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Financial Freedom Settles Alleged Liability For Servicing Of Federally Insured Reverse Mortgage Loans For $89 Million

Fort Myers, FL - Financial Freedom has agreed to a settlement with the United States of more than $89 million to resolve allegations that it violated the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) in connection with its participation in a federally insured Home Equity Conversion Mortgages (HECM) or 'reverse mortgage' program, the Justice Department announced today. Financial Freedom is headquartered in Austin, Texas.

"This settlement represents our office's continued commitment to protecting the financial solvency of vital financial programs designed to benefit America's seniors," said Acting U.S. Attorney Muldrow. "HECM servicers must be held accountable for failing to adhere to FHA requirements that are designed to ensure the continued viability of the HECM program. We are pleased that Financial Freedom agreed to accept financial responsibility for these failures."

"The Department of Justice is committed to ensuring that those who participate in federal mortgage insurance programs comply with requirements essential to the success of its programs," said Acting Assistant Attorney General Chad A. Readler of the Justice Department's Civil Division. "Among these requirements are the deadlines imposed by the Federal Housing Administration (FHA) on those who service government insured mortgages. Those deadlines are designed to protect the government's collateral and stop the unnecessary loss of government funds and resources."

Through 'reverse mortgage' loans, older people are able to access the equity in their homes by borrowing money against the equity they have built in their home. To encourage reverse mortgage loans, the FHA protects lenders from loss by providing mortgage insurance. Under FHA's program, a loan becomes due and payable when the home is sold or vacant for more than 12 months or upon the death of the homeowner, whichever comes first. The lender is repaid the amount of the loan, including the costs of servicing the loan and any interest that accrues on lender expenses after a loan becomes due and payable. FHA will reimburse a lender that is unable to recoup the full amount of the loan. In order to claim recoupment, the servicer is required to meet a number of regulatory requirements and deadlines.

The United States alleged that Financial Freedom sought to obtain insurance payments for interest from FHA despite failing to properly disclose on the insurance claim forms it filed with the agency that the mortgagee was not eligible for such interest payments because it had failed to meet various deadlines relating to appraisal of the property, submission of claims to HUD, and pursuit of foreclosure proceedings. As a result, from March 31, 2011 to August 31, 2016, the mortgagees on the relevant reverse mortgage loans serviced by Financial Freedom allegedly obtained additional interest that they were not entitled to receive.

The United States' investigation arose from a declaration filed pursuant to FIRREA by Sandra Jolley, a consultant for the estates of borrowers who took out HECM loans. Under FIRREA, whistleblowers may file declarations concerning alleged violations of the statute and may obtain a share of the recovery. Ms. Jolley will receive $1.6 million from the settlement.

"Today's settlement agreement resolves allegations that this lender failed to comply with FHA servicing requirements and sought to receive financial gains that it was not legally entitled to," said HUD Inspector General David A. Montoya. "These actions today demonstrate our continued commitment to address and halt business practices that pose a serious risk to the FHA program and the public's trust in HUD administered programs."

The settlement was the result of the coordinated efforts of the Civil Division's Commercial Litigation Branch, the U.S. Attorney's Office for the Middle District of Florida, and the Department of Housing and Urban Development's Office of Inspector General and Office of General Counsel. The case was handled by Assistant U.S. Attorney Kyle Cohen, along with Trial Attorneys Sean O'Donnell and Christopher Reimer of the Department of Justice Civil Frauds Section.

The claims resolved by the settlement are allegations only, and there has been no determination of liability.

Topic(s):
False Claims Act

Component(s):
USAO - Florida, Middle

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