



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

September 19, 2016

MEMORANDUM NO:
2016-CF-1805

Memorandum

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

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

SUBJECT: Final Civil Action: Land Home Financial Services, Inc., 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 Office of Program Enforcement in the investigation of Land Home Financial Services, Inc. Land Home's principal place of business is in Concord, 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 loan is funded by a lending institution, such as a mortgage company or bank, and the mortgage is insured by FHA.

Land Home became an FHA-approved direct endorsement lender on September 25, 2000. The direct endorsement lender program authorizes private-sector mortgage lenders to approve mortgage loans for insurance by FHA. Lenders approved for the program must follow various FHA requirements and provide annual and per loan certifications that the lender complied with these requirements when underwriting and approving loans for FHA insurance. FHA insurance protects lenders against losses as the result of borrowers defaulting on their mortgages. The lenders bear minimal financial risk because FHA will pay a claim to the lender when a borrower defaults on an FHA-insured mortgage.

RESULTS OF INVESTIGATION

Based in part on OIG's review, HUD filed a complaint against Land Home on September 1, 2015, under the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. (United States Code) 3801-3812,¹ as implemented by 24 CFR (Code of Federal Regulations) Part 28. HUD alleged that Land Home falsely certified that a loan it underwrote was eligible for FHA mortgage insurance. Specifically, Land Home had failed to obtain sufficient explanations for the borrower's negative credit. The borrower made only three payments before defaulting on the loan. As a result, HUD paid a claim and incurred an unnecessary loss because the loan should not have been insured.

On February 12, 2016, Land Home entered into a settlement agreement to pay HUD \$45,000 to resolve the matter. However, Land Home denied that its loan origination activities violated HUD requirements or the Program Fraud Civil Remedies Act. HUD and Land Home entered into the settlement agreement to avoid further expense and administrative proceedings and agreed that the settlement was not an admission of liability or fault on the part of any party.

RECOMMENDATION

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

- 1A. Acknowledge that the attached settlement agreement for \$45,000 represents an amount due HUD.

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 Resolution 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.