



MORTGAGE FINANCING

HUD Could Realize Additional Benefits from Its Mortgage Scorecard

Highlights of [GAO-06-435](#), a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Along with private mortgage providers, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) has been impacted by technological advances that began in the mid-1990s and that have significantly affected the way the mortgage industry works. As a result, in 2004, FHA implemented Technology Open to Approved Lenders (TOTAL) Scorecard—an automated tool that evaluates the majority of new loans insured by FHA. However, questions have emerged about the effectiveness of TOTAL. Given these concerns, you asked GAO to evaluate the way the agency developed and uses this new tool. This report looks at (1) the reasonableness of FHA's approach to developing TOTAL and (2) the potential benefits to HUD of expanding its use of TOTAL.

What GAO Recommends

To improve how HUD uses and benefits from TOTAL, GAO recommends that the Secretary of HUD (1) develop policies for updating TOTAL, including using updated data, testing additional variables, and exploring the benefits of alternative modeling approaches, and (2) explore additional uses of TOTAL. HUD did not explicitly agree or disagree with our recommendations but indicated that it was taking some steps to update TOTAL and explore different uses for it.

www.gao.gov/cgi-bin/getrpt?GAO-06-435.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear, (202) 512-8678, shearw@gao.gov.

What GAO Found

Some of the choices that FHA made during the development process could limit TOTAL's effectiveness, although overall the process was reasonable. Like the private sector, FHA and its contractor used many of the same variables, as well as an accepted modeling process, to develop TOTAL. However, the data that FHA and its contractors used to develop TOTAL were 12 years old by the time FHA implemented the scorecard, and the market has changed significantly since then. Also, FHA, among other things,

- did not develop a formal plan for updating TOTAL on a regular basis,
- did not include all the important variables that could help explain expected loan performance, and
- selected a type of model that limits how the scorecard can be used.

Despite potential problems with TOTAL, HUD could still see added benefits from it. As a result of TOTAL, FHA lenders and borrowers have seen two new benefits—less paperwork and more consistent underwriting decisions. However, FHA could gain additional benefits if, like private lenders and mortgage insurers, it put TOTAL to other uses (see table). These uses include relying on TOTAL to help inform general management decision making, price products based on risk, and launch new products. Adopting these scorecard uses from the private sector could potentially generate three other benefits for FHA, including the ability to react to changes in the market, more control over its financial condition, and a broader customer base. Additionally, HUD's Government National Mortgage Association, a government corporation that guarantees securities of federally insured or guaranteed mortgage loans, could use credit scores that are used by TOTAL to help improve the transparency of the secondary mortgage market.

FHA Could Benefit Significantly More from TOTAL

Scorecard benefits	Scorecards previously used by FHA	TOTAL scorecard
Past/present benefits		
Ability to adjust underwriting standards	X	X
Majority of loans automatically underwritten	X	X
Faster decisions	X	X
Objective underwriting	X	X
Less paperwork for lenders		X
More consistent underwriting decisions		X
Potential benefits		
Ability to react to changes in the market		X
More control over financial condition		X
Broader customer base		X

Source: GAO.