit to HUD an insurance claim for the unpaid amounts, together with interest that accrues after a loan becomes due and payable. In addition, when a loan is due and payable, the servicer is required to meet a number of HUD deadlines. Failure to meet these deadlines could result in denial of debenture interest[2] on the insurance claim for the interest that accrued after the date on which a deadline was missed.

On July 1, 2013, the relator filed a *qui tam* action in the U.S. District Court for the Middle District of Florida. The relator alleged that Walter Investment Management Corporation, Reverse Mortgage Solutions, and other entities[3] engaged in a scheme to defraud HUD by failing to disclose in FHA insurance claims that certain required servicing actions on reverse mortgages were not completed according to HUD regulations within the required timeframes after the loans became due and payable. The relator also alleged that Reverse Mortgage Solutions used a straw corporation to keep commissions on the sale of properties it liquidated.

On March 27, 2015, the United States intervened (joined) in the relator's civil action regarding the allegations that Reverse Mortgage Solutions, with the knowledge of Walter Investment Management Corporation and the other defendants, engaged in a scheme to fraudulently obtain FHA insurance payments for debenture interest by failing to disclose in the insurance claims that Reverse Mortgage Solutions was not eligible for such interest payments because it had not met certain event-specific deadlines required by regulation. The United States also joined regarding the allegations of the entities' obtaining insurance payments for referral fees falsely represented as sales commissions. In joining the civil action, the United States contended that it had certain civil claims against Reverse Mortgage Solutions and the other defendants for violating debenture interest rules and that as a result of the improper disclosures, HUD paid more debenture interest than the loan owners were entitled to receive on certain claims. Additionally, the United States contended that it had certain civil claims against the entities for fraudulently submitting claims to HUD for the reimbursement of referral fees falsely represented to be sales commissions.

[2] Debenture interest is an interest allowance that would have been earned on the outstanding loan balance from the due date to the date the claim was paid.

[3] The other defendants were Green Tree Servicing, LLC; REO Management Solutions, LLC; and RMS Asset Management Solutions, LLC.

RESULTS OF INVESTIGATION

On September 3, 2015, the United States, the relator, Walter Investment Management Corporation, and the other defendants entered into a settlement agreement to avoid the delay, uncertainty, inconvenience, and expense of litigation. To settle the matter, Walter Investment Management Corporation, the parent corporation of Reverse Mortgage Solutions, agreed to pay $29.63 million to the United States, covering certain claims filed from August 13, 2009, to March 19, 2015, which included claims for debenture interest as well as claims for referral fees that were fraudulently represented as sales commissions earned on reverse mortgage property sales from July 2010 to October 2014. The settlement agreement was neither an admission of liability by the defendants nor a concession by the United States that its claims were not well founded.

The FHA insurance fund is to receive more than $13.69 million of the $29.63 million, with the remaining funds being remitted to the relator and other Federal entities.

RECOMMENDATION

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

1A. Ensure that HUD records the $13,693,035 settlement to recognize funds due and as return of an ineligible cost.