



**U. S. Department of Housing and Urban Development
Office of Inspector General**

Region X
Federal Office Building
909 First Avenue, Suite 126
Seattle, Washington 98104-1000
(206) 220-5360
Fax (206) 220-5162

**AUDIT REPORT
MEMORANDUM NO.
2009-SE-1801**

November 18, 2008

MEMORANDUM FOR: Dane M. Narode, Acting Associate General Counsel for Program Enforcement, CEP

Joan S. Hobbs

FROM: Joan S. Hobbs
Regional Inspector General for Audit, OAGA

SUBJECT: Actions under Program Fraud Civil Remedies Act
Washington Mutual Bank
Seattle, Washington

INTRODUCTION

We audited late endorsement payment histories at Washington Mutual Bank (Washington Mutual), Seattle, Washington. We selected Washington Mutual because of its high number of late single-family loan submissions for Federal Housing Administration insurance during calendar years 2002 and 2003. Our objective was to determine whether Washington Mutual's late requests for endorsement complied with the U.S. Department of Housing and Urban Development's (HUD) payment history requirements. We reported the results of our review in Audit Report 2005-SE-1006, issued on July 5, 2005. After the audit report was issued and the report recommendations were closed out in HUD's Audit Resolution and Corrective Actions Tracking System (ARCATS), we recommended that your office take additional sanctions against Washington Mutual under the Program Fraud Civil Remedies Act for submission of false loan certifications.

METHODOLOGY AND SCOPE

During our original audit work, we analyzed data on all loans having a closing date from January 2002 through June 2004 submitted by Washington Mutual for Federal Housing Administration insurance that were submitted 66 or more days after closing. After obtaining and reconciling the

electronic records from HUD and Washington Mutual, we tested for the presence of unacceptable payment histories on loans submitted as late requests for insurance endorsement. As noted in Audit Report 2005-SE-1006, our review of the payment histories provided by Washington Mutual and endorsement data from HUD's systems showed that for the 37,648 loans with late endorsement requests tested, Washington Mutual submitted 609 loans with unacceptable payment histories.

In order to determine if Washington Mutual should be penalized for false certifications under the Program Fraud Civil Remedies Act, we conducted further analysis of the payment history data obtained from Washington Mutual. We found that Washington Mutual's own data showed that the payment histories for 128 of the 609 loans did not meet the FHA late submission requirements when it turned in the loans to FHA for insurance. We then reviewed the FHA case files of these 128 loans to determine if they contained certifications by Washington Mutual that the loans had payment histories that met HUD's requirements for late endorsement submission.

BACKGROUND

Washington Mutual has an administrative office in Seattle, Washington and is a supervised direct endorsement lender approved to originate Federal Housing Administration-insured single-family loans. In a series of acquisitions beginning in 2001, Washington Mutual acquired two federal savings banks that had mortgage lending operations: Bank United and The Dime Savings Bank of New York, FSB, which owned North American Mortgage Company. Washington Mutual also acquired three other mortgage companies: PNC Mortgage Corporation of America, Fleet Mortgage Corporation, and HomeSide Lending, Incorporated. From 2000 to 2003, Washington Mutual's total home lending and refinancing for conventional and insured mortgages increased from \$51.5 billion to \$384.2 billion; it decreased to \$212.4 billion in 2004.

During the period from March 2002 to October 2004, Washington Mutual submitted 64,905 Federal Housing Administration loans worth \$7.4 billion with closing dates from January 2002 through June 2004 to HUD for insurance.

RESULTS OF REVIEW

Our review of certifications in the FHA files of the 128 loans in which Washington Mutual's data showed that the payment histories did not meet the FHA late submission requirements at the time it submitted the loans for FHA insurance found that:

- Forty five loan files contained certifications that the loans were current in conformance with the applicable late submission requirements;
- Eight loan files contained certifications that were dated a substantial amount of time prior to submission to FHA or the date of the payment history;
- Seven loan files had certifications that did not state that the loans were current;
- Four loan files did not have any certifications that the loans were current in conformance with the late submission requirements.

Based upon the above results, we worked with your office to help you determine the amount of penalties to assess Washington Mutual under the Program Fraud Civil Remedies Act. As a result of these actions, HUD determined that Washington Mutual was liable under the Program Fraud Civil Remedies Act for 14 loans and entered into a settlement agreement with Washington Mutual on October 2, 2008.

The settlement agreement required Washington Mutual to make an administrative payment to HUD of \$91,978. However, the recommendations from our audit report have been closed out in HUD's tracking system and did not include this settlement.

RECOMMENDATION

We recommend that HUD's Associate General Counsel for Program Enforcement

- 1A. Post the \$91,978 settlement to HUD's Audit Resolution and Corrective Actions Tracking System.