

CitiMortgage Settles "Brute Force" Suit for \$153.8 Million

By: Jann Swanson | Thu, Feb 16 2012, 1:35 PM

A lawsuit filed against CITIMORTGAGE, INC, a subsidiary of CITIBANK, N.A. was filed in the U.S. District Court for Manhattan on Wednesday and simultaneously settled for \$158.3 million. The suit, brought by the U.S. Attorney that District on behalf of the Department of Housing and Urban Development (HUD), charged the company, a participant in the Direct Endorsement Lender program administered by the FHA, had engaged in risky lending which had caused HUD, FHA's parent, to incur losses on certain loans that the bank should never have originated.

In the settlement CITIMORTGAGE "admits, acknowledges, and accepts responsibility" for certain conduct alleged in the Complaint including failing to comply with all HUD-FHA requirements with respect to certain loans and submitting certifications to the agency that these loans were eligible for FHA mortgage insurance "when in fact they were not."

One **example from the Complaint alleges** that the defendant's business units **routinely interfered with and exerted pressure on its quality control personnel** to improperly reduce the quantity and severity of defects it reported. Among other things, the business units were instructed to apply **"brute force"** to pressure quality control personal to reduce or downgrade their findings of defects and to challenge all adverse findings by QC in an effort to drive down defect rates. This failure to maintain a compliant QC program allowed widespread underwriting deficiencies to continue unabated.

The Complaint alleges that, since 2004 more than **30 percent of loans originated or underwritten** by CITIMORTGAGES have gone into default, soaring to more than 47 percent for loans originated in 2006 and 2007. This resulted in HUD having to pay millions of dollars in FHA insurance claims.

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."

In 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. The \$158.3 million CITIMORTGAGE has agree to pay to settle this suit is in addition to the amounts its parent company has agreed to make in connection with the \$25 billion mortgage servicing settlement announced earlier this month

The settlement was approved by U.S. District Court Judge Victor Marrero.

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