EXHIBIT B

UNITED STATES OF AMERICA
Before the
CONSUMER FINANCIAL PROTECTION BUREAU

ADMINISTRATIVE PROCEEDING
File No. 2014-CFPB-0002

In the Matter of	)	
	)	
PHH CORPORATION,	)	
PHH MORTGAGE CORPORATION,	)	DECISION OF THE DIRECTOR
PHH HOME LOANS LLC,	)	**(PUBLIC VERSION)**
ATRIUM INSURANCE CORPORATION, and	)	
ATRIUM REINSURANCE CORPORATION	)	

Introduction

Many view a new home as the foundation of the American dream. But buying a home is among the biggest financial decisions most people ever make, and getting a mortgage to pay for it can be a complicated and frustrating experience. When consumers arrive at their mortgage closings, they often face a pile of documents with all the intricate details of the transaction. This includes the terms of the mortgage loan and all of the closing costs, which are payments for the real estate settlement services that are involved in buying a home. Settlement services are unfamiliar to most consumers, and the costs of each service can range from negligible to substantial. Although most consumers actively shop for a home and some shop for a mortgage, very few actually shop for settlement services.

In 1974, Congress found that the market for settlement services did not operate as a competitive market, but was prone to abusive and unreasonable practices. *See* 12 U.S.C. § 2601(a), (b)(2). To make the market operate more fairly, Congress enacted the Real Estate Settlement Procedures Act (RESPA), 12 U.S.C. §§ 2601-2617, and explicitly designed it to protect consumers "from unnecessarily high settlement charges caused by certain abusive practices." 12 U.S.C. § 2601(a). One of the ways RESPA seeks to achieve this goal is by prohibiting kickbacks, referral fees, and fee splits between settlement service providers and any other person, all of which can distort the competitive market and increase the costs of settlement services. *See* 12 U.S.C. § 2607(a), (b).

This is the first appeal of an administrative enforcement proceeding before the Consumer Financial Protection Bureau. Administrative Law Judge Cameron Elliot conducted a lengthy trial and concluded that PHH Corp., a mortgage lender, referred consumers to mortgage insurance companies in exchange for kickbacks, which took the form of mortgage *re*insurance premiums paid to a subsidiary of PHH. The ALJ held that these referrals and kickbacks violated RESPA.

All parties appealed the ALJ's Recommended Decision, and the appeal was fully briefed and argued. Based on the facts as developed in this proceeding, I affirm the ALJ's conclusion that PHH violated RESPA, though on somewhat different grounds. I further conclude that PHH's violations warrant disgorgement of just over $109 million, as specified below, along with additional injunctive relief. To the extent that the ALJ's findings and conclusions are consistent with this decision, I adopt them as my own. I have issued two versions of this decision – an unredacted version for the parties, and a redacted version for the public. I have made these redactions based upon the protective order entered by the ALJ, as amended. Docs. 48, 176.[1]

Findings of Fact and Legal Background

As explained below, the following facts have been established by a preponderance of the evidence in this proceeding.

A. The cast of characters

PHH Mortgage Corp. and PHH Home Loans LLC are owned, at least in part, by PHH Corp. Doc. 16 at 2. PHH Corp. is publicly owned, and through PHH Mortgage and PHH Home Loans (collectively, "PHH"), is an originator of home mortgage loans. During the relevant period, PHH was one of the nation's largest home mortgage lenders. Tr. at 2171. It sold virtually all the mortgages it originated into the secondary mortgage market, primarily to Fannie Mae and Freddie Mac. Doc. 18 at 3. In addition to originating loans, PHH purchased loans that other lenders originated. Tr. at 102-104. After it purchased these loans, PHH sold them in the secondary market. ECX 653 at Ex. F ¶ 11.

In 1994, PHH Corp. established Atrium Insurance Corp. as a wholly-owned subsidiary. ECX 153 at 57; Tr. at 123. Atrium did not have any employees of its own – all of its functions were performed by individuals who were also employees of PHH. ECX 153 at 24. In 2009, PHH established Atrium Reinsurance Corp., which took over all the functions of Atrium in January 2010. ECX 653 at 11.

Five other mortgage insurance companies that received referrals of borrowers from PHH have intervened in this proceeding to protect their rights with respect to confidential investigative information they provided to the Bureau. Doc. 40. Those companies are United Guaranty Residential Mortgage Co. (UGI); Genworth Mortgage Insurance Corp. (Genworth); Radian Guaranty Inc. (Radian); Mortgage Guaranty Insurance Co. (MGIC); and Republic Mortgage Insurance Co.

[1] The following abbreviations appear in this decision:

Doc.	Document filed in the proceeding before the ALJ, *available at* http://www.consumerfinance.gov/administrativeadjudication/2014-cfpb-0002/
Tr.	Transcript of the proceeding before the ALJ
ECX	Exhibit submitted by Enforcement counsel in the proceeding before the ALJ
RCX	Exhibit submitted by Respondents in the proceeding before the ALJ
Oral Arg. Tr.	Transcript of the oral argument in this appeal

B. Mortgage insurance and reinsurance

Mortgage insurance provides protection for mortgage lenders (or those who become mortgage creditors) when borrowers default on mortgage loans. Although mortgage insurance provides protection for creditors, it is paid for by borrowers, who thus are paying for insurance that they will never collect. Tr. at 325-326. Borrowers are usually required to obtain mortgage insurance if they are financing more than 80% of the value of a home because Fannie Mae and Freddie Mac will not purchase such loans without this additional security in the event of foreclosure. *Id.* Mortgage insurance policies normally cover a certain percentage of a borrower's loan. Most of the policies in this case provided coverage for 25% of the loan, so that in the event of a foreclosure, the mortgage insurer would cover the lender's losses up to 25% of the mortgage amount. *Id.*

Borrowers who are required to get mortgage insurance do not normally shop for it. ECX 153 at 85; Tr. at 119. Instead, lenders designate the mortgage insurance company, and borrowers pay for the insurance – usually paying a monthly premium as part of each mortgage payment. Thus, mortgage insurance companies typically depend on lenders to "refer" business to them; they do not market directly to borrowers, and borrowers do not seek them out. Tr. at 119, 334. Mortgage insurers must file their rates with state insurance regulators, and there is generally little variation among rates charged by different mortgage insurers. ECX 153 at 198.

Throughout the 1990s, and up until the collapse of housing prices in 2008, mortgage insurance was very lucrative, though this revenue did not benefit mortgage lenders. Tr. at 340, 361-362, 2142. Atrium provided a way for PHH to capture a portion of the profits that mortgage insurers had been reaping. Tr. at 361-362, 2142; *see* ECX 682. Atrium was a mortgage *re*insurance company. ECX 653 at 9. A legitimate mortgage reinsurer assumes some of the risk that would otherwise be borne by a mortgage insurer. ECX 153 at 74; ECX 653 at 5. In return, it garners a portion of the premiums that borrowers pay to the mortgage insurer. ECX 653 at 5; Tr. at 124. At various times, beginning in 1995, Atrium entered into contracts with mortgage insurers to provide them with reinsurance on loans originated by PHH. ECX 17. To get this reinsurance, the mortgage insurer had to pay Atrium (or, to use the industry jargon, "cede" to Atrium) a portion of the mortgage insurance premium paid by the borrower. Tr. at 125. Atrium was a "captive" reinsurer, meaning it provided reinsurance only for mortgage insurers that insured mortgages generated by PHH, and only for mortgages that PHH originated or obtained from its own correspondent lenders. ECX 153 at 38-39; Tr. at 123-124.

Mortgage insurers provide payment any time a lender suffers a loss on a particular loan. Tr. at 325-326. Mortgage reinsurance works differently, because it provides coverage not for lenders, but for mortgage insurers themselves. Thus, Atrium did not provide coverage for individual loans; instead, its reinsurance covered a block of loans, known as a "book year." ECX 153 at 74; Tr. at 602. Normally, a book year consisted of all the policies written by a particular insurer on mortgages originated by PHH during a specific year. Tr. at 602. Atrium's obligation to the mortgage insurer was determined on a monthly or quarterly basis, based on the total losses attributed to the loans in that book year. ECX 153 at 12-13. If the mortgage insurer's obligation on that book year of policies exceeded the coverage threshold, Atrium would pay the insurer the amount of the excess, up to the limit of Atrium's coverage. *See, e.g.*, RCX 44.

Pursuant to its contracts, Atrium provided each reinsured book year with ten years of reinsurance – meaning that for ten years following the closing of the loans in a book year, Atrium received reinsurance premiums covering those loans and was liable for claims. After ten years, the mortgage insurer was on its own. ECX 153 at 58-59; RCX 44. Atrium established a separate trust account for each mortgage insurer that it reinsured. Tr. at 581. For the most part, claims made by a particular mortgage insurer would be paid only from that company's trust account. *Id.*

Atrium entered into its first captive contract with UGI in 1995. Tr. at 2180. Atrium entered its second contract with Genworth in 2001, its third contract in 2004 with Radian, and its fourth (and final) contract in 2006 with CMG Mortgage Insurance Co. (CMG). Tr. at 1926-27, RCX 44.

Atrium's captive reinsurance agreements could be terminated through one of two methods: "run-off" or "commutation." When an agreement went into run-off, Atrium accepted no new loans from that mortgage insurer, but remained liable for loans that it had previously accepted, and continued to receive premiums on those loans. Tr. at 460. If, instead, Atrium commuted an agreement, it terminated the relationship with that insurer entirely. As part of the commutation, Atrium and the insurer exchanged payments based on an actuarial valuation, thereby settling all past, present, and projected future obligations under the agreement. Tr. at 595-596; ECX 790 at 62-14.

From 1995 to 2001, PHH referred most of its loans that required mortgage insurance to UGI. During that period, UGI was the only mortgage insurer that had a captive reinsurance agreement with PHH. ECX 153 at 198. Beginning in 2001, when PHH had captive agreements with more than one mortgage insurer, PHH used an automated process, known as the "dialer," for assigning to mortgage insurers the loans that it had originated. Tr. at 106-107. If a mortgage insurer was not on the dialer, it would not receive referrals from PHH. Tr. at 107. As of May 2001, shortly after Atrium entered into its second captive contract (with Genworth), PHH had set its dialer to refer a portion of its loans requiring mortgage insurance to UGI, and the remainder to Genworth. ECX 654 at Ex. M. In 2003, Genworth announced a new business strategy: beginning in 2004, it would no longer pay as much for reinsurance as it had been paying to Atrium. ECX 794. Within a few weeks, PHH reset the dialer so that Genworth would receive only one-third of the referrals that it had previously been receiving and UGI would receive the referrals that Genworth had lost. *Id.* Genworth never implemented its new strategy, but it was several years before PHH modified its dialer to restore Genworth's share. Tr. at 368; ECX 654 at Ex. M. MGIC was not willing to pay Atrium's price, and recognized that it lost referrals as a result. Tr. at 339-342.

In February 2008, UGI informed PHH that it would end its relationship with Atrium at the end of May, and put all previous book years into run-off. ECX 31. Between January 1 and May 31, 2008, PHH referred [redacted] loans to UGI; from the beginning of June through the end of November, PHH referred only [redacted] loans to UGI – a decline of more than 99%. ECX 159 at 2008 tab. In late November 2008, PHH and UGI entered into a new captive reinsurance agreement. ECX 407. Six minutes after learning of the new agreement, PHH's senior vice president gave instructions to return UGI to the dialer. *Id.*

PHH had a different system for loans purchased from its correspondent lenders. If it purchased a loan requiring mortgage insurance (so that the loan could be sold in the secondary market), PHH would provide the correspondent lender with a list of preferred mortgage insurers. ECX 773; RCX 825. Most of those on the list had captive contracts with PHH. ECX 262. If a lender selected a mortgage insurer that was not on the preferred list, then PHH imposed a surcharge on the loan. RCX 825.

Although Atrium paid out more in claims than it received in premiums in some book years, its reinsurance business resulted in profits in excess of $150 million. *See* Respondents' Compilation of Material in Support of Their Appeal at tabs B and C.

C. RESPA and Bureau enforcement authority

Congress passed RESPA in 1974 based on its finding that "significant reforms in the real estate settlement process are needed to insure that consumers throughout the Nation … are protected from unnecessarily high settlement charges caused by certain abusive practices that have developed in some areas of the country." 12 U.S.C. § 2601(a). Thus, a primary purpose of RESPA is to "eliminat[e] … kickbacks or referral fees that tend to increase unnecessarily the costs of certain settlement services[.]" 12 U.S.C. § 2601(b)(2).

Section 8 of RESPA, 12 U.S.C. § 2607, is captioned "Prohibition against kickbacks and unearned fees." Section 8(a) provides:

> No person shall give and no person shall accept any fee, kickback, or thing of value pursuant to any agreement or understanding, oral or otherwise, that business incident to or a part of a real estate settlement service involving a federally related mortgage loan shall be referred to any person.

12 U.S.C. § 2607(a). So a RESPA 8(a) violation has four elements: (1) there must be a payment or transfer of a thing of value; (2) that payment or transfer must be made pursuant to an agreement to refer real estate settlement business; (3) a referral must actually occur; and (4) the real estate settlement service must be provided in connection with a federally related mortgage loan.

The term "settlement services" is defined in RESPA, 12 U.S.C. § 2602(3), as including a variety of services provided in connection with the settlement of a loan. That definition is fleshed out in Regulation X (the regulation that implements RESPA):

> Settlement service means any service provided in connection with a prospective or actual settlement, including, but not limited to any one or more of the following: … (10) Provision of services involving mortgage insurance; … (15) Provision of any other services for which a settlement service provider requires a borrower or seller to pay.

12 CFR § 1024.2(b) (2013).

Regulation X also defines both "agreement or understanding" and "thing of value." *See* 12 C.F.R. § 1024(14)(d)-(e). With respect to an "agreement or understanding," the regulation states:

> An agreement or understanding for the referral of business incident to or part of a settlement service need not be written or verbalized but may be established by a practice, pattern or course of conduct. When a thing of value is received repeatedly and is connected in any way with the volume or value of the business referred, the receipt of the thing of value is evidence that it is made pursuant to an agreement or understanding for the referral of business.

12 C.F.R. § 1024.14(e). A thing of value "includes, without limitation, monies [or] credits representing monies that may be paid at a future date." 12 C.F.R. § 1024.14(d).

Section 8(b) is similar to section 8(a), but describes a separate violation of RESPA. It prohibits the splitting of charges for providing real estate settlement services:

> No person shall give and no person shall accept any portion, split, or percentage of any charge made or received for the rendering of a real estate settlement service in connection with a transaction involving a federally related mortgage loan other than for services actually performed.

12 U.S.C. § 2607(b). A violation of section 8(b) therefore has four elements: (1) one person gives and another person receives (2) a portion, split, or percentage of a charge that the person received for the rendering of a real estate settlement service (3) involving a "federally related mortgage loan" (4) unless that portion is "for services actually performed."

Finally, section 8(c)(2) provides that "[n]othing in this section shall be construed as prohibiting … the payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed." 12 U.S.C. § 2607(c)(2).

The Bureau was established by the Consumer Financial Protection Act of 2010 (CFPA), which was Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and began its operations on July 21, 2011. The Bureau may conduct administrative proceedings to enforce any of the laws that it is authorized to enforce. *See* 12 U.S.C. § 5563. RESPA is one of those laws. *See* 12 U.S.C. § 5481(12)(M). The Department of Housing and Urban Development (HUD) enforced RESPA prior to the Bureau's creation, *see* 12 U.S.C. § 2607(d)(4) (2006), and it was actually HUD that first conducted an investigation into the circumstances at issue here. Ultimately this matter was referred over to the Bureau, after it had assumed its full enforcement authorities under the CFPA.[2]

The Bureau's Rules of Practice govern its administrative proceedings, and those procedural rules are set forth at 12 C.F.R. Part 1081. This proceeding has followed those rules, and is the first administrative proceeding to give rise to an appeal.

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[2] At the time when HUD enforced RESPA, the implementing regulations were codified at 24 C.F.R. Part 3500. In 2011, the Bureau adopted HUD's rules as the Bureau's new Regulation X. 76 Fed. Reg. 78,978 (Dec. 20, 2011). The Bureau codified its rules at 12 C.F.R. Part 1024. Those rules duplicated HUD's rules, making only "non-substantive, technical, formatting, and stylistic changes." 76 Fed. Reg. at 78,978. The Bureau retained HUD's section numbering, so that, for example, HUD's rule 24 C.F.R. § 3500.2(b) became the Bureau's rule now denoted as 12 C.F.R. § 1024.2(b). Except as noted, the wording of the sections of Regulation X relevant in this proceeding were not changed when they were adopted by the Bureau. For convenience, this decision provides citations to the current legal authorities.

D. Procedural history

1. The notice of charges

After conducting an investigation into this matter, the Bureau's Enforcement counsel filed its notice of charges with the Bureau's Office of Administrative Adjudication on January 29, 2014. Doc. 1. The notice alleged that PHH violated section 8(a) of RESPA when it referred business to mortgage insurers that had entered into captive reinsurance agreements; that the reinsurance payments received by PHH from mortgage insurers were a "thing of value," consideration for PHH's referrals, accepted by PHH, and either not for services actually performed or grossly exceeded the value of the reinsurance services Atrium provided; and that PHH violated section 8(b) of RESPA because the amounts that were ceded to Atrium constituted a split of mortgage insurance premiums paid by the borrowers. *Id.* at 17-18. The notice charged that the violations constituted a pattern or practice that commenced in 1995 and continued until at least May 2013, and that PHH engaged in these violations knowingly or recklessly. *Id.*

The notice sought a variety of remedies, including a permanent injunction prohibiting future violations of section 8, disgorgement of kickbacks PHH received, restitution to compensate borrowers who paid more in interest and mortgage insurance premiums as a result of the kickbacks, and civil money penalties.

2. The ALJ's decisions

At the conclusion of the hearing, the ALJ issued a lengthy Recommended Decision. Earlier, he had issued two orders that are relevant to this appeal.

a. Denial of the motion to dismiss

PHH filed an initial motion to dismiss shortly after it was served with the notice of charges, Doc. 17, and the ALJ denied it, Doc. 67. He held that RESPA's three-year statute of limitations did not apply to this administrative proceeding, and that the Bureau could enforce RESPA administratively with respect to conduct that occurred prior to the date of the Bureau's creation, which again was July 21, 2011. *Id.* at 8-9, 11-13. He also gave short shrift to PHH's claim that consent orders the Bureau had entered into previously with certain mortgage insurers blocked the Bureau from challenging some aspects of PHH's conduct. *Id.* at 13-15.

b. Order on Dispositive Motions

After the start of the trial, Enforcement filed a motion for summary disposition, arguing that the relevant facts were undisputed and that the ALJ should hold, as a matter of law, that PHH had violated both sections 8(a) and 8(b) of RESPA. Doc. 102. At about the same time, PHH renewed its motion to dismiss. Doc. 101. The ALJ resolved both motions, thereby narrowing the issues that remained to be decided at trial. Doc. 152. First, he held that even if Enforcement satisfied all the elements of sections 8(a) or 8(b), PHH still had a chance to prevail by claiming and seeking to establish a defense under section 8(c)(2). *Id.* at 3-4. As to that defense, PHH would bear the burden of proof. *Id.* at 4. As to the showings that PHH would be required to make to establish that claimed defense, the ALJ found a roadmap in an August 1997 guidance letter issued by HUD. *Id.* at 4-7. That letter addresses how parties to captive reinsurance agreements could avoid violating RESPA. ECX 193 at Ex. A. The ALJ construed the letter to hold that PHH could establish a defense to violations of sections 8(a) and 8(b) by showing two things – that its reinsurance involved a real transfer of risk from the mortgage insurers to Atrium ("risk transfer"), and that the price the mortgage insurers paid did not exceed the value of the reinsurance services Atrium provided ("price commensurability"). Doc. 152 at 6-7.

The ALJ also elaborated his previous ruling on the statute of limitations. *Id.* at 10-12. He explained that claims accruing prior to July 21, 2008, would be time-barred because the Bureau could not revive claims that HUD itself could not have brought before the Bureau was established. And he decided that if PHH violated RESPA, those violations occurred only when a loan went to closing, not each time PHH received payment on a reinsurance premium. He also rejected Enforcement's theory that PHH should be liable for its conduct dating back to 1995 if that conduct constituted a pattern or practice of RESPA violations. But the ALJ did hold that, with respect to loans that closed on or after July 21, 2008, the Bureau could seek remedies including injunctive relief, disgorgement, and restitution. *Id.* at 12-14.

The ALJ also granted part of Enforcement's motion for summary decision, holding that undisputed facts established that PHH had violated section 8(b). *Id.* at 18-20. He further held that Enforcement had satisfied most of the elements of a section 8(a) violation. *Id.* at 15-18. To complete the section 8(a) violation, the ALJ noted that Enforcement would have to show that PHH made referrals pursuant to an agreement that continued to be effective on or after July 21, 2008. The ALJ held that a trial would also be necessary to determine if section 8(c)(2) shielded PHH's conduct from liability under sections 8(a) and 8(b). *Id.* at 20.

c. The Recommended Decision

Following an extensive trial, the ALJ issued his Recommended Decision on November 25, 2014. Doc. 205. He concluded that Enforcement had established the final element of a section 8(a) violation – the record evidence showed that PHH orchestrated agreements to refer borrowers to mortgage insurers in return for the reinsurance premiums that the mortgage insurers paid to Atrium. *Id.* at 71-73. Evidence of these agreements came from PHH's allocation of mortgage insurance referrals – PHH's referrals of mortgage insurance business directly coincided with its captive reinsurance agreements. But this was not the only evidence. The ALJ also found that it would have been "pointless" for the mortgage insurers to enter into the captive reinsurance agreements unless they received referrals by doing so. *Id.* at 72. The ALJ concluded that PHH had entered into captive reinsurance agreements that violated section 8(a), and that, as to UGI, Genworth, and CMG, the agreements continued beyond July 21, 2008. *Id.* at 73-75.

The ALJ relied on the 1997 HUD letter to evaluate PHH's section 8(c)(2) defense. *Id.* at 63-70. To show risk transfer, PHH offered actuarial analyses of its captive reinsurance agreements prepared by the actuarial firm, Milliman, Inc. The ALJ considered this evidence, but concluded that PHH had shown adequate risk transfer as to only one of the four book years that remained open on or after July 21, 2008. *Id.* at 66. PHH relied on the same analyses to show price commensurability, but had even less success – the ALJ held that PHH had not shown price commensurability as to any book year. *Id.* at 67-70. Thus, PHH's claim to a defense under section 8(c)(2) failed.

Last came remedy. *Id.* at 83-102. The ALJ imposed liability jointly and severally on all the Respondents. He ordered that Respondents must disgorge all reinsurance premiums connected with loans that closed on or after July 21, 2008, subtracting any commutation payments PHH made to mortgage insurers to the extent the payments could be attributed to those loans. The ALJ calculated this amount at $6,442,399. The ALJ denied Enforcement's request for civil money penalties, holding that they would be available only for RESPA violations that occurred on or after July 21, 2011. Since no loans closed on or after that date, no civil money penalties would be appropriate. Finally, the ALJ's Order included three of the five injunctive provisions requested by Enforcement. He enjoined PHH from violating section 8 of RESPA and from entering into captive reinsurance agreements for the next 15 years. He also required PHH to disclose to Enforcement all services provided to PHH by any mortgage insurance company since 2004.

Both PHH and Enforcement appealed the ALJ's Recommended Decision. Docs. 206, 208. This discussion will resolve the issues raised in both appeals.

Analysis

I. STANDARD OF REVIEW

The Bureau's rules provide that, when a party appeals an ALJ's recommended decision, "the Director will consider such parts of the record as are cited or as may be necessary to resolve the issues presented and, in addition, will, to the extent necessary or desirable, exercise all powers which he or she could have exercised if he or she had made the recommended decision." 12 C.F.R. 1081.405(a). That means my review as to both facts and law is *de novo*.

The CFPA requires the Bureau to conduct its administrative adjudications "in the manner prescribed by chapter 5 of Title 5, United States Code." 12 U.S.C. § 5563(a). So this adjudication is on the record, governed by a preponderance of the evidence standard. *See SEC v. Steadman*, 450 U.S. 91, 95-102 (1981) (holding that when hearings are held on the record, the Administrative Procedure Act requires a preponderance of the evidence standard).

II. LIABILITY

PHH and Enforcement both appeal the ALJ's Recommended Decision. PHH first contends that a three-year statute of limitations applies to the Bureau, even in an administrative proceeding. PHH also disputes that it violated section 8 of RESPA, but contends that even if it did, section 8(c)(2) exempts it from liability. As explained below, I reject these arguments, as well as several other challenges PHH raises to the Bureau's authority. On the other side, Enforcement advocates a "continuing violation" theory for conduct dating back to 1995. It also contends that PHH should be held liable for violating RESPA every time it accepted an illegal kickback payment on or after July 21, 2008, even though some of those payments were associated with loans that closed before that date. I disagree with the continuing violation theory, but agree that PHH is liable for every illegal payment it accepted on or after July 21, 2008.

A. Statute of limitations and retroactivity

The ALJ held that no statute of limitations applies when the Bureau challenges a RESPA violation in an administrative proceeding, and I agree.

As mentioned previously, before the Bureau was established (on July 21, 2011), HUD enforced RESPA. *See* 12 U.S.C. § 2607(d)(4) (2006). RESPA imposed a three-year statute of limitations on the enforcement actions that HUD brought in court. 12 U.S.C. § 2614 (2006). But the CFPA gives the Bureau a choice: it may enforce laws administratively or in court. The section of the CFPA that authorizes the Bureau to enforce laws through administrative proceedings does not contain a statute of limitations. *See* 12 U.S.C. § 5563. A different section of the CFPA gives the Bureau the option to bring "civil action[s]" in court for violations of a consumer financial law. *See* 12 U.S.C. § 5564. That section contains a three-year statute of limitations for violations of the CFPA, and provides that, in "any action arising solely under an enumerated consumer law," such as RESPA, the Bureau may sue "in accordance with the requirements of that provision of law, as applicable." 12 U.S.C. § 5564(g). RESPA likewise contains a three-year statute of limitations for "actions brought by the Bureau," 12 U.S.C. § 2614, so that same limit applies when the Bureau sues to enforce RESPA in court.

The ALJ held that the word "actions" refers only to actions initiated in court, not to administrative proceedings, relying on *BP America Production Co. v. Burton*, 549 U.S. 84 (2006). That case interpreted the six-year statute of limitations for government contract actions, 28 U.S.C. § 2415(a), which applies to "every action for money damages brought by the United States … founded upon any contract." The Court held that the word "action" is "ordinarily used in connection with judicial, not administrative proceedings." *BP America*, 549 U.S. at 91. Thus, the RESPA statute of limitations applies to the Bureau only if it brings an enforcement action in court, and because this proceeding is administrative, RESPA's time limit does not apply. HUD did not have the same choice of forum that the Bureau has – it had no administrative enforcement authority and thus could only bring an enforcement action in court. That is why RESPA's limit applied to all HUD actions.

Nonetheless, PHH claims that RESPA's limit should apply to this administrative proceeding, arguing that such a proceeding is, in fact, an "action." It contends that *BP America* can be distinguished on the ground that prior to the enactment of the six-year statute of limitations at issue in that case, no limitations period applied to government contract actions, but here, prior to the enactment of the CFPA, a three-year statute of limitations applied to HUD actions. This argument is unconvincing because RESPA's three-year statute of limitations never applied to administrative proceedings at all. Moreover, as part of the CFPA, Congress amended RESPA to transfer enforcement authority from HUD to the Bureau. Notably, it amended RESPA in the same statute, and at the same time, that it authorized the Bureau to bring enforcement actions administratively even though HUD could not. Congress could have amended RESPA to apply its three-year limit to administrative proceedings as well as court actions, but it did not.

PHH ignores the first rule of statutory construction, which is that the words of a statute are the best indication of its meaning. *Levin v. United States*, 133 S. Ct. 1224, 1231 (2013) ("In determining the meaning of a statute, we look first to its language, giving the words used their ordinary meaning." (quotation marks omitted)). As *BP America* held, the plain meaning of "action" is an action brought in a court. *See also SEC v. McCarthy*, 322 F.3d 650, 657 (9th Cir. 2003) ("An 'action' is defined as 'a civil or criminal judicial proceeding.'" (quoting *Black's Law Dictionary* 28 (7th ed. 1999)). By contrast, when Congress wants to apply a statute of limitations to administrative proceedings as well as court actions, it specifically refers to "proceedings." *See, e.g.*, 28 U.S.C. § 2462 (imposing a five-year limit on "any action, suit or proceeding" that seeks a fine or penalty); *3M Co. v. Browner*, 17 F.3d 1453, 1455-57 (D.C. Cir. 1994) (holding that 28 U.S.C. § 2462 applies to administrative proceedings); *Alden Mgmt. Servs. v. Chao*, 532 F.3d 578, 582 (7th Cir. 2008) ("Unless a federal statute directly sets a time limit, there is no period of limitations for administrative enforcement actions.").

PHH also argues that, because the Bureau's authority to bring "civil actions" to enforce laws like RESPA requires the Bureau to "commence ... the action in accordance with the requirements of that provision of law," 12 U.S.C. § 5564(g)(2)(C), RESPA's statute of limitations should apply. PHH Br. at 5. But an administrative proceeding is not a "civil action," and this matter is brought pursuant to a different section of the CFPA (12 U.S.C. § 5563, not 12 U.S.C. § 5564). Indeed, the Bureau's authority to bring "civil actions" clearly indicates that the "forum" for such actions is a court of law. *See* 12 U.S.C. § 5564(f).

Moreover, even if these provisions were in any way ambiguous, which they are not, I would interpret them to impose a limit only on court actions. RESPA's statute of limitations is captioned "Jurisdiction of courts; limitations," 12 U.S.C. § 2614, and the section of the CFPA authorizing "civil actions" is captioned "Litigation authority," 12 U.S.C. § 5564. "Captions, of course, can be 'a useful aid in resolving' a statutory text's 'ambiguity.'" *United States v. Quality Stores, Inc.*, 134 S. Ct. 1395, 1402 (2014) (quoting *FTC v. Mandel Brothers, Inc.*, 359 U.S. 385, 388–389 (1959)). The captions here refer to courts, not administrative proceedings. PHH has offered no basis for a different interpretation, apart from its mistaken claim that "action" includes administrative proceedings. Accordingly, RESPA's three-year limitation does not apply to this proceeding.

Although no statute of limitations applies here, there is, nonetheless, a presumption against the retroactive application of statutes. Thus statutes should not be applied retroactively unless Congress clearly expresses a contrary intent. *Singh v. George Washington Univ. Sch. of Med. and Health Sciences*, 667 F.3d 1, 4 (D.C. Cir. 2011) (citing *Landgraf v. USI Firm Prods.*, 511 U.S. 244, 264, 272 (1994)). A statute has a retroactive effect if it "would impair rights a party possessed when he acted, increase a party's liability for past conduct, or impose new duties with respect to transactions already completed." *Landgraf*, 511 U.S. at 280. However, there is no concern if a statute merely modifies procedural rules, including changes to the forum in which charges are prosecuted. *Id.* at 275.

The Bureau took over for HUD on July 21, 2011. As of the last day that HUD could enforce RESPA, it was limited to challenging violations that occurred no earlier than July 21, 2008. If the Bureau were to challenge violations that occurred prior to that date, this would be a retroactive application of the CFPA because it would "increase a party's liability for past conduct." *Id.* at 280. The CFPA provides no statute of limitations for administrative proceedings, but it does not contain any sort of express statement warranting the revival of time-barred claims. Accordingly, I agree with the ALJ that the Bureau could not retroactively revive claims that HUD would have been time-barred from bringing when the Bureau was created on

July 21, 2011, and hence the Bureau lacks authority to pursue violations that occurred before July 21, 2008.

Principles of retroactivity also affect remedies. The CFPA authorizes the Bureau to obtain a wide variety of remedies when it enforces RESPA. These include various forms of equitable relief, as well as damages and civil money penalties. HUD's remedies were more limited – when it enforced RESPA, it was authorized only to "bring an action to enjoin violations" of section 8. 12 U.S.C. § 2607(d)(4) (2006). PHH notes that RESPA did not specifically authorize HUD to seek disgorgement, and argues that the Bureau therefore cannot get disgorgement, at least as to conduct that occurred before July 21, 2011. PHH Br. at 9-11.

That argument is incorrect. When Congress authorizes an agency to seek injunctive relief, "in the absence of a clear and valid legislative command," a court may award the full range of equitable relief, including disgorgement. *FTC v. Bronson Partners, LLC*, 654 F.3d 359, 366 (2d Cir. 2011) (citing *Mitchell v. Robert DeMario Jewelry, Inc.*, 361 U.S. 288, 291 (1960)). Because RESPA authorized HUD to seek injunctive relief, HUD could seek disgorgement. I therefore hold that the Bureau may seek disgorgement for conduct occurring before July 21, 2011 (but only for conduct occurring on or after July 21, 2008).

Nonetheless, RESPA did not authorize HUD to seek a civil money penalty, which is a remedy at law rather than an equitable remedy. Thus, I conclude that it would be an inappropriate retroactive application of the Bureau's authority for it to seek civil money penalties for violations that occurred before the Bureau was created. As a result, the Bureau may seek civil money penalties only for violations that occurred on or after July 21, 2011.

Finally, principles of retroactivity do not affect the Bureau's choice of forum. The Bureau's enforcement proceeding is not required to mirror precisely an action that HUD could have brought. So if the Bureau challenges conduct that HUD could have challenged (as of July 21, 2011), and if it seeks the same remedies that HUD could have sought, the Bureau may do so in an administrative proceeding, even though HUD would have been limited to bringing its challenge in court. *See Landgraf*, 511 U.S. at 275.

B. PHH violated section 8(a) of RESPA

As explained above, a violation of RESPA section 8(a) has four elements: (1) a payment or transfer of a thing of value; (2) the payment or transfer was made pursuant to an agreement to refer real estate settlement service business; (3) a referral actually occurs; and (4) the real estate settlement service involves a "federally related mortgage loan." I agree with the ALJ's conclusion that PHH's conduct satisfied all four elements of section 8(a). In this appeal, PHH raises a challenge as to only one of the elements – whether it referred business to the mortgage insurers. I will nonetheless discuss each element in turn. (The focus of PHH's appeal instead is that, even if it violated section 8(a), section 8(c)(2) excuses its conduct – a point that is addressed below.)

First, four mortgage insurance companies – UGI, Genworth, Radian, and CMG – paid reinsurance premiums to PHH during the limitations period (*i.e.*, on or after July 21, 2008). *See*

ECX 159, 198, 257, 648. Those premiums plainly were a thing of value, satisfying the first element of a section 8(a) violation.

Second, the evidence establishes an agreement between PHH and the four mortgage insurers. PHH referred borrowers to the mortgage insurers, and in return, the insurers purchased reinsurance from Atrium for every one of those borrowers who purchased mortgage insurance. ECX 747 provides written evidence of an agreement between PHH and CMG, but evidence of an agreement that violates section 8(a) need not be written, or even verbalized. It can also come from a course of conduct. *See* 12 C.F.R. § 1024.14(f). As the ALJ noted, PHH's use of its dialer charts a course of conduct. Doc. 205 at 71-73. The dialer allocated business to mortgage insurance companies, and if those companies wanted to be on the dialer, they had to enter into captive reinsurance agreements. But even before PHH began using the dialer (PHH had no need for a dialer when it only had a captive reinsurance agreement with UGI alone), it allocated more than [redacted] of borrowers to UGI. Tr. at 111. When UGI discontinued its captive agreement, PHH dropped it from the dialer. When UGI entered into a new agreement, PHH promptly returned it to the dialer. *Id.*

Similarly, if a mortgage insurer wanted to become one of PHH's preferred providers (and get business from one of PHH's correspondent lenders), it had to enter into a captive agreement. As an email from a PHH vice president to a manager at a mortgage insurer candidly described the intended framework: "Our ability to negotiate a suitable arrangement with you will enable you to b[e]come a preferred provider. Then you can market to [i]ndividual correspondents to influence their decision." ECX 773. Although PHH referred a small number of borrowers to mortgage insurers that had not entered captive agreements, the vast number of referrals went to those companies that did so. *See* ECX 159.

Further, it is significant that the *only* companies offering reinsurance to mortgage insurers during this period were captive reinsurers. ECX 153 at 202. This fact strongly suggests that mortgage insurers had no need for reinsurance unless it was connected to referrals of business. *See* Tr. at 340, 424 ([redacted]). Otherwise, insurers that were not lenders doubtless would have entered the lucrative mortgage reinsurance market. For these reasons, PHH's captive reinsurance agreements satisfy the second element of a section 8(a) violation.

Third, PHH referred mortgage insurance business to UGI, Genworth, Radian, and CMG. A referral includes "any oral or written action directed to a person which has the effect of affirmatively influencing the selection by any person of a provider of a settlement service." 12 C.F.R. § 1024.14(f)(1). PHH used its dialer to refer business to mortgage insurers by controlling their selection. PHH's vice president testified at the hearing that "[w]hen we would do a retail loan, we could select the [mortgage insurance] provider.... [T]he only way to get [mortgage insurance] in the PHH system is through the automated dialer." Tr. at 105-109. And as he explained in an email to a mortgage insurer, PHH used its dialer to "completely control" the selection of mortgage insurers for loans that PHH originated. ECX 773. PHH also made referrals by inducing its correspondent lenders to select mortgage insurers on its preferred provider list – if the lender selected an insurer not on the list, PHH imposed a surcharge (which was presumably passed on to the borrower). Tr. at 521-531. PHH's vice president stated that its correspondent lenders "can either allow me to order the [mortgage insurance], then I select the provider.... Alternatively, they can choose the provider from our preferred provider list, which we control." ECX 773.

PHH does not much dispute that it referred borrowers to mortgage insurers, but it notes that it gave its borrowers a document captioned "Affiliated Business Arrangement Disclosure Statement." PHH Br. at 28. That statement informed borrowers that PHH stood to profit from its captive reinsurance agreements, and advised borrowers that they were free to "shop around" for a mortgage insurer that was not a party to one of those agreements. RCX 790. This statement has no impact on PHH's liability under section 8(a). Although PHH claimed to be giving its borrowers a choice, the supposed choice was entirely illusory – if the borrower selected a mortgage insurer that was not a party to a captive reinsurance agreement, PHH would not approve the loan. Tr. at 383-384. Also, it is not clear whether any consumer actually selected the mortgage insurer. Tr. at 119. Even if some borrowers did so, whenever PHH influenced a borrower's choice, which was often the case, PHH made a referral.

PHH also raises a more technical argument, contending that its preferred provider list did not result in referrals because the list influenced correspondent lenders, not borrowers. PHH Br. at 28. The argument is unpersuasive. A referral is an action directed to a person that affects the selection of a mortgage service paid for by *any* person. 12 C.F.R. § 1024.14(f)(1). PHH exerted direct influence on its correspondent lenders, and indirect influence on borrowers, by threatening to impose an additional charge, which influenced the choice of mortgage insurer and constituted a referral.

Fourth, it is plain that the loans PHH originated, and the loans it received from its correspondent lenders, were federally related mortgage loans. *See* 12 U.S.C. § 2602(1) (defining "federally related mortgage loan" to include all loans that are intended to be sold to Fannie Mae, Freddie Mac, or Ginnie Mae, or that are funded by a lender that is regulated by any agency of the federal government).

Since all four of the statutory elements are satisfied, I conclude that PHH violated section 8(a) of RESPA when it accepted reinsurance premiums on or after July 21, 2008. Accordingly, it is not necessary to undertake any further determination of whether that same conduct also violated section 8(b).

C. Neither section 8(c)(2) nor the HUD letter excuses PHH's violation of section 8(a)

Section 8(c)(2) and HUD's 1997 letter are crucial to this case. Section 8(c)(2) provides that "[n]othing in [section 8] shall be construed as prohibiting ... the payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed." According to the ALJ, this section provided PHH with an affirmative defense to violations of section 8(a) or 8(b). Doc. 205 at 75-76.

The ALJ relied primarily on the 1997 HUD letter, ECX 193 at Att. A, to help him interpret section 8(c)(2). That letter addresses captive reinsurance agreements such as those at issue here. The ALJ read the letter to hold that, even if a captive reinsurance agreement violates section 8(a), the parties to the agreement can escape liability "if the payments to the reinsurer are for reinsurance services actually furnished or for services performed, and are bona fide compensation that does not exceed the value of such services." Doc. 152 at 6. This interpretation shaped the hearing in this proceeding – much of the evidence focused on whether PHH could show that Atrium actually furnished reinsurance services to mortgage insurers (that is, whether there was risk transfer), and whether the price of that reinsurance exceeded the value of the services (that is, whether there was price commensurability).

Enforcement argues that section 8(c)(2) does not provide a defense for PHH's violations of either section 8(a) or 8(b), and that the ALJ misinterpreted the HUD letter. Enf. Br. at 23-25. Instead, Enforcement contends that it is a violation of section 8(a) when a lender makes referrals to a real estate settlement service provider in exchange for the purchase of "goods or services – *at any price* – as consideration for making referrals," and that such a violation cannot be saved by Section 8(c)(2). *Id.* at 23. In other words, even if the mortgage insurers paid a fair price for the reinsurance, PHH violated RESPA by conditioning the referrals it made on the purchase of reinsurance. Enforcement notes that a "thing of value" which constitutes a kickback for a referral under section 8(a) "is broadly defined, and includes not only the payment of money in the course of a transaction, but also the very opportunity to engage in the transaction – even one that would otherwise be legitimate and is priced at a fair market value" so that it would naturally tend to yield a fair profit. *Id.* at 24. Accordingly, Enforcement contends that the business "opportunity to sell 'reinsurance' to the [mortgage insurers] was itself a thing of value to PHH." *Id.* at 25.

On this point, PHH argues in support of the ALJ. It argues that the introductory clause of section 8(c) – "[n]othing in this section shall be construed as prohibiting" – means that section 8(c)(2) exempts reinsurance agreements from section 8(a), "*even if* those agreements had been entered into in exchange for the referral of real estate settlement services." PHH Opp. Br. at 18. PHH also argues that Enforcement's interpretation of section 8(c)(2) conflicts with other provisions of section 8 and other interpretative guidance provided by HUD. *Id.* at 21-22. Finally, because a RESPA violation can lead to criminal liability, *see* 12 U.S.C. § 2607(d)(1), PHH contends that the rule of lenity should cause any ambiguity in RESPA to be interpreted in its favor. PHH Opp. Br. at 23-24.

1. Section 8(c)(2)

The ALJ's interpretation of section 8(c)(2) is neither the best reading of the section's textual language, which is perhaps not entirely clear when read in isolation, nor is it consistent with a fuller reading of the text, structure, and goals of RESPA.

To begin with, as the Eleventh Circuit has noted, "Section 8(c)'s language starts with 'nothing in this section shall be construed as prohibiting,' not with 'notwithstanding § 8(a)' or any other plain exception language." *Culpepper v. Irwin Mort. Corp.* 253 F.3d 1324, 1330 (11th Cir. 2001), *superseded on other grounds as recognized by Heimmermann v. First Union Mort. Corp.*, 305 F.3d 1257 (11th Cir. 2002). And comparing usage within the same statute, section 7 of RESPA uses the word "exempt" to create an exemption, 12 U.S.C. § 2606, but section 8(c) uses the very different term "construe." To "construe" means "to analyze the arrangement and connection of words in (a sentence or part of a sentence)" and is more akin to an interpretation. *Webster's Third New Int'l Dictionary (Unabridged)* 489 (2002). Taken together, these textual points indicate that section 8(c) *clarifies* section 8(a), providing direction as to how that section should be interpreted, but does not provide a substantive exemption from section 8(a). The Eleventh Circuit considered section 8(c)(2) and reached the same conclusion: "If § 8(c) is only a gloss on § 8(a), making clear what § 8(a) allows in certain contexts, we should avoid reading § 8(c) to bless conduct that § 8(a) plainly outlaws." *Culpepper*, 253 F.3d at 1330.

Further, reading section 8(c)(2) as an exemption would substantially undermine the protections of section 8. The goal of section 8 is "the elimination of kickbacks or referral fees that tend to increase unnecessarily the costs of certain settlement services." 12 U.S.C. § 2601(b)(2); *see* also 12 U.S.C. § 2601(a); S. Rep. 93-866 at 3 (1974). That is, section 8 seeks to restore competition to the market for settlement services. *See Arthur v. Ticor Title Ins. Co.*, 569 F.3d 154, 158 (4th Cir. 2009) ("Congress directed § 8 against a particular kind of abuse that it believed interfered with the operation of free markets."). If section 8(c)(2) permitted compensated referrals, this would distort the market in ways that the statute as a whole plainly sought to prevent by anchoring its prohibitions on the broad term, "thing of value." This distortion occurs no matter the form of the "thing of value," even if the compensation takes the form of payments for a (profitable) service.

That result can be readily seen from the facts at issue here. PHH agreed to make referrals to the mortgage insurers. The mortgage insurers agreed to pay PHH for those referrals by purchasing reinsurance from Atrium. Regardless of whether the price that the mortgage insurers paid was inflated or was set at the fair market value of the reinsurance they received, PHH still benefited from the arrangement because Atrium received (profitable) business from the mortgage insurers that it would not otherwise have received. Accordingly, that agreement distorted the market for mortgage insurance, in direct contravention of RESPA's core provisions.

On this understanding of section 8(c)(2), it fills an important role in clarifying the application of section 8(a). Referral agreements that violate section 8(a) can be difficult to detect; indeed, Regulation X recognizes that, in some instances, those agreements may be neither written nor verbal. 12 C.F.R. § 1024.14(e). Thus, there may be no direct evidence of an agreement. If a party in a position to *make* such referrals receives payments of any kind from a party in a position to *receive* the referrals, this could give rise to an inference of an agreement violating section 8(a), particularly where those payments are tied to the volume of business that is referred. But section 8(c)(2) indicates that such an inference is inappropriate as long as the payment is "a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed." 12 U.S.C. § 2607(c)(2).

Other parts of the text of section 8(c)(2) confirm this interpretation. For section 8(c)(2) to apply, the payment must meet two criteria: it must be both "bona fide" and "for services actually performed." The phrase "for services actually performed" also appears in section 8(b), but without mention of "bona fide." *See* 12 U.S.C. § 2607(b) ("No person shall give and no person shall accept any portion, split, or percentage of any charge made or received for the rendering of a real estate settlement service ... other than *for services actually performed.*" (emphasis added)). Thus, the two phrases have distinct meanings. In PHH's view, "bona fide" means that the payment was "reasonable compensation" for the services received. Oral Arg. Tr. at 17. But PHH's interpretation means that the phrase "for services actually performed" would pull no weight because it would not, by itself, imply that the services were for reasonable compensation without the addition of "bona fide." If that were so, then section 8(b), which does not refer at all to "bona fide" payments, would not make sense, because a mortgage service provider could avoid liability by receiving even token services in return for a much more lucrative split of any charge for settlement services.

A better interpretation gives meaning to both phrases. A payment is "for services actually performed" only if it involves reasonable compensation for the services. Then the distinct meaning of "bona fide" in section 8(c)(2) is that the payment must be solely for the service actually being provided on its own merits, but cannot be a payment that is tied in any way to a referral of business.

This interpretation also better comports with the literal meaning of the Latin term "bona fide"– "in good faith." A payment made "in good faith" for services performed is made for the services themselves, not as a pretext to provide compensation for a referral. The phrase "bona fide payment" thus refers to the purpose of the payment, not to its amount. To be sure, if a payment is unreasonably high, this may suggest that it is not being made solely for the services. But even a reasonable payment may not be "bona fide" if it is not made solely for the services but also for a referral.

Hence, I interpret section 8(c)(2) to clarify the application of section 8(a), not as a substantive exemption to liability. Then section 8(c)(2) only becomes relevant if there is a question as to whether the parties actually did enter into an agreement to refer settlement service business. Section 8(c)(2) is not relevant on the facts here because there is no need to strain to infer the existence of such an agreement. As explained above, there is ample evidence in the record that PHH and the mortgage insurers entered into agreements for referrals of mortgage insurance business.

2. The 1997 HUD letter

The ALJ interpreted the 1997 HUD letter to mean that section 8(c)(2) provides an exemption from liability for conduct that violates section 8(a), though the letter is unclear on that point and may be internally inconsistent. To the extent that the letter is inconsistent with my textual and structural interpretation of section 8(c)(2), I reject it.

The HUD letter is not in such a form as to be binding on any adjudicator. The letter responded to a lender seeking HUD's guidance on the application of section 8 to captive reinsurance agreements. *See* ECX 193 at Att. A, pp. 1-2. Unlike some other forms of written guidance issued by HUD, the letter was never published in the Federal Register. Thus, pursuant to the applicable provisions of Regulation X in effect at the time of the events at issue in this proceeding (and pursuant to HUD's own regulations in effect at the time of the letter), the letter provides no protection to PHH in this proceeding. *See* 12 C.F.R. § 1024.4(b) (2013) (restating 24 C.F.R. § 3500.4(b) (1997)) (indicating that documents not published in the Federal Register do not constitute a "rule, regulation or interpretation," and do not offer any protection for purposes of RESPA liability).[3] The ALJ noted that the court in *Munoz v. PHH*, No. 1:08-cv-0759, 2013 WL 2146925 (E.D. Cal. May 14, 2013), relied on the HUD letter. Doc. 205 at 41.

[3] The Bureau removed 1024.4(b) from Regulation X, effective January 2014, yet it incorporated the concept of the provision into the introduction to the Bureau's commentary to Regulation X.

But the court in *Munoz* mistakenly believed that the letter constituted an official HUD policy statement, failing to note that the letter was never published in the Federal Register. *See* 2013 WL 2146925 at *5 n.3.

Not only is the letter not binding, but it also contains statements that seem to be internally inconsistent. The letter recognizes that a lender "has a financial interest in having the primary insurer in that captive reinsurance program selected to provide the mortgage insurance." ECX 193 at Att. A, p. 1. It then warns that, "so long as payments for reinsurance under captive reinsurance arrangements are solely 'payments for goods or facilities actually furnished or for services actually performed,' these arrangements are permissible under RESPA." *Id.* I agree with this statement – if the payments are solely for services actually performed (*i.e.*, not for referrals), then the payments are "bona fide." But the statement does not help PHH in this case because here the mortgage insurers made payments that were not "solely" for reinsurance – the payments purchased not just reinsurance but also referrals because the two were tied together.

I also agree with the following cautionary statement in the HUD letter: "If the lender or its reinsurance affiliate is merely given a thing of value by the primary insurer in return for this referral, in monies o*r the opportunity to participate in a money-making program*, then section 8 would be violated ...." ECX 193 at Att. A, p. 3 (emphasis added). That is, in fact, what the mortgage insurers did here: in return for referrals, they gave PHH the opportunity to make a profit by participating in its mortgage reinsurance program. Yet I disagree with a possible implication of the very next sentence: "If, however, the lender's reinsurance affiliate actually performs reinsurance services and compensation from the primary insurer is bona fide and does not exceed the value of the reinsurance, then such payments would be permissible under subsection 8(c)." *Id.* If this sentence suggests that payments are "bona fide" as long as they do not exceed the value of the reinsurance, then the sentence conflates the two requirements of section 8(c)(2) and is flatly inconsistent with the prior sentence, which recognized that even "the opportunity to participate in a money-making program" would be enough to find a violation, regardless of what amounts were paid for that opportunity. *Id.* Thus the error of this approach would be to permit a mortgage insurer to pay for referrals as long as the payments take the form of reinsurance premiums, which is simply inconsistent with RESPA.

3. PHH's other arguments about section 8(c)(2)

PHH argues that my interpretation of section 8(c)(2) conflicts with *Glover v. Standard Federal Bank*, 283 F.3d 953 (8th Cir. 2002). PHH Opp. Br. at 19. In the passage quoted by PHH, the court states that section 8(c)(2) "clearly states that reasonable payments for goods, facilities or services actually furnished are *not prohibited* by RESPA, even when done in connection with the referral of a particular loan to a particular lender." *Glover*, 283 F.3d at 964. There is no actual conflict between this language and my construction of the statute. A person does not violate section 8(a) merely by making a payment "in connection with the referral of a particular loan to a particular lender," but by making a payment in exchange for a referral pursuant to an "agreement or understanding" to refer settlement service business. There could be circumstances where a party makes a referral and is paid for providing services in connection with that referral, but is not being paid for the referral. (For example, see the discussion below of HUD's interpretive rule on home warranty companies.) *Glover* is also distinguishable because it did not involve the sorts of agreements and payments for referrals that are present here. And *Glover* viewed the text of section 8(c)(2) as ambiguous. *See id.* at 961 (holding that "the intent of Congress on this issue is not expressly set forth in the statute").

Nor does my interpretation clash with other portions of section 8(c)(1), or "retroactively criminalize a broad array of conduct" that is otherwise permitted by RESPA. *See* PHH Opp. Br. at 20-21. PHH focuses on section 8(c)(1)(B), which states that "[n]othing in [section 8] shall be construed as prohibiting … the payment of a fee … by a title company to its duly appointed agent for services actually performed in the issuance of a policy of title insurance." PHH argues that the "logical extension" of my interpretation of section 8(c)(2) would undermine the protection that 8(c)(1)(B) provides. PHH Opp. Br. at 20. But section 8(c)(1)(B) is different from section 8(c)(2). Although both sections begin with the same introductory phrase, the remainder of section 8(c)(1)(B), unlike the remainder of section 8(c)(2), describes conduct that would otherwise violate section 8(a). An agent for a title insurance company, by the very nature of the job, is a party to an agreement to refer title insurance business to the title insurance company that is the agent's principal. Section 8(c)(1)(B) simply permits the title insurance company to compensate its own agent. Absent section 8(c)(1)(B), the payment of a commission to the agent would violate section 8(a). Thus, 8(c)(1)(B), unlike 8(c)(2), is an exemption from 8(a).

Far from clashing with 8(c)(1)(B), my interpretation of 8(c)(2) is consistent with it. If 8(c)(2) created a broad exemption from 8(a) by permitting payments pursuant to referral agreements as long as the payments were made for "services actually performed," then section 8(c)(1)(B) would be surplusage. There would be no need for a provision specifically permitting payments to title insurance agents since those payments would already be permitted by section 8(c)(2). Similarly, if PHH's interpretation were correct, then section 8(c)(1)(C), which permits payments by lenders to their agents, would also be surplusage. But section 8(c) must be interpreted to give effect to all of its provisions. *See Clark v. Rameker*, 134 S. Ct. 2242, 2248 (2014) ("'[A] statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous.'" (quoting *Corley v. United States*, 556 U.S. 303, 314 (2009)).

Nor does my interpretation conflict with section 8(b). *See* PHH Opp. Br. at 22-23. As explained above, section 8(c)(2) explains that, if two criteria are met, a payment made by a party in a position to receive referrals to a party in a position to make referrals will not give rise to an inference of an agreement violating section 8(a). Section 8(b) involves splits, and has nothing to do with referral agreements. Thus, section 8(c)(2) does not apply to section 8(b).

PHH claims that my interpretation of section 8(c)(2) would "undo[] years' worth of official interpretations and policy statements issued by HUD." PHH Opp. Br. at 21-22. Whether or not PHH may have interpreted the letter or other HUD statements to justify captive reinsurance agreements in ways that furthered its interests is not particularly germane. More to the point, PHH has failed to present any "official interpretations" or "policy statements" that support its view of section 8(c)(2). PHH does cite a HUD interpretive rule captioned "Home Warranty Companies' Payments to Real Estate Brokers and Agents," 75 Fed. Reg. 36271 (June 25, 2010), but it does not support PHH's position.

A homeowner's warranty purchased at closing is a settlement service. *See* 12 C.F.R. § 1024.2. HUD explained that RESPA permits several things: it permits a broker to refer a borrower to a warranty company, permits the broker to perform services on behalf of the warranty company