



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

September 12, 2016

MEMORANDUM NO:
2016-SE-1801

Memorandum

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

FROM: //signed//
Ronald J. Hosking
Regional Inspector General for Audit, OAGA

SUBJECT: Final Civil Action: City First Mortgage Services, LLC, and Van Wagoner
Investment Company Settled Allegations of Making False Certifications

INTRODUCTION

Based on a request from the Assistant U.S. Attorney's Office in Salt Lake City, UT, we provided information about single-family lenders with high default rates. We then reviewed the available case binders for 38 loans for which the Federal Housing Administration (FHA) had paid claims that were underwritten by City First Mortgage Services, LLC. We completed the review and referred alleged violations to the U.S. Department of Housing and Urban Development's (HUD) Office of Program Enforcement for action under the Program Fraud Civil Remedies Act of 1986.

BACKGROUND

The objective of FHA's mortgage insurance program is to help people undertake home ownership. HUD insures lenders against loss on mortgage loans. These loans may be used to finance the purchase of proposed, under construction, or existing one-to-four-family housing, as well as to refinance indebtedness on existing housing. The program is authorized by section 203(b) of the National Housing Act as amended (Public Law 73-479, 12 U.S.C. (United States Code) 1709 and 1715(b)).

HUD program regulations are in 24 CFR (Code of Federal Regulations) Part 203. HUD provides program requirements in HUD Handbooks 4155.1, Mortgage Credit Analysis for Mortgage Insurance, and 4155.2, Lenders' Guide to Single Family Mortgage Insurance Processing, among others. HUD regulations at 24 CFR 203.255 state that direct endorsement lenders using FHA's TOTAL Scorecard must comply with the TOTAL Scorecard User's Guide.

A lender's claim for payment on a government mortgage insurance obligation is a false claim within the coverage of the False Claims Act if that obligation was induced by a false or fraudulent application (or supporting documentation) for the insurance or guaranty. Each person who caused the application or supporting documentation to be submitted to the government, knowing it to be false, is liable for the presentation of the false claim. The False Claims Act applies to "any person who knowingly assisted in causing the government to pay claims which were grounded in fraud, without regard to whether that person had direct contractual relations with the government".

RESULTS OF REVIEW

On July 20, 2014, HUD filed a complaint under the Program Fraud Civil Remedies Act of 1986 against City First and its owner, alleging that they failed to follow FHA requirements when originating and underwriting 11 FHA-insured loans. HUD alleged that this failure amounted to City First's and its owner's submitting false certifications on the 11 loans.

City First and its owner disputed HUD's claims. However, to arrive at a mutually satisfactory resolution of the matter without the expense and uncertainty of further litigation, City First and its owner agreed to pay HUD \$425,000. The settlement agreement did not constitute an admission of liability or fault by any party.

RECOMMENDATION

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

- 1A. Acknowledge that the attached settlement agreement for \$425,000 represents an amount due HUD.

As of July 22, 2016, the settlement agreement of \$425,000 had been reached, and it represents an amount due HUD. Included in the settlement agreement is a repayment agreement that explains \$8,855 as due upon execution of the settlement agreement, with the remaining \$416,145 due in 46 monthly installments of \$8,855 and a final payment of \$8,815 expected by July 1, 2020. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at July 31, 2020 (30 days from the final date on which payment is expected). At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with any supporting payment information received to date.