



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

March 31, 2017

MEMORANDUM NO:
2017-CH-1801

Memorandum

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

FROM: //signed//
Kelly Anderson
Regional Inspector General for Audit, 5AGA

SUBJECT: Final Civil Action: Judgment Imposed on the Former President and Founder of MDR Mortgage Corporation Regarding Allegations of Failing To Comply With HUD's Federal Housing Administration Requirements

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), in coordination with the U.S. Department of Justice's Civil Division and the U.S. Attorney's Office for the Northern District of Illinois' Eastern Division, conducted a joint review of the former president and founder of MDR Mortgage Corporation.

BACKGROUND

The Federal Housing Administration (FHA) is a component of HUD. The FHA program provides mortgage insurance for the purchase or refinance of a principal residence. The mortgage loan is funded by a lending institution, such as a mortgage company or bank, and is insured by FHA.

MDR Mortgage Corporation was an Illinois corporation located at 399 North Quentin Road, Palatine, IL. It became an FHA-approved loan correspondent on December 15, 1993, and served as a loan correspondent through October 22, 2008.¹

¹ The State of Illinois revoked MDR Mortgage's residential mortgage license in August 2008, and FHA terminated its lender approval on October 22, 2008.

A loan correspondent is a lender that has as its principal activity the origination of FHA-insured mortgages for sale or transfer to its sponsor. Lenders approved for the program must follow FHA requirements and provide annual verifications certifying that the lender complied with these requirements.

RESULTS OF REVIEW

MDR Mortgage provided annual verifications to HUD in 2006, 2007, and 2008, certifying that none of its principals, owners, officers, directors, or employees were currently involved in proceedings that could result or had resulted in criminal conviction, debarment, suspension, or civil monetary penalty by a Federal, State, or local government. However, on April 7, 2005, the former president and founder of MDR Mortgage was indicted in the U.S. District Court for the Northern District of Illinois, Eastern Division, for wire fraud, mail fraud, making false statements, and obstruction of justice in connection with Securities and Exchange Commission violations that were unrelated to the operations of MDR Mortgage.

The U.S. Government identified 237 loans that MDR Mortgage processed between January 2006 and August 2008 that had defaulted and resulted in claims paid by FHA. It contended that the former president of MDR Mortgage was liable for the losses incurred on the defaulted loans due to the false certifications. The U.S. District Court for the Northern District of Illinois found the former president and founder liable under the False Claims Act and Financial Institutions Reform, Recovery, and Enforcement Act for loans insured from 2006 through August 7, 2008, the period in which MDR Mortgage operated using the false verifications.

On November 23, 2016, a judgment of more than \$10 million was entered against the former president and founder of MDR Mortgage in favor of the U.S. Government. Of the more than \$10 million judgment, HUD's loss totaled more than \$3.4 million.

RECOMMENDATIONS

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

- 1A. Acknowledge that the judgment awarded \$10,373,998 against the former president and founder of MDR Mortgage to the U.S. Government, of which HUD's loss totaled \$3,452,499.²

² As of March 2017, the matter was under appeal.