



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

September 28, 2016

MEMORANDUM NO:
2016-KC-1803

Memorandum

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

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FROM: Ronald J. Hosking
Regional Inspector General for Audit, Kansas City Region, 7AGA

SUBJECT: Final Civil Action: Wells Fargo Bank, N.A., Settled Allegations of Failing To Comply With HUD's FHA Mortgage Insurance Requirements

INTRODUCTION

Our office assisted the U.S. Department of Justice and the U.S. Attorney's Office, Southern District of New York and Northern District of California, in conducting an investigation of Wells Fargo Bank, N.A.'s origination and underwriting of mortgage loans insured by the Federal Housing Administration (FHA).

BACKGROUND

Wells Fargo Bank, headquartered in San Francisco, CA, is a mortgage lender that participates in the U.S. Department of Housing and Urban Development's (HUD) direct endorsement program.

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. Subject to the requirements of the program, Wells Fargo is authorized to originate, underwrite, and close mortgage loans that are insured by FHA, an agency within HUD. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a direct endorsement lender, the lender (or its representative) has the option of submitting a claim to HUD to compensate the lender for any loss sustained as a result of the default. Therefore, once a mortgage loan is endorsed for FHA insurance, HUD insures the risk of the borrower's defaulting on that mortgage, which is realized if an insurance claim is submitted.

In exchange for having the authority to originate and underwrite FHA-insured loans, Wells Fargo was obligated to determine whether prospective borrowers met certain requirements established by HUD to qualify for insurance. It also had to certify to HUD that its borrowers met those requirements. Additionally, it had to provide annual certifications that it complied with HUD requirements when underwriting and approving loans for FHA insurance. Wells Fargo has been a direct endorsement lender since 2001.

RESULTS OF REVIEW

Based in part on our review, the United States alleged that for certain loans, Wells Fargo failed to comply with HUD rules and regulations in originating and underwriting the loans for FHA insurance. Specifically, from January 1, 2002, through December 31, 2010, Wells Fargo allegedly failed to self-report to HUD certain FHA loans that its quality assurance personnel had determined contained a material finding. Secondly, from May 1, 2001, through October 31, 2005, and later, Wells Fargo allegedly submitted certain loans for FHA mortgage insurance that did not meet the underwriting requirements in HUD's handbooks and mortgagee letters and, therefore, were not eligible for FHA insurance under the direct endorsement lender program.

On April 8, 2016, Wells Fargo entered in to a settlement agreement with the United States. Wells Fargo admitted, acknowledged, and accepted responsibility for, among other things, submitting to HUD certifications from May 1, 2001, through December 31, 2008, stating that certain loans were eligible for FHA mortgage insurance when they were not. Wells Fargo also admitted, acknowledged, and accepted responsibility for not reporting to HUD from October 2005 through December 31, 2010, the majority of the FHA loans that its internal quality assurance reviews had identified as having material findings. When certain loans in these groups defaulted, FHA paid insurance claims from the insurance fund. Wells Fargo agreed to pay to the government \$1.2 billion, of which FHA's capital reserve account was to receive \$642 million and other Federal entities were to receive the remaining \$558 million.

RECOMMENDATION

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

- 1A. Acknowledge that the agreement for \$642,000,000 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, we 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.