



# Department of Justice

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**Acting United States Attorney**  
**Eastern District of New York**

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## **PRESS RELEASE**

### **PHH AGREES TO PAY OVER \$74 MILLION TO RESOLVE ALLEGED FALSE CLAIMS ACT LIABILITY ARISING FROM MORTGAGE LENDING**

PHH Corp., PHH Mortgage Corp. and PHH Home Loans (collectively, PHH) have agreed to pay the United States \$74,453,802 to resolve allegations that they violated the False Claims Act by knowingly originating and underwriting mortgage loans insured by the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA), guaranteed by the United States Department of Veteran Affairs (VA), and purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) that did not meet applicable requirements, the Justice Department announced today. PHH Corp. and PHH Mortgage Corp. are headquartered in Mount Laurel, New Jersey, while PHH Home Loans is headquartered in Edina, Minnesota.

"For government mortgage programs to assist homeowners but not take on ill-advised risk, all participants in the mortgage lending process must provide true and complete information," stated Bridget M. Rohde, Acting United States Attorney for the Eastern District of New York. "Today's settlement with PHH demonstrates our continuing commitment to requiring such integrity in the process."

"Government mortgage programs designed to assist homeowners — including programs offered by the FHA, VA, Fannie Mae and Freddie Mac — depend on lenders to approve only eligible loans," said Acting Assistant Attorney General Chad A. Readler, head of the Justice Department's Civil Division. "The Department has and will continue to hold accountable lenders that knowingly cause the government to guarantee, insure, or purchase loans that are materially deficient and put both the homeowner and the taxpayers at risk."

The settlements announced today resolve allegations that PHH failed to comply with certain Fannie Mae and Freddie Mac, VA, and FHA origination, underwriting, and quality control requirements.

From at least 2009 to 2013, PHH sold mortgage loans to Fannie Mae and Freddie Mac. Congress created the two entities to provide stability and liquidity in the secondary housing market and established the Federal Housing Finance Agency (FHFA) to supervise, regulate, and oversee Fannie Mae and Freddie Mac, as well as the Federal Home Loan Bank System. Since 2008, in response to the substantial deterioration in the housing markets that severely damaged Fannie Mae and Freddie Mac's financial condition, Fannie Mae and Freddie Mac have been operating under a government conservatorship. The settlement resolves the United States' contentions that PHH originated and sold loans to Freddie Mac and Fannie Mae that did not meet their requirements.

In addition, from at least 2005 to 2012, PHH was a VA approved lender, originating and underwriting mortgage loans and obtaining VA loan guarantees. The VA helps Servicemembers, Veterans, and eligible surviving spouses become homeowners by guaranteeing a portion of home loans. VA home loans are provided by certain pre-approved private lenders, including banks and mortgage companies. By guaranteeing a portion of the loan, the VA enables the lender to provide Servicemembers, Veterans, and eligible surviving spouses with loan terms that are more favorable than would otherwise be available in the marketplace. In order to qualify for a VA guarantee, borrowers must comply with VA loan requirements. The settlement resolves the United States' claims and potential claims that PHH originated loans that it submitted for guarantee by the VA that did not meet the VA's requirements.

Also, since at least January 2006, PHH has participated as a Direct Endorsement lender (DEL) in the FHA insurance program. A DEL has the authority to originate, underwrite, and endorse mortgages for FHA insurance. If a DEL approves a mortgage loan for FHA insurance and the loan later defaults, the holder of the loan may submit an insurance claim to HUD, FHA's parent agency, for the losses resulting from the defaulted loan. Under the DEL program, the FHA does not review a loan before it is endorsed for FHA insurance for compliance with FHA's credit and eligibility standards, but instead relies on the efforts of the DEL to verify compliance. DELs are therefore required to follow program rules designed to ensure that they are properly underwriting and certifying mortgages for FHA insurance.

Between January 1, 2006, and December 31, 2011, PHH certified for FHA insurance mortgage loans that did not meet HUD underwriting requirements and did not adhere to FHA's self-reporting requirements.

As a result of PHH's conduct and omissions, PHH admitted, HUD insured loans endorsed by PHH that were not eligible for FHA mortgage insurance under the DEL program, and that HUD would not otherwise have insured. It admitted that HUD subsequently incurred substantial losses when it paid insurance claims on those loans.

"This case demonstrates HUD's resolve in protecting the integrity of its mortgage insurance programs for the benefit of all Americans, and in particular, first time

homebuyers,” said Dane Narode, HUD’s Associate General Counsel for Program Enforcement. “We are gratified that PHH has accepted responsibility for its actions.”

“This settlement resolves allegations of reckless origination and underwriting of VA guaranteed mortgage loans,” said Michael J. Missal, Inspector General, for the Office of Inspector General for the Department of Veteran Affairs (VA OIG). “It sends a clear message that the VA OIG will aggressively protect the integrity of this crucial program which helps so many of our veterans buy, build, or repair their homes. I would also like to thank the U.S. Attorney's Offices for partnering with us to achieve this significant result.”

Some of the allegations resolved by these settlements were made in a whistleblower lawsuit filed under the False Claims Act by a former employee of PHH, Mary Bozzelli against PHH Corp. and PHH Mortgage Corp. Under the False Claims Act, private citizens can sue on behalf of the government and share in any recovery. Ms. Bozzelli will receive \$9,067,377.33 from the settlements.

The settlements were the result of joint investigations conducted by HUD, the HUD Office of Inspector General, the Veterans Administration’s Office of Inspector General, the FHFA Office of Inspector General, the Department of Justice’s Civil Division, and the U.S. Attorney’s Offices for the Eastern District of New York, District of Minnesota, District of New Jersey, and Southern District of Florida. The *qui tam* action is captioned *United States ex rel. Mary Bozzelli v. PHH Mortgage Corporation and PHH Corporation*, 13-cv-3084 (E.D.N.Y.). The claims asserted against PHH are allegations only, and there has been no determination of liability.

The Eastern District of New York’s portion of the case was handled by Assistant United States Attorneys Matthew J. Mailloux, John Vagelatos and Orelia E. Merchant, and Affirmative Civil Enforcement Auditor Emily Rosenthal.

E.D.N.Y. Docket No. 13-CV-3084 (JFB)(GB)