



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

September 29, 2016

MEMORANDUM NO:
2016-CF-1809

Memorandum

TO: William I. F. Collins
Program Director, NSC - Loss Mitigation and Servicing, HUFM2

//signed//

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

SUBJECT: Final Civil Action: Permanent Claim Block Placed on Borrower's Federal Housing Administration Loan Because It Did Not Qualify for Insurance

INTRODUCTION

The Office of Inspector General (OIG) assisted the U.S. Attorney's Office for the District of New Jersey in the investigation of Finance of America Mortgage LLC. The investigation began due to a qui tam¹ filing in the U.S. District Court for the District of New Jersey. The relator alleged that Finance of America, through its acquisition of Gateway Funding Diversified Mortgage Services LLP, knowingly participated in a mortgage fraud scheme involving the origination and underwriting of loans for manufactured homes. Finance of America's principal place of business is in Horsham, PA.

BACKGROUND

The U.S. Department of Housing and Urban Development's (HUD) FHA program provides mortgage insurance for loans made by FHA-approved lenders. This insurance provides lenders with protection against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of the homeowner's default. Loans must meet certain FHA requirements to qualify for insurance.

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."

When the relator acquired her property in Millville, NJ, on October 15, 2008, Gateway Funding was a lender approved by HUD through the direct endorsement loan program. This program granted Gateway Funding the authority to originate and underwrite FHA-insured loans without prior approval from HUD. Gateway Funding certified to HUD that it would follow all HUD regulations. Finance of America purchased Gateway Funding in April 2015.

RESULTS OF INVESTIGATION

Our investigation found that the relator's allegation regarding Finance of America was unsubstantiated. We did not find indications of a mortgage fraud scheme involving FHA loans for manufactured homes as alleged. However, the relator's loan on her manufactured home did not qualify for FHA insurance because the home was manufactured before June 15, 1976, when the manufactured housing construction safety standards took effect. Therefore, the loan was ineligible for FHA insurance, and HUD should not suffer losses as a result.

RECOMMENDATION

We recommend that HUD's National Servicing Center

- 1A. Take appropriate action to prevent an insurance claim on FHA loan number 351-5252839, preventing an estimated loss of \$55,405² to the insurance fund, thereby recognizing funds put to better use.

HUD's National Servicing Center placed a permanent block on the relator's loan on April 21, 2016, which prevents FHA from paying a claim and preventing the loss of \$55,405, thereby putting these funds to better use. Therefore, no further action is required by the National Servicing Center. At issuance of this memorandum, we will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System (ARCATS), showing that final action was completed and the recommendation will be closed concurrently upon entry into ARCATS.

² We applied FHA's average loss experience as of June 30, 2016, that was provided by HUD. We calculated the savings value at \$55,405, which is 50 percent of the unpaid principal balance of \$110,811.