



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

September 29, 2016

MEMORANDUM NO:
2016-LA-1802

Memorandum

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

//SIGNED//

FROM: Tanya E. Schulze
Regional Inspector General for Audit, 9EGA

SUBJECT: Final Civil Action: DHI Mortgage Company Ltd. Settled Allegations of Making False Certifications Regarding Federal Housing Administration Loans

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), audited DHI Mortgage Company Ltd. (DHIM) and found that it underwrote Federal Housing Administration (FHA)-insured loans with prohibited restrictive addenda to the purchase contracts.¹ The addenda prevented the borrower from renting or reselling the property and violated FHA regulations. OIG referred the violations to HUD's Office of Program Enforcement for action under the Program Fraud Civil Remedies Act.

BACKGROUND

FHA was created by Congress in 1934 and is the largest mortgage insurer in the world. FHA mortgage insurance also encourages lenders to approve mortgages for otherwise creditworthy borrowers that might not be able to meet conventional underwriting requirements by protecting the lender against default. Lenders are responsible for complying with all applicable HUD regulations and are protected against default by FHA's Mutual Mortgage Insurance Fund, which is sustained by borrower premiums. The insurance fund pays claims to lenders in the event of a homeowner default.

¹ OIG audit reports 2009-LA-1018 and 2010-LA-1009, issued on September 10, 2009 and March 19, 2010, respectively.

DHIM, a nonsupervised lender, was approved in 1981 to originate FHA loans. It was a wholly owned subsidiary of D.R. Horton, Inc., a national homebuilder, and an affiliate of DHI Title Company, another wholly owned subsidiary of D.R. Horton, Inc. DHIM provided mortgage-financing services principally to purchasers of D.R. Horton, Inc., homes.

RESULTS OF REVIEW

On February 2, 2016, HUD filed a complaint, and an amended complaint on June 7, 2016, under the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. (United State Code) 3801-3812, as implemented by 24 CFR (Code of Federal Regulations) Part 28, against DHIM. The actions were based upon the alleged submission of false statements to HUD by DHIM in its application for FHA insurance for 168 mortgage loans. Of the 168 loans, HUD alleged that an improper restriction on conveyance was recorded for 67 properties contrary to FHA requirements. The remaining 101 loan applications allegedly falsely stated that there was no affiliation between DHIM and D.R. Horton, which are affiliated companies.

DHIM disputed HUD's claims. On July 6, 2016, DHIM entered into a settlement agreement with the HUD. To arrive at a mutually satisfactory resolution of the matter without the time and expense of further administrative proceedings, DHIM agreed to pay HUD \$180,000 for alleged violations concerning but not limited to the 168 loans. The settlement agreement did not constitute an admission of liability or fault by any party.

RECOMMENDATION

OIG recommends that HUD's Office of General Counsel, Office of Program Enforcement,

- 1A. Acknowledge that the attached settlement agreement for \$180,000 represents an amount due HUD.

As of the date of this memorandum, the 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, OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with the supporting payment information to show that final action was completed.