



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

September 28, 2017

MEMORANDUM NO:
2017-CF-1806

Memorandum

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

FROM: //signed//
Christeen Thomas
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: PHH Corporation Settled Allegations of Failing To Comply
With HUD's Federal Housing Administration Loan Requirements

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), assisted the U.S. Department of Justice (DOJ) and the U.S. Attorney's Offices, District of New Jersey, District of Minnesota, and Southern District of Florida, in the civil investigation of PHH Corporation, PHH Mortgage Corporation (PHHMC), and PHH Home Loans, LLC (PHHHL), collectively referred to as PHH. PHH was a direct endorsement lender having its principal place of business in Mount Laurel, NJ.

BACKGROUND

The Federal Housing Administration (FHA) is a component of HUD. It provides mortgage insurance for a person to purchase or refinance a principal residence. A lending institution, such as a mortgage company or bank, funds the mortgage loan, and FHA insures the mortgage.

PHHMC became an FHA-approved direct endorsement lender on July 25, 1983. PHHHL became an FHA-approved direct endorsement lender on May 9, 2006. HUD's direct endorsement program authorizes private-sector mortgage lenders to approve mortgage loans for FHA insurance. Lenders approved for the program must follow various FHA requirements, including providing annual and per loan certifications that the lender complied with these requirements when underwriting and approving loans for FHA insurance.

RESULTS OF INVESTIGATION

On August 3, 2017, PHH entered into a settlement agreement with the Federal Government to pay \$65 million in a combined settlement amount. The United States attributes \$45.5 million to PHHMC and \$19.5 million to PHHHL. PHH agrees that it engaged in certain conduct related to FHA-insured mortgages in connection with PHHMC's and PHHHL's origination, underwriting, endorsement, and quality control of single-family residential mortgage loans insured by FHA between January 1, 2006, and December 31, 2011, that resulted in claims for payment submitted to FHA on or before June 30, 2013. The settlement agreement is neither an admission of liability by PHH nor a concession by the United States that its claims were not well founded.

As a result of PHH's conduct and omissions, HUD insured loans approved by PHH that were not eligible for FHA mortgage insurance under the direct endorsement program and that HUD would not otherwise have insured. HUD incurred substantial losses when it paid insurance claims on these loans. Of the total \$65 million settlement, HUD FHA will receive \$42.6 million.

RECOMMENDATION

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

- 1A. Acknowledge that \$42,600,000 of the \$65,000,000 in the attached settlement agreement represents an amount due HUD, less DOJ's civil debt collection fees.¹

As of the date of this memorandum, the settlement amount of \$42,600,000 represents an amount due HUD. Final payment has been made to DOJ, and the payment to HUD is pending. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at October 28, 2017. At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with any supporting payment information received to date.

¹ DOJ's 1994 Appropriation Act (Public Law 103-121) authorized DOJ to retain up to 3 percent of all amounts collected as the result of its civil debt collection litigation activities.