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MEMORANDUM NO.
2011-CF-1803

September 29, 2011

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

Kim Randall

FROM: Kim Randall, Director, Civil Fraud Division, GA

SUBJECT: Final Civil Action
Beechwood Incorporated, Moreno Valley, CA

Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), conducted a review to determine whether IndyMac Bank followed Federal Housing Administration (FHA) policies and procedures when it originated FHA-insured loans. Indymac had previously been a high-volume originator of FHA loans but was seized by the Federal Deposit Insurance Corporation (FDIC) in July 2008 and later filed bankruptcy.

We focused on loans secured by California properties and that were in claim or default status as of February 12, 2009. Within this group, we identified a set of questionable loans originated by Indymac that had been generated by Beechwood Incorporated. Beechwood is a company located in Moreno Valley, CA, that conducts various real estate services.

Based on our review of the Beechwood loans, the U.S. Attorney's Office of the Central District of California, Western Division, filed a civil complaint against the company and four individuals associated with the company. The U.S. Attorney's Office filed the complaint under the Financial

Institutions Reform, Recovery, and Enforcement Act of 1989, 12 U.S.C. (United States Code) 1833a, alleging that Beechwood and the individuals made false statements in support of a loan application and devised a scheme to defraud a financial institution.

SCOPE AND METHODOLOGY

Using HUD databases, we identified 4,360 FHA-insured loans that Indymac had originated from June 1985 through October 2008. As of February 12, 2009, the databases showed that 86 of the loans for California properties were in claim or default status. We reviewed the 86 loans through either the HUD loan binders or HUD databases and performed the following steps:

- Identified Indymac's loan originations through HUD's Single Family Data Warehouse,
- Analyzed pertinent information from the FHA loan binders,
- Obtained income information from California's Employment Development Department,
- Interviewed pertinent individuals, and
- Reviewed HUD's Single Family Asset Management System for HUD loss information.

BACKGROUND

Indymac was headquartered in Pasadena, CA, and at one time, had 191 active branches. It was an unconditional direct endorsement lender for FHA loans from July 2001 until FDIC seized it on July 11, 2008. Soon after that, our office began to review Indymac's loan origination practices.

As part of its loan origination business, Indymac had entered into an agreement with Beechwood (also d.b.a. Beechwood Realty and Beechwood Services) to become the company's exclusive in-house lender for its real estate business. In 2008 and 2009, Beechwood real estate salespersons, Beechwood Services (escrow and notary services), and Indymac loan officers operated within the same building as a "one stop shop." The arrangement allowed Indymac and Beechwood to provide loan services, real estate agent services, and escrow and notary services to their clients.

RESULTS

Indymac originated several Beechwood-related loans containing questionable rental income information. The questionable loans appeared to contain false rental agreements that were material to the borrowers' income used to qualify them for the FHA-insured loans. We referred our findings to the U.S. Attorney's Office of the Central District of California.

On June 15, 2010, the Civil Division of the U.S. Attorney's Office filed a complaint under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, based on the results of our review and referral. In its complaint, the U.S. Attorney's Office alleged that Beechwood and four individuals conspired to orchestrate a scheme to qualify their otherwise unqualified real estate and loan clients for new home loans. Each client wanted to purchase a new home but owned other property that he or she could neither sell nor afford to keep and, thus, could not qualify for a new FHA loan from Indymac. To qualify their clients for the new FHA loans, the individuals allegedly caused false rental income documents and false rental agreements to be placed into their clients' home loan applications to influence Indymac's decision as to whether to approve the borrowers' applications for FHA-insured home loans or fund these loans. The complaint alleged wrongdoing on three FHA-insured loans and demanded civil money penalties against Beechwood and the individuals.

On June 1, 2011, Beechwood entered into a settlement agreement to pay $100,000 to the U.S. Government to resolve the complaint. The parties agreed that the settlement agreement was not an admission of liability or fault on the part of either party and was entered into for the purpose of compromising disputed claims arising under or related to the complaint and to avoid the expenses and risks of litigation.

RECOMMENDATION

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

1A. Agree to allow HUD OIG to post the $100,000 settlement to HUD's Audit Resolution and Corrective Actions Tracking System.