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Highlights

Highlights of GAO-05-13, a report to congressional addressees

Why GAO Did This Study

Every year, the Department of Housing and Urban Development (HUD), through its Federal Housing Administration (FHA), insures billions of dollars in home mortgage loans made by private lenders. Oversight of lenders has historically been a challenge for HUD. In January 2003, GAO reported that, due in part to poor lender oversight, HUD's single-family mortgage insurance programs remained a high-risk area. This report examines (1) how well HUD follows its guidance when granting lenders direct endorsement authority (the ability to underwrite loans and determine their eligibility for FHA mortgage insurance without HUD's prior review), (2) the extent to which HUD uses a risk-based approach when monitoring FHA lenders, and (3) the extent to which HUD holds accountable lenders that it identifies as not complying with its performance requirements.

What GAO Recommends

This report includes five recommendations designed to improve HUD's processes for approving and monitoring FHA mortgage lenders and for sanctioning them for unacceptable performance. In responding to a draft of this report, HUD agreed with the recommendations but commented that the report does not fully recognize the accomplishments resulting from its changes to lender oversight.

www.gao.gov/cgi-bin/getrpt?GAO-05-13.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

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SINGLE-FAMILY HOUSING

Progress Made, but Opportunities Exist to Improve HUD's Oversight of FHA Lenders

What GAO Found

HUD has not consistently followed its guidance for granting direct endorsement authority. The guidance requires that, to receive the authority, lenders must, within a 1-year period, submit for HUD's approval at least 15 mortgage loans that HUD assesses "good" or "fair" using its assessment criteria, including the last 5 consecutive loans. However, we found that HUD deviated from this guidance when granting authority to some of the 49 lenders that were approved between October 1, 2002, and April 30, 2004. For example, HUD granted authority to 7 lenders who did not submit the minimum 15 loans rated "good" or "fair."

HUD has been using a risk-based approach to monitoring lenders, employing, among other things, aggregate loan performance data to target lenders for review. However, certain factors limit the usefulness of its monitoring tools. First, the rating system HUD uses when performing technical reviews—desk audits to evaluate the underwriting quality of loans insured by FHA—does not currently reflect the different levels of risk that detected underwriting errors pose to the insurance fund. HUD is in the process of revising the system to improve its usefulness. Second, while GAO found that, in fiscal year 2003 and the first half of fiscal year 2004, HUD generally reviewed those lenders that met its targeting criteria, its reports on lender reviews do not distinguish between those conducted on-site (at lenders' offices) and off-site ("desk" reviews). HUD's guidance allows desk reviews, but on-site reviews are preferred because, among other things, they allow for direct observation and the ability to easily review more loans. HUD's reports do not identify the number of off-site reviews, but a manual search of records showed that 70 of the 910 lender reviews conducted in fiscal year 2003 were off-site reviews.

HUD's efforts to hold poor performing lenders accountable have not been comprehensive. HUD has made limited use of its ability to suspend the direct endorsement authority of noncompliant lenders, suspending 7 (of about 2,900 lenders with direct endorsement authority) in fiscal year 2003 and the first half of fiscal year 2004. Further, HUD's Mortgagee Review Board can take over a year to take action, during which time noncompliant lenders may continue to make FHA-insured loans.