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**MANHATTAN U.S. ATTORNEY FILES AND SIMULTANEOUSLY
SETTLES FRAUD LAWSUIT AGAINST CITIMORTGAGE, INC. FOR
RECKLESS MORTGAGE LENDING PRACTICES**

Bank Admits and Accepts Responsibility for Failing to Comply with Certain HUD-Related Loan Requirements and Other Conduct and Agrees to Pay U.S. \$158.3 Million

Preet Bharara, the United States Attorney for the Southern District of New York, Helen Kanovsky, General Counsel of the U.S. Department of Housing and Urban Development ("HUD"), and David A. Montoya, the Inspector General of HUD, announced today that the United States has filed, and simultaneously settled, a civil fraud lawsuit against CITIMORTGAGE, INC. ("CITIMORTGAGE"), a subsidiary of CITIBANK, N.A. The Government's Complaint seeks damages and civil penalties under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") for over six years of misconduct in connection with CITIMORTGAGE's participation in the Federal Housing Administration ("FHA") Direct Endorsement Lender Program. In the settlement, CITIMORTGAGE "admits, acknowledges, and accepts responsibility" for certain conduct alleged in the Complaint including, "[failing] to comply fully with all HUD-FHA requirements with respect to certain loans," and "[submitting] to HUD-FHA certifications stating that certain loans were eligible for FHA mortgage insurance when in fact they were not." CITIMORTGAGE also admitted that, as a result of its conduct, HUD incurred losses when certain loans that should never have been endorsed defaulted and agreed to pay \$158.3 million to the United States in damages under the False Claims Act. The settlement was approved today by United States District Judge Victor Marrero.

Manhattan U.S. Attorney Preet Bharara stated: "For far too long, lenders treated HUD's insurance of their mortgages like they were playing with house money. In fact, they were playing with other people's money and other people's homes. CITIMORTGAGE is the latest in a series of cases this office has filed against lenders who flouted HUD requirements for making government-backed loans. We are pleased that, with today's settlement, CITIMORTGAGE has accepted responsibility for its conduct and agreed to pay damages in an amount that will significantly compensate HUD in this case for losses to the FHA insurance fund."

HUD General Counsel Helen Kanovsky stated: “It is critically important that FHA approved lenders meet our requirements for origination and underwriting of FHA loans. Lenders with authority to directly endorse FHA-insured mortgages must be serious about applying our underwriting guidelines and implement a quality control program that ensures compliance. This is a federal program and lenders who violate these requirements face potential False Claims Act liability.”

HUD Inspector General David A. Montoya stated: “This settlement demonstrates that lenders are held accountable to strict underwriting standards. I want to assure all Americans that my office will remain vigilant in defending their interests, especially during this critical time for our country’s economic recovery. We are committed to aggressively pursuing those whose misconduct contributed to the housing crisis and those who flagrantly continue to do so.”

The following allegations are based on the Complaint filed today in Manhattan federal court:

Since 1981, CITIMORTGAGE has been a participant in the Direct Endorsement Lender program (“DEL program”), a federal program administered by the FHA. As a Direct Endorsement Lender, CITIMORTGAGE has the authority to originate, underwrite, and endorse mortgages for FHA insurance. If a Direct Endorsement Lender approves a mortgage loan for FHA insurance and the loan later defaults, the holder of the loan may submit an insurance claim to HUD for the costs associated with the defaulted loan, which HUD must then pay. Under the DEL program, neither the FHA nor HUD reviews a loan before it is endorsed for FHA insurance. Direct Endorsement Lenders are therefore required to follow program rules designed to ensure that they are properly underwriting and endorsing mortgages for FHA insurance and maintaining a quality control program that can prevent and correct any deficiencies in their underwriting. These requirements include maintaining a quality control program that is independent of the lender’s business operations; conducting a full review of all loans that go into default within the first six payments, known as “early payment defaults”; and disclosing to HUD, within 60 days of initial discovery, all loans containing evidence of fraud or other serious underwriting problems. CITIMORTGAGE failed to comply with these basic requirements.

For example, the Complaint alleges that CITIMORTGAGE’S business units routinely interfered with, and exerted pressure on, CITIMORTGAGE’s quality control personnel in an effort to improperly reduce the quantity and severity of defects reported by the quality control unit. Among other things, the business units were instructed to apply “brute force” to pressure quality control personnel to reduce or downgrade their findings of defects, and to challenge all adverse findings by the quality control unit in an effort to drive down the defect rates. These practices caused a systemic breakdown of CITIMORTGAGE’s quality control program. CITIMORTGAGE also failed to disclose to HUD loans containing fraud or other serious violations of HUD requirements and did not report a single fraudulent loan that it underwrote until July 2011, shortly after having received a subpoena from the U.S. Attorney’s Office. CITIMORTGAGE did not review approximately 1,000 cases of potential fraud referred by its quality control unit. Its failure to maintain a compliant quality control program allowed widespread underwriting deficiencies to continue unabated.

As the Complaint further alleges, CITIMORTGAGE is also required to execute certifications for every mortgage loan that it endorses for FHA insurance. Since 2004,

CITIMORTGAGE has endorsed nearly 30,000 mortgages for FHA insurance. Although CITIMORTGAGE certified that each of these loans was eligible for FHA insurance, it repeatedly submitted certifications that were knowingly or recklessly false. CITIMORTGAGE failed to perform basic due diligence, failed to verify information in the loan file that bore directly on the borrower's ability to make payments on the mortgage, and repeatedly endorsed mortgage loans that contained serious defects and departures from HUD's underwriting standards and thus were not eligible for FHA insurance. As a result, since 2004, more than 30% of loans originated or underwritten by CITIMORTGAGE have gone into default. CITIMORTGAGE'S default rate soared to more than 47% for loans originated in 2006 and 2007, resulting in foreclosures, evictions, and ultimately depressed real estate values, all to the detriment of the national housing market and the national economy. These defaulted loans have resulted in HUD having to pay millions of dollars in insurance claims.

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By filing its Complaint, the Government joined a private whistleblower lawsuit that had been filed against CITIMORTGAGE under the False Claims Act in August of last year. As part of the settlement, CITIMORTGAGE has admitted, acknowledged, and accepted responsibility for the following conduct:

- CitiMortgage failed to comply fully with all HUD-FHA requirements with respect to certain loans.
- CitiMortgage failed to conduct a full review of certain loans that it endorsed for FHA mortgage insurance pursuant to the DEL Program that experienced early payment defaults: i.e., became 60 days past due within the first six payments.
- CitiMortgage endorsed for FHA mortgage insurance pursuant to the DEL Program certain loans that did not meet underwriting requirements contained in HUD's handbooks and mortgagee letters, and therefore were not eligible for FHA mortgage insurance under the DEL Program.
- As a result, CitiMortgage submitted to HUD-FHA certifications stating that certain loans were eligible for FHA mortgage insurance when in fact they were not; FHA insured certain loans endorsed by CitiMortgage that were not eligible for FHA mortgage insurance and that FHA would not otherwise have insured; and HUD consequently incurred losses when those CitiMortgage-endorsed loans defaulted.

Pursuant to the settlement, CITIMORTGAGE will pay the United States \$158.3 million within 30 days of the settlement. The \$158.3 million that CITIMORTGAGE is paying to the United States to settle this lawsuit is in addition to the payments CITIGROUP, INC. has committed to make in connection with the \$25 billion mortgage loan servicing settlement announced by the Department of Justice on February 9, 2012. Under the servicing settlement, the Government retained its full authority to pursue civil fraud lawsuits, such as this one, for damages and penalties when a bank fails to satisfy underwriting standards on government-insured loans.

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The case is being handled by the Office's Civil Frauds Unit. Mr. Bharara established the Civil Frauds Unit in March 2010 to bring renewed focus and additional resources to combating financial fraud, including mortgage fraud.

The Complaint filed today against CITIMORTGAGE is the third civil fraud lawsuit brought by this Office in the last nine months against lenders for misconduct in connection with the FHA insurance program. On May 3, 2011, the Government sued DEUTSCHE BANK AG and MORTGAGEIT, INC., in connection with \$386 million of FHA insurance claims paid by HUD for defaulted mortgage loans. On November 1, 2011, the Government sued ALLIED HOME MORTGAGE CORPORATION, one of its affiliates, its president and chief executive officer, and its executive vice president, in connection with \$834 million of FHA insurance claims paid by HUD. The Office's Civil Frauds Unit is handling all three cases as part of its continuing investigation of reckless lending practices.

The Civil Frauds Unit works in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which Mr. Bharara serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

Mr. Bharara thanked HUD and HUD-OIG for their extraordinary assistance in this case. He also expressed his appreciation for the support of the Commercial Litigation Branch of the U.S. Department of Justice's Civil Division in Washington, D.C.

Assistant U.S. Attorneys Robert William Yalen, Joseph N. Cordaro, and Jaimie L. Nawaday are in charge of the case.

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