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United States Files Lawsuit Alleging that Quicken Loans Improperly Originated and Underwrote Federal Housing Administration-Insured Mortgage Loans

The United States has filed a complaint in the U.S. District Court for the District of Columbia against Quicken Loans Inc. under the False Claims Act for improperly originating and underwriting mortgages insured by the Federal Housing Administration (FHA), the Justice Department announced today. Quicken is a mortgage lender headquartered in Detroit.

“Those who do business with the United States must act in good faith, including lenders that participate in the FHA mortgage insurance program,” said Principal Deputy Assistant Attorney General Benjamin C. Mizer of the Justice Department’s Civil Division. “To protect the housing market and the FHA fund, we will continue to hold responsible lenders that knowingly violate the rules.”

Quicken participated in the FHA insurance program as a direct endorsement lender (DEL). As a DEL, Quicken had the authority to originate, underwrite and certify mortgages for FHA insurance. If a DEL such as Quicken approves a mortgage loan for FHA insurance and the loan later defaults, the holder of the loan may submit an insurance claim to the U.S. Department of Housing and Urban Development (HUD), FHA’s parent agency, for the losses resulting from the defaulted loan. Under the DEL program, neither the FHA nor HUD reviews the underwriting of a loan before it is endorsed for FHA insurance. HUD therefore relies on DELs to follow program rules designed to ensure that they are properly underwriting and certifying mortgages for FHA insurance. And, to that end, a DEL must certify that every loan endorsed for FHA insurance is underwritten according to the applicable FHA standards.

The government’s complaint alleges that, from September 2007 through December 2011, Quicken knowingly submitted, or caused the submission of, claims for hundreds of improperly underwritten FHA-insured loans. The complaint further alleges that Quicken instituted and encouraged an underwriting process that led to employees disregarding FHA rules and falsely certifying compliance with underwriting requirements in order to reap the profits from FHA-insured mortgages. For example, Quicken allegedly had a “value appeal” process where, when Quicken received an appraised value for a home that was too low to approve a loan, Quicken often requested a specific inflated value from the appraiser with no justification for the increase— even though such a practice was prohibited by the applicable FHA requirements. Quicken also allegedly granted “management exceptions” whereby managers would allow underwriters to break an FHA rule in order to approve a loan.

The government’s complaint alleges that Quicken’s senior management was aware of these and other problems. The complaint alleges that Quicken’s Divisional Vice President for Underwriting, the second most senior executive in Quicken’s Operations Department, wrote in an email discussing the value appeal process that “I don’t think the media and any other mortgage company (FNMA, FHA, FMLC) would like the fact we have a team who is responsible to push back on appraisers questioning their appraised values.” In another email, the same Divisional Vice President for Underwriting wrote to a group of Quicken executives stating that 40 percent of the management exceptions on FHA’s early payment defaults should not have been granted, adding: “we make some really dumb decisions when it comes to client service exceptions. Example, purchase loan we pulled new credit and the client

stopped paying on almost everything and the scores fell by 100 points, we [still] closed it.” In yet another email discussing an FHA loan, the Operations Director, a senior level executive, explained that the loan was approved based on “bastard income,” which he described as “trying to put some kind of income together that is plausible to the investor even though we know its creation comes from something evil and horrible.”

The government’s complaint alleges that as a result of Quicken’s knowingly deficient mortgage underwriting practices, HUD has already paid millions of dollars of insurance claims on loans improperly underwritten by Quicken, and that there are many additional loans improperly underwritten by Quicken that have become at least 60 days delinquent that could result in further insurance claims on HUD. For example, the government’s complaint identifies a borrower whose bank account statement showed overdrafts in multiple months and during the loan application process requested a refund of the \$400 mortgage application fee so that the borrower would be able to feed the borrower’s family. Nevertheless, Quicken allegedly approved the loan. The borrower made only five payments before becoming delinquent and as a result, HUD ultimately paid an FHA insurance claim of \$93,955.19. In another example, the complaint identifies a loan where the borrower was cashing out equity through a cash-out refinance. Allegedly, Quicken originally received an appraised value of \$180,000, but because the borrower wanted to receive more cash, Quicken requested the appraiser to inflate the value by \$5,000. The appraiser allegedly provided Quicken’s requested value of \$185,000 even though the only difference between the two appraisals was the appraised value – the comparable sales analysis, and even the date of the appraiser’s signature, remained the same. Quicken allegedly used the inflated appraisal value to approve the loan. The borrower was delinquent on his first payment and as a result, HUD ultimately paid an FHA insurance claim of \$204,208.

The complaint further alleges that Quicken failed to implement an adequate quality control program to identify deficient loans, and that Quicken failed to report to HUD the loans it did identify. In particular, according to the government’s complaint, despite its obligation to report to HUD all materially deficient loans, during the period from September 2007 to December 2011, Quicken concealed its deficient underwriting practices and failed to report a single underwriting deficiency to the agency.

“As the complaint alleges, Quicken violated HUD’s quality standards when obtaining HUD insurance for mortgage loans,” said U.S. Attorney John Walsh of the District of Colorado, whose office helped to lead the investigation. “Quicken issued hundreds of defective mortgage loans, and left HUD – and the taxpayer – to pay for the loans that defaulted. Quicken’s alleged fraudulent conduct affected communities nationwide. This case is the latest step in our commitment to hold accountable mortgage lenders who profit by taking advantage of HUD insurance and issuing defective loans that do not meet HUD’s standards.”

“Quicken needs to be held accountable for violations of HUD requirements in the origination of FHA loans, as alleged in the complaint,” said HUD General Counsel Helen R. Kanovsky. “HUD will continue to take action to protect the FHA and American homebuyers.”

“The complaint alleges that Quicken approved loans that should not have been approved and submitted them for FHA insurance,” said HUD Inspector General David A. Montoya. “The alleged cost to the FHA insurance fund was millions of dollars and hopefully this serves as reinforcement to Quicken that doing the wrong thing really never is worth it.”

The investigation of this matter was a coordinated effort among HUD-Office of Inspector General, HUD, the U.S. Attorney’s Office of the District of Colorado and the Civil Division’s Commercial Litigation Branch.

The action is captioned *United States v. Quicken Loans, Inc.* (D.D.C.). The claims asserted in the complaint are allegations only and there has been no determination of liability.

Attachment(s):

[Download quicken_loans_complaint.pdf](#)

Tonic(s):

False Claims Act
Mortgage Fraud

Component(s):
Civil Division

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