



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

March 2, 2017

MEMORANDUM NO:
2017-CF-1802

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: Security National Mortgage Company 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 U.S. Department of Justice, Washington, DC, and the U.S. Attorney's Office for the District of New Jersey in a civil investigation of Security National Mortgage Company. Security National is a Federal Housing Administration (FHA)-approved mortgage lender with its principal place of business located in Salt Lake City, UT.

BACKGROUND

FHA is a component of HUD. It provides mortgage insurance for a person to purchase or refinance a principal residence. The mortgage is funded by a lending institution, such as a mortgage company or bank, and insured by FHA.

HUD's direct endorsement program authorizes private-sector mortgage lenders to approve mortgage loans for FHA insurance. Lenders approved for the program must follow FHA requirements, including providing annual and per loan certifications that the lender complied with these requirements when underwriting and approving the loans for FHA insurance.

Security National became an FHA-approved direct endorsement lender in October 1993. As a direct endorsement lender, Security National was authorized by HUD to originate and underwrite

mortgage loans on HUD's behalf, including determining a borrower's creditworthiness and whether the proposed loan met all applicable requirements. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a direct endorsement lender, such as Security National, 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 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.

RESULTS OF INVESTIGATION

On September 22, 2016, Security National entered into a settlement agreement with the Federal Government to pay \$4.25 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation. As part of the settlement, Security National agreed that for 100 FHA-insured loans, it engaged in certain conduct in connection with its origination and underwriting of the loans. The settlement was neither an admission of liability by Security National nor a concession by the United States that its claims were not well founded.

As a result of Security National's conduct, HUD insured loans approved by Security National that were not eligible for FHA mortgage insurance and that HUD would not otherwise have insured. HUD incurred substantial losses when it paid insurance claims on the loans covered by the settlement agreement. Of the total \$4.25 million settlement, HUD FHA received \$3.17 million, and the remaining funds were paid to other Federal entities.

RECOMMENDATION

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

- 1A. Acknowledge that \$3,173,077 of the \$4,250,000 in the attached settlement 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 and Corrective Action Tracking System, along with the supporting payment information, to show that final action was completed.