



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

September 28, 2016

MEMORANDUM NO:
2016-LA-1801

Memorandum

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

//SIGNED//

FROM: Tanya E. Schulze
Regional Inspector General for Audit, 9DGA

SUBJECT: Final Civil Action: Shea Mortgage, Inc., Settled Allegations of Making False
Certifications Regarding Federal Housing Administration Loans

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), audited¹ Shea Mortgage and found that it did not follow HUD requirements when it underwrote loans that had executed and recorded agreements containing prohibited restrictive covenants. These restrictive covenants violated Federal Housing Administration (FHA) regulations and made the loans uninsurable. OIG referred the violations to HUD's Office of Program Enforcement for action under the Program Fraud Civil Remedies Act.

BACKGROUND

FHA, created by Congress in 1934, is the largest mortgage insurer in the world. FHA mortgage insurance also encourages lenders to approve mortgages for otherwise creditworthy borrowers that might not be able to meet conventional underwriting requirements by protecting the lender against default. Lenders are responsible for complying with all applicable HUD regulations and are protected against default by FHA's Mutual Mortgage Insurance Fund, which is sustained by borrower premiums. The insurance fund pays claims to lenders in the event of homeowner default.

Shea Mortgage, a nonsupervised direct endorsement lender headquartered in Aliso Viego, CA, was approved to participate in the FHA mortgage insurance program in April 2002. Its affiliate builder, Shea Homes, was the seller of the properties discussed in the audit memorandum.

¹ OIG audit memorandum 2012-LA-1801, issued on September 26, 2012

RESULTS OF REVIEW

Based on our audit and civil referral memorandum, HUD's Office of Program Enforcement reviewed additional mortgage loans that were underwritten by Shea Mortgage and insured by FHA. On November 17, 2015, HUD issued a demand letter to Shea Mortgage for 10 loans that HUD believed violated the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. (United State Code) 3801-3812, as implemented by 24 CFR (Code of Federal Regulations) Part 28. Shea Mortgage denied HUD's allegations; however, HUD maintained that Shea Mortgage was liable under the Act for claims relating to three FHA loans.

On June 24, 2016, Shea Mortgage entered into a settlement agreement with HUD. To avoid further expense and administrative proceedings and to reach a satisfactory resolution of the matter, Shea Mortgage agreed to pay HUD \$133,231 for alleged violations concerning three loans. Of this amount, HUD was to receive \$119,336 for losses incurred on the loans and the remainder was to be provided to other Federal entities. The settlement agreement did not constitute an admission of liability or fault by any party.

RECOMMENDATION

OIG recommends that HUD's Office of General Counsel, Office of Program Enforcement,

- 1A. Acknowledge that the attached settlement agreement for \$119,336 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, OIG will enter a management decision into HUD's Audit Resolution and Corrective Tracking System, along with the supporting payment information to show that final action was completed.