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

January 30, 2015

MEMORANDUM NO:
2015-PH-1803

Memorandum

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

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

SUBJECT: Final Civil Action
           Borrower Settled Alleged Violations of Home Equity Conversion Mortgage
           Program

INTRODUCTION

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of its Home Equity Conversion Mortgage (HECM) program and found that contrary to program residency requirements, 37 borrowers were not living in the property associated with the loan and were renting the property to participants in HUD's Section 8 Housing Choice Voucher program.[1] Renting the properties to Section 8 program participants violated program requirements because HUD requires borrowers to reside in the mortgaged residence as their principal residence. We referred the violations to HUD's Office of Program Enforcement for action under the Program Fraud Civil Remedies Act.

BACKGROUND

HUD provides reverse mortgage insurance through its HECM program. The purpose of the program is to enable elderly homeowners to convert the equity in their homes to monthly streams of income or credit lines. To be eligible for a HECM loan, the borrower must be 62 years of age or older, own the property outright or have a small mortgage balance, occupy the property as a principal residence, not be delinquent on any Federal debt, and participate in a consumer information session given by a HUD-approved program counselor.

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[1] HUD Office of Inspector General audit report number 2013-PH-0002, issued December 20, 2012

The loan is secured by the borrower's equity in the home. The borrower is not required to repay the loan as long as the borrower continues to occupy the home as a principal residence, maintains the property, and pays the property taxes and the mortgage insurance premiums. The loan agreement defines "principal residence" as the dwelling where the borrower maintains his or her permanent place of abode and typically spends the majority of the calendar year. A person may have only one principal residence at a time. The borrower must certify to principal residency initially at closing and annually thereafter.

HUD's Section 8 Housing Choice Voucher program provides Federal funds to assist very low-income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing in the private market. The funds are made available to public housing agencies through HUD's Office of Public and Indian Housing, and the housing choice vouchers are administered locally by public housing agencies. The public housing agencies pay subsidies directly to landlords on behalf of program participants. Program participants are responsible for the difference between the rent charged by the landlord and the amount subsidized by the program.

In May 2006, one borrower obtained a HECM loan on a property that he owned in St. Charles, MO. The borrower certified in writing on at least three occasions (October 2010, June 2011, and July 2013) that the home was his principal residence. However, he was renting the property to a participant in HUD's Housing Choice Voucher program when he made the certifications. His actions violated HUD's principal residency requirements.

RESULTS OF REVIEW

After HUD's Office of Program Enforcement sent the borrower a demand letter, the borrower admitted that he did not reside in the property as his principal residence when he submitted the certifications. After negotiations with HUD, the borrower agreed to pay $3,000, or 12 monthly payments of $250, to settle the matter. The borrower made the first settlement payment on January 6, 2015.

RECOMMENDATION

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

1A. Allow the HUD Office of Inspector General to post the settlement of $3,000 in HUD's Audit Resolution and Corrective Actions Tracking System as funds put to better use.