Department of Justice sues Detroit-based Quicken Loans for mortgage fraud

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Quicken Loans, the Detroit-based mortgage lender headed by billionaire Dan Gilbert, has been sued for fraudulent lending practices by the US Department of Justice (DOJ).

Gilbert and his Bedrock Real Estate Services own over 70 properties in downtown Detroit, adding up to $1.6 billion in commercial spaces and parking garages and over 11 million square feet in real estate.

In a suit filed last week, the DOJ claims Quicken encouraged its employees to underwrite mortgages and improperly originate loans they knew would go into default in order to collect insurance money from the government.

"As the complaint alleges, Quicken violated HUD's [Department of Housing and Urban Development] quality standards when obtaining HUD insurance for mortgage loans," said US Attorney John Walsh of the District of Colorado, whose office was in charge of 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."

The DOJ has already reached settlements with lenders over their practices relating to FHA [Federal Housing Administration] loans, including Bank of America, JPMorgan Chase, Sun Trust and US Bank. The deals involved monetary damages only, with no bank officials criminally charged.

The FHA, part of HUD, sells insurance that backs mortgages for borrowers with low credit scores, which allows borrowers to be approved for loans with cheaper down payments and closing costs. If the homeowner, the borrower, does not make the payments and they default on the loan, the lender can make a claim to the FHA to cover the losses.

In an effort to preempt the DOJ suit, on April 17 Quicken filed its own suit against the DOJ, HUD and its inspector general. The claim was that the government's attorneys were attempting to push through a settlement and admission of fraud that Quicken and its executives argue they did not commit.

Quicken's lawsuit charges that the examples used by the DOJ are "riddled with inaccurate and twisted conclusions from fragments of a handful of emails cherry-picked from 85,000 documents that the DOJ subpoenaed."

"We've gotten emails and letters from people all over the country, not just in the home lending business but all over the country—standing behind us, and understanding this is a moral, ethical type of battle," said Gilbert.

Gilbert's posture of injured innocence has been echoed by the local press. For example, Nolan Finley, editorial page editor of the *Detroit News*, praised Gilbert for standing up to "government goons."

The DOJ charges, however, are backed by substantial evidence from subpoenaed emails. One, from Quicken's divisional vice president for underwriting, concedes that 40 percent of management's exceptions on defaulted early payments should not have been granted. Another email from the same executive admitted, "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."

Another email cites Mike Lyon, operations director at Quicken, in which he explains that loans were approved based on "bastard income," defined in the same message 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."

In one case a borrower requested the $400 mortgage

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application fee back in order to feed her family. The borrower's bank statements showed multiple overdrafts over the course of a few months. Quicken instead approved the loan, and the borrower defaulted after making the first five payments, costing the FHA nearly $94,000.

The suit against Quicken for fraudulent lending practices comes as the foreclosure crisis in Detroit deepens in the wake of the Detroit bankruptcy. Gilbert is head of the Detroit Blight Removal Task Force, responsible for the demolition of tens of thousands of foreclosed and abandoned homes in the city; a catastrophe Quicken helped to create.

Currently an estimated 62,000 properties face foreclosure in the city, about 28,000 of them owned by individuals currently residing in them. So far, only 7,500 of these homes have been secured by payment plans to address back taxes.

Errol Jennings, president of the Historic Russell Woods-Sullivan Area Association, wrote to city and state officials in an effort to address the issue. "This crisis affects over 100,000 residents, or nearly one-fifth of the population, who may be forced to leave their family homes. This is a crisis!"

The Michigan Hardest Hit Fund's "Step Forward" program has reallocated some money with the supposed intent of removing blight across the state. This program was funded by the US Treasury in 2010 following the housing market collapse in 2008. Jennings told the *Metro Times*, however, that it has failed to assist Detroit residents.

"For those who applied, thousands were denied as being 'too poor' to qualify, which probably means the property should be tax exempt!" he wrote in his letter. "We have one Russell Woods resident that has applied three times without resolution."

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