



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Rural Housing Service Single Family Housing Program Maine

Report No. 04004-05-Hy
May 2003



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Northeast Region

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5601 Sunnyside Avenue, Stop 5300
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DATE: May 27, 2003

REPLY TO
ATTN OF: 04004-05-Hy

SUBJECT: Single Family Housing Program - Maine

TO: Michael W. Aube
State Director
Rural Development

ATTN: Dale D. Holmes
Director
Rural Housing Program

This report presents the results of our audit of Section 502, Single Family Housing Program, in the State of Maine. This audit was discussed with members of your staff on February 27, 2003. During our review nothing came to our attention to cause us to believe that the system of management controls was not effective and operating as designed. The report contains no recommendations and a response by Rural Development is not required. The report is final upon issuance.

We appreciate the cooperation and assistance provided to the Office of Inspector General staff during this review. If you have any questions, please have a member of your staff contact me or Joseph A. Marchowsky, Assistant Regional Inspector General for Audit, at (301) 504-2102.

//s//

REBECCA ANNE BATTS
Regional Inspector General
for Audit

Executive Summary

Survey of Single Family Housing Program – Maine

Section 502, Direct/Guaranteed Loan Program (Audit Report No. 04004-05-Hy)

Results in Brief

Our objective was to review the controls established for the Section 502, Single Family Housing (SFH) Program, to determine if the need existed for full audit coverage. To accomplish this, we evaluated the policies and procedures for loan making, assessed the propriety of loss payments made to guarantee lenders for defaulted loans, and reviewed the handling of real estate owned (foreclosed property) and abandoned property. In addition we reviewed corrective action initiated from previous audit coverage and reviewed concerns presented by Maine State Office officials.

Nothing came to our attention to cause us to believe that the system of management controls over the SFH Program in Maine was not effective and operating as designed. As a result we are making no recommendations to Rural Development (RD) and will not be initiating any additional work on the SFH program in the State.

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Background and Objectives

Background

As part of the United State Department of Agriculture RD mission area, the Rural Housing Service's (RHS) objective is to improve the quality of life in rural areas. RHS helps rural communities and individuals by providing loans and grants for housing and community facilities. RHS operations include providing funds for single family homes.

The SFH provides home ownership opportunities to low and moderate-income rural Americans through several loan, grant, and guarantee programs. These programs also make funding available to individuals to finance vital improvements necessary to make their homes decent, safe, and sanitary.

Direct Loan Program (Section 502)

Under the Direct Loan Program, individuals or families receive financial assistance directly from the RHS in the form of a home loan at an affordable interest rate. Most of the loans made under the Direct Loan Program are to families with income below 80% of the median income level in the communities where they live. Since RHS is able to make loans to those who will not qualify for a conventional loan, the RHS Direct Loan Program enables many more people to buy homes than might otherwise be possible. Direct loans may be made for the purchase of an existing home or for new home construction. As of January 29, 2003, Maine had 6,866 open direct SFH loans, with original value of \$389.1 million and an outstanding balance of \$329.1 million.

Guaranteed Loan Program (Section 502)

Under the Guaranteed Loan Program, the RHS guarantees loans made by private sector lenders. A loan guarantee through RHS means that, should the individual borrower default on the loan, RHS will pay the private financier for the loan. The individual works with the private lender and makes his or her payments to that lender. Under the terms of the program, an individual or family borrows up to 100% of the appraised value of the home, which eliminates the need for a down payment. Since a common barrier to owning a home for many low-income people is the lack of funds to make a down payment, the availability of the loan guaranteed from RHS makes the reality of owning a home available to a much larger percentage of Americans. As of January 29, 2003, Maine had 3,715 open guaranteed SFH loans with an original value of \$253.7 million and an outstanding balance of \$239.7 million.

Objectives

The objective of the audit was to assess the adequacy of established controls to determine the need and areas for additional audit work. As part of the audit, we addressed concerns outlined in the Maine State Director's May 2002 request for audit work addressing the Section 502 housing program in Maine.

Findings and Recommendations

Nothing came to our attention to cause us to believe that the system of management controls over the SFH program in Maine was not effective and operating as designed. Accordingly, we are making no recommendations to RD and will not be initiating additional SFH work in the State.

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards. We assessed Section 502 direct and guaranteed SFH loan activity in Maine for fiscal years (FY) 2001 through 2003. Fieldwork was performed from January to February 2003, at the Maine State RD Office and the Bangor Area Office. The Bangor Area Office was selected because it represented 36 percent of Section 502 loans made in FYs 2001/2002 and due to its proximity to the State office.

We reviewed applicable program policies and procedures to identify critical management controls and regulatory requirements. We reviewed loan and program documentation to assess State compliance with established procedures. Our review included loan making operations, assessment of the propriety of loss payments made to guarantee lenders, and handling of real estate owned (foreclosed property) and abandoned property.

Our loan making assessment included reviewing: (1) the eligibility of the applicant, (2) the determination of housing adequacy, and (3) the verification that property was located in an eligible area. Loan documentation for the three largest guaranteed and direct loans made by the Bangor Area Office for FY 2001 and FY 2002 (a total of twelve loans) was reviewed. Procedures for calculating the initial interest credit subsidy for sample loans were also reviewed.

We reviewed all four of the guaranteed housing loss payments made by the Bangor Area office in FY 2002, to assess the propriety of the payments and compliance with RHS requirements.

We reviewed the management of the eight foreclosed properties in the February 2003 state-wide inventory and adequacy of sale procedures for the five properties sold throughout the State in FY 2002 and FY 2003.

In addition we assessed the State office oversight of area office operations by reviewing the State Internal Review report completed for Presque Isle Area Office in FY 2002. To assess lender oversight we reviewed one FY 2002 lender review report and followup correspondence.

Previous Office of Inspector General (OIG) audit issues and RD State Office concerns regarding the SFH program were identified and incorporated into our audit.

Our audit also included an assessment of the effectiveness of corrective actions in response to a prior OIG audit and work to address specific State office concerns, as set forth in a May 2002 letter from the Maine State Director.