



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

June 28, 2017

MEMORANDUM NO:
2017-PH-1802

Memorandum

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

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FROM: David E. Kasperowicz
Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Final Civil Action
Borrower Settled Allegations of Making False Statements to HUD for a Home Purchase Under the Federal Housing Administration Mortgage Insurance Program

INTRODUCTION

We received a referral from the Quality Assurance Division of the U.S. Department of Housing and Urban Development's (HUD) Philadelphia Homeownership Center concerning a borrower who allegedly made false statements to obtain Federal Housing Administration (FHA) mortgage insurance. The borrower provided false and conflicting employment and income information, which was used in originating and obtaining an FHA loan. Further, the borrower certified that he intended to reside in the property but failed to do so. We referred the violations to HUD's Office of Program Enforcement for action under the Program Fraud Civil Remedies Act.

BACKGROUND

The program involved in this case is HUD's Mortgage Insurance for One- to Four-Family Homes program. The program provides FHA mortgage insurance to protect lenders against losses as the result of borrowers' defaulting on their FHA-approved mortgages. The program allows borrowers to qualify for mortgages using less stringent underwriting guidelines and flexibility in calculating household income. Borrowers are required to provide documentation of their income and employment, to be verified by the lenders before loans are approved and insured by FHA. Lenders may not accept or use documents relating to the credit, employment, or income of borrowers that are handled by or transmitted from or through interested third parties or by using their equipment.

At least one borrower must occupy the property and sign the security instrument and the mortgage note for the property to be considered owner occupied. HUD's security instruments

require a borrower to establish bona fide occupancy in the home as the borrower's principal residence within 60 days after signing the security instrument with continued occupancy for at least 1 year. A principal residence is a property that will be occupied by the borrower for the majority of the calendar year. HUD will not insure a mortgage if it concludes that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties, even if the property to be encumbered will be the only one owned using FHA mortgage insurance.

On December 4, 2009, the borrower obtained an FHA loan to purchase a property in Baltimore, MD. The borrower falsely certified his employment and income information when he signed the uniform residential loan application. The borrower also falsely represented on the loan application that he intended to occupy the property as his personal residence. The property was vacant and was being offered for rent in May 2010, 6 months after the settlement date. The borrower's actions violated FHA requirements.

RESULTS OF REVIEW

On November 17, 2016, HUD's Office of Program Enforcement filed a complaint against the borrower under the Program Fraud Civil Remedies Act. After negotiations with HUD, the borrower agreed to pay \$10,000 to settle the matter. The agreement did not constitute an admission of liability or fault by any party. The borrower made an initial payment of \$2,000 on April 11, 2017, and agreed to a repayment plan for the remaining \$8,000.

RECOMMENDATION

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

- 1A. Acknowledge that the attached settlement agreement for \$10,000 represents an amount due HUD.

As of April 18, 2017, a settlement agreement for \$10,000, plus interest, had been reached, and it represents an amount due HUD. In the settlement agreement, the borrower agreed to make an initial payment of \$2,000 and 47 timely monthly payments of \$200, with final payment expected by February 28, 2021. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at March 31, 2021. At issuance of this memorandum, we will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with any supporting payment information received to date.