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MEMORANDUM NO.
2005-CH-1803

September 15, 2005

MEMORANDUM FOR: John W. Herold, Associate General Counsel for Program
Enforcement, CE


FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Actions under Program Fraud Civil Remedies Act
Charles Gahan, Former Loan Officer of AIM Financial, Inc.
Caledonia, Michigan

INTRODUCTION

We reviewed AIM Financial, Inc. (AIM), a former non-supervised loan correspondent approved to originate Federal Housing Administration-insured loans. We initiated our review based on a citizen complaint to our office. Our objective was to determine whether AIM originated Federal Housing Administration-insured loans according to the U.S. Department of Housing and Urban Development's (HUD) requirements.

METHODOLOGY AND SCOPE

We performed file reviews of 26 selected loans and completed interviews with borrowers to determine whether AIM originated loans in accordance with HUD's requirements. We interviewed HUD's staff, current and former staff of AIM, and former staff members of Bedford Financial, Inc. (Bedford), a Federal Housing Administration loan correspondent. We reviewed HUD's Federal Housing Administration case binders, its single family mortgage insurance program's loan origination procedures, and AIM's files. We verified the borrowers' employment and bank accounts, and interviewed the borrowers for 23 of the 26 loan files reviewed.

Our review covered the period January 1, 1998, through September 30, 2000. We extended the review coverage as necessary. We conducted the review at HUD's Grand Rapids Field Office and AIM's office from November 2000 through April 2002.

AIM is located at 4595 Broadmoor Avenue Southeast, Kentwood, Michigan. The president of AIM Financial is Jeffrey Baum.

BACKGROUND

The HUD program involved in this review is the Title II single-family home loan insurance program. Pursuant to the National Housing Act, HUD has the authority to guarantee single-family home loans. HUD's secretary is authorized and empowered to approve lenders who are responsible and able to originate, underwrite, and service Federal Housing Administration-insured single-family home mortgages. Through the direct endorsement program, HUD approves mortgages to process and approve loans to borrowers.

HUD requires, as part of the loan origination and approval process, that the lender complete a "lender certification" which is part II of HUD Form 92900A. By signing the lender certification, the lender certifies that the loan terms furnished in the uniform residential loan application are true, accurate, and complete. The certification also states the information contained in the loan application was obtained directly from the borrower by a full-time employee of the undersigned lender or its duly authorized agent, and is true to the best of the lender's knowledge and belief. On this form, the lender's representative must also certify that mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents have been personally reviewed and make all certifications required for the mortgage as set forth in HUD Handbook 4000.4.

RESULTS OF REVIEW

Our review determined that AIM, although at one time a Federal Housing Administration approved lender, had, before its approval, originated Federal Housing Administration-insured loans using the name and Federal Housing Administration number of another lender. AIM executed HUD Form 92900A for 10 insured loans, the earliest executed on January 22, 1999, falsely certifying it was Bedford. At that time, Bedford was a Federal Housing Administration approved lender, while AIM was not. In 6 of the 10 cases, Charles Gahan, acting on behalf of AIM, executed the lender certification and lender's certificate using Bedford's name, address, and lender identification number. AIM later obtained approval to originate Federal Housing Administration-insured loans from September 29, 1999, through July 15, 2002.

On December 14, 2004, we referred Mr. Gahan to HUD's Office of General Counsel for administrative sanctions under the Program Fraud Civil Remedies Act of 1986. HUD filed a complaint against Mr. Gahan on March 10, 2005, seeking civil penalties. HUD executed a settlement agreement with Mr. Gahan effective August 24, 2005, without any admission of wrongdoing, for \$15,000. Mr. Gahan issued a check payable to HUD dated August 15, 2005, for the \$15,000 settlement amount.

RECOMMENDATION

We recommend that HUD's associate general counsel for program enforcement

- 1A. Post the \$15,000 settlement payment to HUD's Audit Resolution and Corrective Actions Tracking System.

We posted the settlement payment to HUD's Audit Resolution and Corrective Actions Tracking System. Therefore, no action is required and a management decision will be concurrent with the issuance of this audit memorandum and final action.

Schedule of Ineligible Cost ^{1/}

<u>Recommendation</u> <u>number</u>	<u>Amount</u>
A	<u>\$15,000</u>
Total	<u>\$15,000</u>

- ^{1/} Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

If you or your staff has any questions, please contact Ronald Farrell, Assistant Regional Inspector General for Audit, at (614) 469-5737, extension 8279, or me at (312) 353-7832.