



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

September 30, 2015

MEMORANDUM NO:
2015-CH-1801

Memorandum

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

//signed//

FROM: Kelly Anderson
Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: Final Civil Action: GTL Investments, Inc., Doing Business as John Adams
Mortgage Company Settled Allegations of Failing To Comply With HUD's FHA
Loan Requirements

INTRODUCTION

The U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG), in coordination with the U.S. Attorney's Office for the Eastern District of Michigan, conducted a joint review of GTL Investments, Inc., doing business as John Adams Mortgage Company regarding its originations, underwriting, quality control, and endorsement of Federal Housing Administration (FHA) loans.

BACKGROUND

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

GTL Investments, based in Southfield, MI, has participated in the FHA program since 1972 and has been a direct endorsement lender since 2003. The direct endorsement program authorizes private-sector mortgage lenders to approve mortgage loans for insurance by FHA. Lenders approved for the program must follow FHA requirements and provide annual and per loan certifications that the lender complied with these requirements when underwriting and approving loans for FHA insurance.

RESULTS OF REVIEW

The U.S. Government contended that it had certain civil claims against GTL Investments due to the origination, underwriting, quality control, and endorsement of 29 FHA-insured loans made from January 2008 through April 2012 that went to claim. Further, GTL Investments' material deficiencies in the underwriting of the 29 loans resulted in losses to the FHA insurance fund. The Government also contended that it had actual and potential administrative claims against GTL Investments for two additional FHA-insured loans that remained in GTL Investments' loan portfolio.

To avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation in regard to the Government's claim and in consideration of mutual promises and obligations, on December 23, 2014, GTL Investments entered into a settlement agreement to pay \$4.2 million to the FHA insurance fund. GTL Investments also agreed to refrain from making any claim for FHA insurance benefits or indemnify FHA for losses incurred, if any, on the two loans that remained in its loan portfolio.¹ The settlement agreement was neither an admission of liability by GTL Investments nor a concession by the Government that its allegations were not well founded.

RECOMMENDATIONS

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

- 1A. Ensure that HUD records the \$4.2 million settlement to recognize funds due and returned as an ineligible cost.
- 1B. Ensure that HUD records \$27,158 as an ineligible cost for the loss incurred on the sale of the property associated with FHA case number 261-9436172.
- 1C. Coordinate with the Office of Single Family Housing to ensure that FHA case number 261-9389877 is identified, in the appropriate HUD system, as being subject to indemnification if claims are paid and losses are incurred as a result of the settlement agreement. The loss to the FHA insurance fund is estimated to be \$36,773.²

¹ Since the settlement agreement, one of the two loans, FHA case number 261-9436172, went to claim and incurred a loss on the sale of the associated property. For the remaining loan, FHA case number 261-9389877, the loan was active as of September 3, 2015.

² This amount is based on the loss severity rate of 50 percent of the unpaid principal balance of \$73,546 as of September 3, 2015.