



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

September 29, 2016

MEMORANDUM NO:
2016-CF-1811

Memorandum

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

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

SUBJECT: Final Civil Action: Regions Bank 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, Washington, DC, and the U.S. Attorney's Office for the Middle District of Florida in a civil investigation of Regions Bank. Regions Bank is a Federal Housing Administration (FHA)-approved mortgage lender, with its principal place of business located in Birmingham, AL.

BACKGROUND

FHA is a component of HUD. It provides mortgage insurance for a person to purchase or refinance a principal residence. The mortgage loan is funded by a lending institution, such as a mortgage company or bank, and the mortgage is insured by FHA.

HUD's direct endorsement program authorizes private-sector mortgage lenders to approve mortgage loans for FHA insurance. Lenders approved for the program must follow FHA requirements, including providing annual and per loan certifications that the lender complied with these requirements when underwriting and approving loans for FHA insurance.

Regions Bank became an FHA-approved direct endorsement lender in December 1985. As a direct endorsement lender, Regions Bank was authorized by HUD to originate and underwrite mortgage loans on HUD's behalf, including determining a borrower's creditworthiness and whether the proposed loan met all applicable requirements. When a borrower defaults on an

FHA-insured loan underwritten and endorsed by a direct endorsement lender, such as Regions Bank, the lender (or its representative) has the option of submitting a claim to HUD to compensate the lender for any loss sustained as a result of the default. Therefore, once a mortgage loan is endorsed for FHA insurance, HUD insures the risk of the borrower's defaulting on that mortgage, which is realized if an insurance claim is submitted.

RESULTS OF INVESTIGATION

Based on the investigation, the Federal Government alleged that Regions Bank violated the False Claims Act when it originated and underwrote FHA mortgage loans that did not meet applicable requirements. The Federal Government also alleged that Regions Bank did not maintain a quality control program that fully complied with requirements. As a result, HUD insured hundreds of loans approved by Regions 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 the loans covered by the settlement agreement.

On September 13, 2016, Regions Bank entered into a settlement agreement with the Federal Government to pay \$52.4 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation. As part of the settlement, Regions Bank agreed that it engaged in certain conduct in connection with its origination, underwriting, and quality control of certain single-family residential mortgage loans insured by FHA.¹ The settlement was neither an admission of liability by Regions Bank nor a concession by the United States that its claims were not well founded.

Of the total \$52.4 million settlement, HUD FHA was to receive \$37.7 million, and the remaining portion will be paid to other Federal entities.

RECOMMENDATION

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

- 1A. Acknowledge that \$37,700,000 of the \$52,400,000 in the attached settlement represents an amount due HUD.

As of the date of this memorandum, the settlement amount due HUD had been paid to the Department of Justice and transfer to HUD was pending. The transfer to HUD is expected to occur by October 15, 2016. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at October 31, 2016. 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 Loans covered in the settlement agreement included loans insured by FHA between January 1, 2006, and December 31, 2011, that resulted in claims submitted to HUD through January 7, 2015, excluding origination or underwriting of home equity conversion mortgages under 12 U.S.C. (United States Code) 1715z-20 and streamline refinances under 12 U.S.C. 1715n(a)(7).