

More Banks In Hot Water Over Fraudulent Loan Guarantee Claims

May 24, 2011 - Earlier this month we told you about the federal government's law suit against Deutsche Bank. The bank is accused of lying to the federal government about its lending standards in order to obtain federal guarantees on loans that shouldn't have qualified for them. Based on the government's claims, taxpayers have had to pay out \$390 million to cover those guarantees so far. Now comes word that five more banks are in hot water. This time, not over their lending standards but rather over falsified documents used to foreclose on homes with federally guaranteed loans.

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According to a story broken by the Huffington Post, the Department of Housing and Urban Development's (HUD) Inspector General has determined that five banks have violated the False Claim Act of 1863. This law is designed to protect the federal government from fraudulent monetary claims against it.

HUD's IG is accusing the banks of falsifying documents that were used in foreclosures involving homes that had federally guaranteed loans. You may recall a lot of press coverage late last year about banks foreclosing on people without being able to prove that they actually had a right to do so. What the banks were doing was having their employees sign affidavits that stated the loans in question had been reviewed and that they did have a right to foreclose due to nonpayment. In reality, the people who were signing those affidavits had never actually looked to see if the bank still owned the loans or if they had been sold to investors. This is something we had warned about back in May, 2008.

The affidavits that were signed were legal documents and they were furnished to the federal government as proof that the banks had followed all proper procedures in their foreclosures. As a result, the federal government would then pay the banks to cover losses associated with the bad loans they had issued.

Once it became public knowledge that the banks had not been honest when signing these affidavits, the government began to investigate. While the banks are not commenting publicly about the HUD investigation, Huffington Post has identified the five banks involved as JP Morgan Chase, Bank of America, Ally Financial (formerly GMAC), Wells Fargo and Citigroup.

The matter has now been referred to the Justice Department for further investigation and possible prosecution and civil suits. The banks are reportedly in active negotiations with HUD, the Justice Department, the FTC, the Treasury Department and a variety of states attorney's general to settle the matter.

It is likely that further allegations involving lenders will arise going forward. HUD made it perfectly clear when it announced the suit against Deutsche Bank that it was looking at other lenders for similar issues. Deutsche Bank is being sued for \$1 Billion by the government. Additionally, the government has asked that it be freed from guarantees made to Deutsch Bank on loans that have not yet defaulted.

by Jim Malmberg

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