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Report to the Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs, House of Representatives

March 1991

PROPERTY DISPOSITION

Information on Federal Single-Family Properties

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GAO

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Resources, Community, and
Economic Development Division

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March 29, 1991

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance,
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

As you requested on April 6, 1990, we are providing information on the single-family property disposition activities of the Department of Housing and Urban Development's Federal Housing Administration (FHA),[1] the Department of Veterans Affairs (VA), the Farmers Home Administration (FmHA), and the Resolution Trust Corporation (RTC). As agreed with your office, this report presents information on (1) the number of single-family properties acquired and sold, the losses associated with those sales, and current inventories and their geographical distribution and (2) the procedures used by each agency to manage and sell single-family properties. We are not presenting conclusions or recommendations at this time, but as agreed with your office, we are beginning survey work to examine how property disposition can be improved to reduce government losses. In the near future, we will brief you on the results of our survey.

As you know, FHA, VA, and FmHA must dispose of single-family properties that they acquire when borrowers are unable to repay home mortgages insured, guaranteed, or made by one of these agencies. A fourth agency, RTC, disposes of single-family properties as part of its responsibility for managing and disposing of the assets of failed savings and loan institutions. In general, the property disposition process for all four agencies begins when an agency (or an RTC-managed institution) acquires the title to a single-family property and concludes when the agency transfers the title to a new owner.

[1]As defined by FHA and VA, a "single-family property" is a residential structure containing one to four housing units. RTC's use of the term also includes other types of properties, such as mobile homes, but the data shown in this report are consistent with the definition used by FHA and VA unless otherwise noted. FmHA uses the term to refer to one housing unit.

Results in Brief

For three federal agencies—FHA, VA, and FmHA—property disposition has been and remains a substantial activity. Collectively, the three agencies acquired about 606,000 single-family homes and sold nearly 595,000 in the 5 fiscal years from 1986 through 1990. Losses on these sales totaled more than $11.4 billion. Although overall sales lagged behind acquisitions in 1986-88, sales exceeded acquisitions in 1989. In fiscal year 1990, sales outpaced acquisitions by more than 10,000 properties. As a result, the 1990 ending inventory—62,000 properties—was the lowest since 1986 when the combined inventory included about 60,000 properties.

Established in August 1989, RTC became the fourth federal agency having major responsibilities for single-family property disposition. As the manager and seller of the assets of failed federally insured savings and loan institutions, RTC has added nearly 27,000 single-family properties to the federal total, bringing it to almost 89,000 properties. From January to September 1990, RTC sold nearly 11,200 single-family properties (including some properties such as mobile homes).

Properties of all four agencies were located throughout the United States, but the inventory levels at the end of fiscal year 1990 generally were highest in states such as Texas and Colorado where there had been an economic downturn. The combined FHA, VA, and FmHA inventory in Texas declined from the start of the fiscal year, but with RTC properties included, the total government inventory in that state doubled. Other states where there were large inventories were Louisiana, Arizona, and Florida. (More detailed information about the agencies' single-family property acquisitions, sales, losses, and inventories is presented in appendix I.)

Single-family property disposition is handled similarly by the four agencies, although some variations exist in procedures. Private-sector brokers perform most management and sales activities for the agencies under the oversight of agency field office staff. (Appendix II describes the agencies' policies and procedures for disposing of single-family properties.)

Background

Unless a buyer can pay cash for a home, he or she must borrow money to finance the difference between the purchase price and the downpayment. The amount of money borrowed is referred to as a mortgage loan. The home is used as the collateral for the mortgage loan, which is typically repaid in monthly installments, generally over a 30-year period.

FHA, VA, and FmHA are three federal agencies involved in helping Americans to finance home purchases. As part of its responsibility for making housing affordable for low- and moderate-income families, FHA insures private lenders against losses on home mortgage loans made to eligible borrowers. VA helps military veterans become homeowners by guaranteeing the lender that VA will repay part of the loan amount if the homebuyer does not repay the mortgage loan. FmHA makes housing loans to qualified, low-income rural Americans. As of September 30, 1990, FHA had $305 billion in insurance on over 7 million single-family home loans, and VA's 3.9 million guaranteed loans had an outstanding balance of about $155 billion, of which about $61 billion was guaranteed. As of June 30, 1990, FmHA had over $18.7 billion outstanding on about 752,000 single-family rural housing loans.

When a borrower does not repay a mortgage loan as agreed, the lender may acquire the property through a legal process known as foreclosure (or occasionally through other means, such as a borrower's voluntary conveyance of title). For government-insured or government-guaranteed loans, the private lender forecloses and files a claim with the agency for its losses (unpaid mortgage balance and interest, along with the costs of foreclosure and other expenses). After the government pays the claim, the lender transfers the title to the government.[2] In the case of FmHA direct loans, FmHA itself forecloses or accepts title through voluntary conveyance. Regardless of the process used to acquire title, this is the point at which the government agency becomes responsible for managing and selling the property.

RTC's involvement in property disposition arose from circumstances that differ from those of the other three agencies. Created in 1989 by the Financial Institutions Reform, Recovery, and Enforcement Act (P.L. 101-73), RTC's purpose is to manage and sell the assets of failed savings and loan institutions. As of September 30, 1990, RTC was managing the assets of about 500 institutions. Among these assets are single-family properties. Some of these properties were held by the institutions when they were taken over by RTC. Others were acquired by RTC through foreclosure or similar means after the institutions' takeover. While RTC is in the property disposition business for a reason different from that of the other three agencies, its responsibility for managing and selling the properties is basically the same.

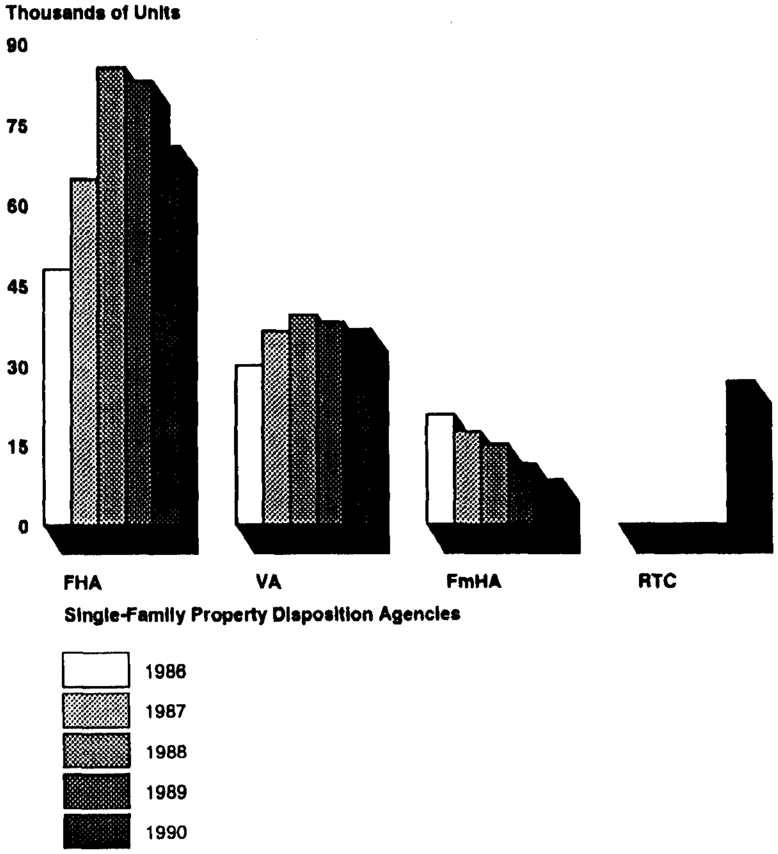
[2]VA does not always acquire foreclosed properties. In some cases, VA pays the lender the guarantee amount and leaves the property with the lender if doing so results in a lower loss to VA. In fiscal year 1990, VA paid claims on 6,061 such cases for a total payment of $134,101,194, or an average of $22,125 per claim.

Single-Family Property Disposition Activity Levels

Acquisitions Are Beginning to Decline for FHA, VA, and FmHA

For the 5 fiscal years from 1986 through 1990, single-family property acquisitions peaked and were declining for FHA, VA, and FmHA. As shown in figure 1, FHA and VA acquisitions reached their highest levels in 1988 when the agencies acquired about 86,000 and 39,000 properties, respectively. FHA and VA officials attributed decreasing acquisitions to economic improvement in geographical areas where acquisitions had been the highest. FmHA's acquisitions have been steadily declining since fiscal year 1986. FmHA officials believed that the decrease was caused not by any economic factors, but rather by FmHA's decision to no longer forgive the loan obligations of dissatisfied homeowners who transfer property titles to FmHA. RTC was unable to provide a precise number of single-family properties it has acquired since it started operations in late 1989. However, the only RTC data suitable for our purposes indicates that the agency has acquired a minimum of about 27,000 single-family properties.

Figure 1: Properties Acquired in Fiscal Years 1986-90



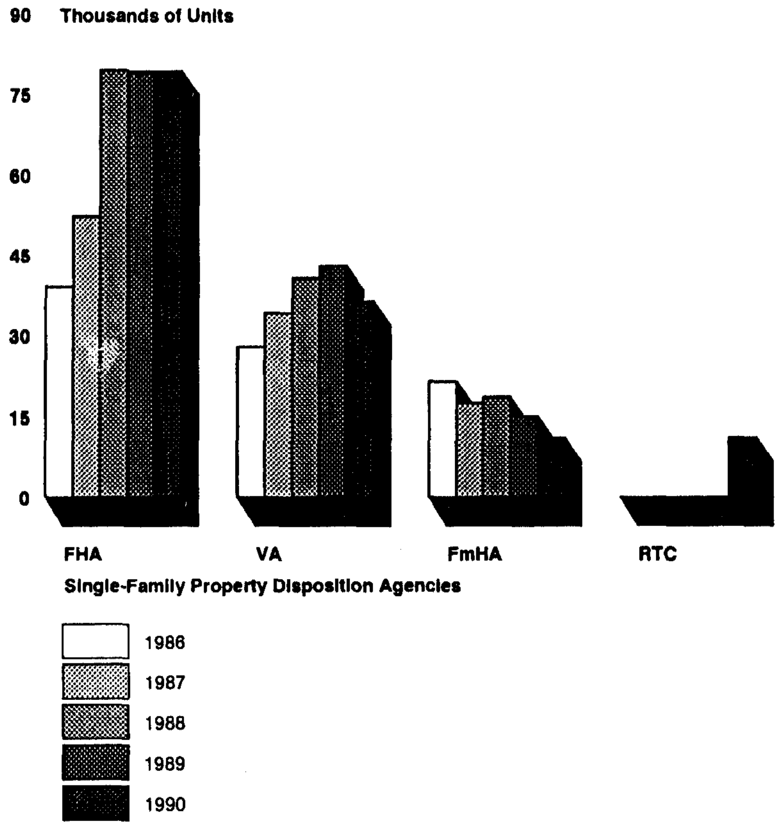
Source: Prepared by GAO from FHA, VA, FmHA, and RTC data.

The average costs to acquire properties were roughly the same for FHA and VA—$58,200 and $56,400, respectively—in fiscal year 1990. Because the FmHA loan program does not involve a private lender, FmHA directly acquires title and does not pay lenders' claims or report a comparable figure for acquisition costs. Because of the differing circumstances surrounding its involvement in single-family property disposition, RTC does not report an acquisition cost but considers the average book value for its single-family properties—$72,105—to be a comparable figure.

Sales Activity Varied by Agency

No clear-cut pattern existed for FHA, VA, and FmHA's sales over the 5-year period. As shown in figure 2, FHA's sales have remained fairly constant at about 79,000 properties in each of the past 3 fiscal years. VA's sales reached their highest levels in fiscal years 1988 and 1989, then dropped in fiscal year 1990. FmHA's sales were at their highest level in fiscal year 1986 and lowest in fiscal year 1990, generally paralleling the agency's decreased acquisitions over the period. From January through September 1990, RTC reported sales of about 11,200 single-family properties.[3]

Figure 2: Properties Sold in Fiscal Years 1986-90



Source: Prepared by GAO from FHA, VA, FmHA, and RTC data.

On average, in fiscal year 1990, VA sold properties within 6 months of acquiring them—about 3 months more quickly than FHA and about 4-1/2 months more quickly than FmHA. RTC reported an average selling time of about 5.8 months; however, this number reflects only 3,000 sales for which data were available. VA had the highest average sales price, about

[3]The RTC sales figure includes other properties (such as mobile homes) not considered single-family properties by the other agencies.

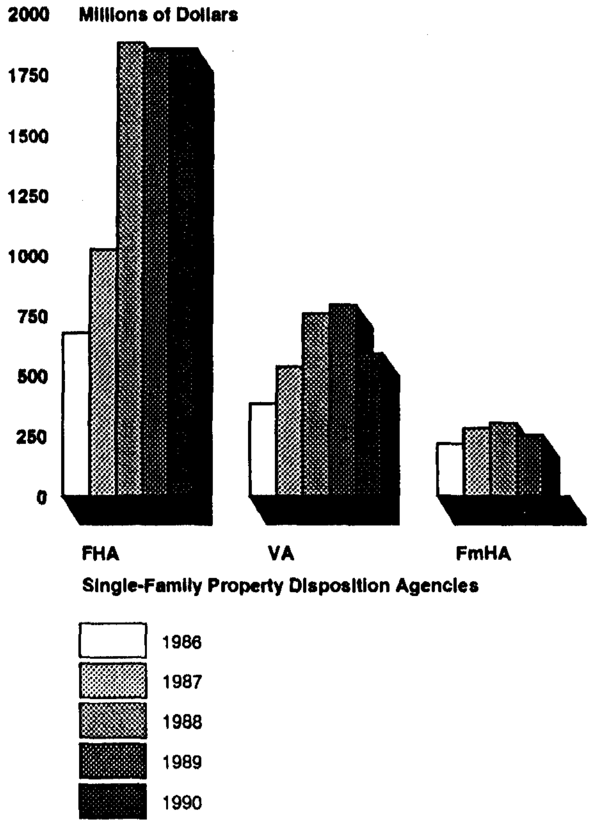
$45,900 per property, compared with about $40,600 for FHA and $29,000 for FmHA. Because RTC had not compiled sales price information for single-family properties nationwide, no data were readily available.

Property Sales Result in Losses

The costs of acquiring, managing, and selling single-family properties were generally much greater than property selling prices; thus, a sale usually resulted in a loss for the agency. In fiscal years 1986-90 for FHA and VA, and 1986-89 for FmHA,[4] these costs exceeded sales proceeds by about $11.4 billion ($7.3 billion for FHA, $3.1 billion for VA, and $1 billion for FmHA). In fiscal year 1990 alone, FHA's losses were nearly $1.86 billion on 79,200 properties sold and VA's losses were over $593 million on 36,300 properties. In fiscal year 1989 FmHA sold about 11,100 properties and reported total program losses of about $254 million. RTC could not readily provide comparable loss data for single-family properties sold. Figure 3 shows the losses on properties sold by FHA and VA in fiscal years 1986-90 and FmHA in fiscal years 1986-89.

[4]FmHA 1990 loss data were unavailable.

Figure 3: Total Losses on Single-Family Property Sales in Fiscal Years 1986-90



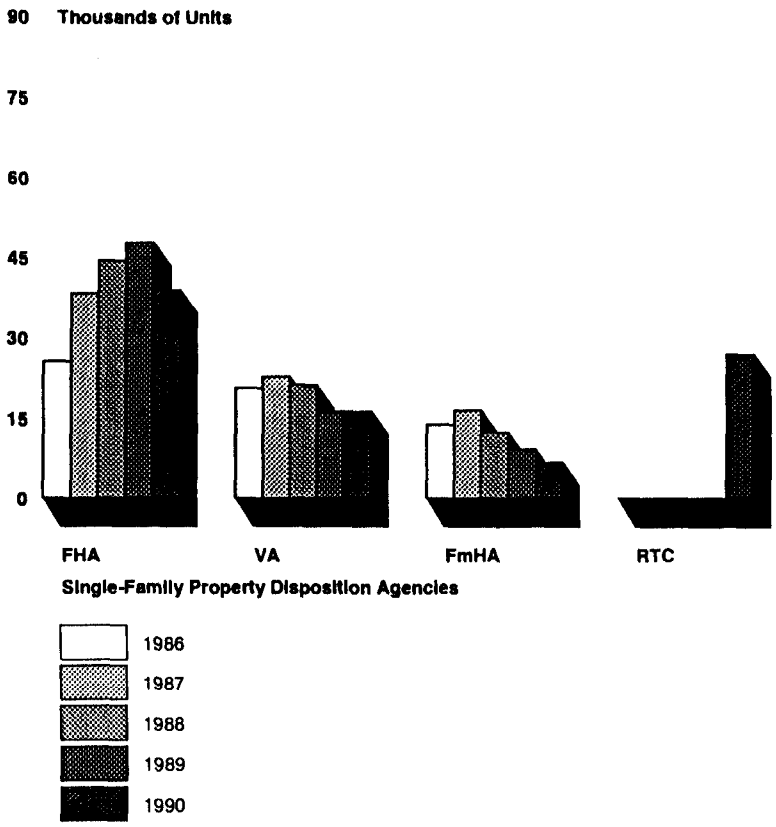
Source: Prepared by GAO from FHA, VA, and FmHA data.

On average, FHA had the highest loss per property sold (about $23,400 per property in fiscal year 1990) or about $7,100 higher than VA's average loss of $16,300. In fiscal year 1989 FmHA lost an average of $16,944 per property sold. According to FHA and VA officials, these differences may be attributable to factors such as differences in the original mortgage amount, exclusion of certain expenses in reporting costs, and differences in the way that lender claims were calculated.

Inventories Declined for FHA, VA, and FmHA; RTC Began Operations With Large Inventory

By the end of the 5-year period, inventory levels had declined from peak levels for FHA, VA, and FmHA. In 1990, FmHA's inventory dropped to its lowest 5-year level, VA's inventory was 28 percent lower than its highest point in 1987, and FHA's inventory declined by nearly 19 percent from its peak in 1989. Figure 4 shows this decline and also the level of RTC's inventory, which, at approximately 27,000 properties made RTC the second-largest player in the government single-family property disposition market.

Figure 4: Inventory Levels at End of Fiscal Years 1986-90

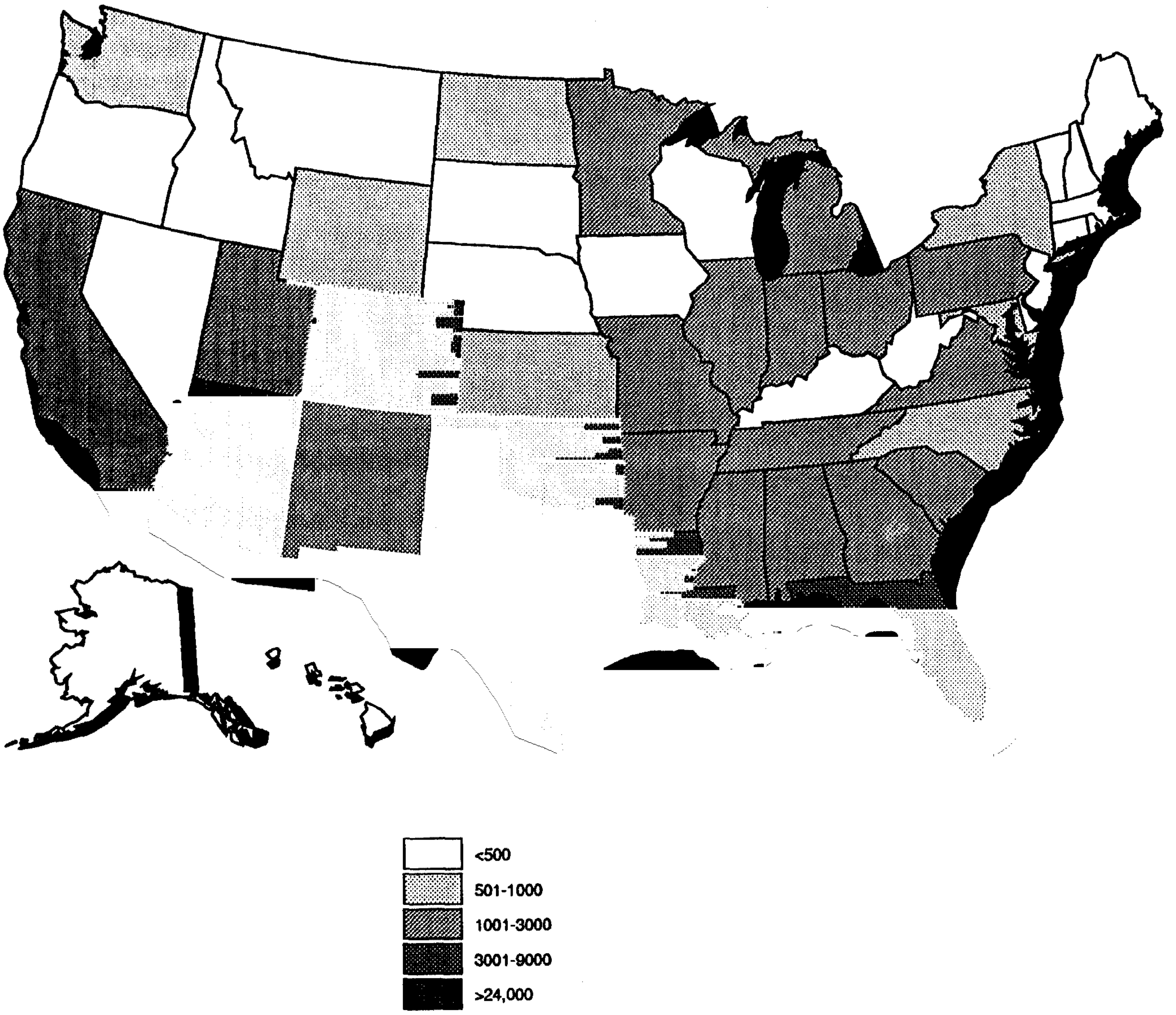


Source: Prepared by GAO from FHA, VA, FmHA, and RTC data.

The majority of the properties held by FHA, VA, and FmHA on September 30, 1990, had been in inventory for 6 months or less.

At the end of fiscal year 1990, the combined inventory of FHA, VA, and FmHA had dropped to under 62,000 properties—the lowest level since fiscal year 1986. However, with the addition of RTC's inventory, the total government inventory rose to nearly 89,000 properties at the end of the 5-year period. Texas—the state with the highest combined FHA, VA, and FmHA inventory—saw an inventory decrease from about 15,400 properties to under 11,700 properties over fiscal year 1990. Adding the RTC inventory, however, more than doubled the ending inventory for the state. Inventories were also large in Colorado, Louisiana, Arizona, and Florida. The smallest inventories were in Vermont, Hawaii, and Rhode Island. Figure 5 shows the geographical distribution of the combined single-family property inventories of FHA, VA, FmHA, and RTC.

Figure 5: Geographical Distribution of Federally Held Single-Family Foreclosed Properties



Note: Not shown in figure—the District of Columbia, with 142 properties and "Other" (Puerto Rico, Western Pacific Territories, and the Virgin Islands) with 910 properties.

Source: Prepared by GAO from FHA, VA, FmHA, and RTC data.

Additional statistical information on single-family property disposition appears in appendix I.

Property Disposition Objectives and Procedures Are Similar Among Agencies

FHA, VA, FmHA, and RTC are driven by the same primary objective in managing and selling their single-family inventories: to sell the properties quickly while minimizing government losses. In addition, RTC is directed by law to maximize homeownership opportunities and to minimize impacts on local real estate markets. Property disposition procedures are similar for all four agencies. Most management and sales activities are handled by private-sector brokers who perform their services under the oversight of field office staff of the federal agency that owns the property. Property management includes securing, repairing, providing custodial care, and sometimes renting the property. Property sales begin with the property appraisal and conclude with the transfer of the property, sales proceeds, and documentation.

Although the four agencies had the same overall primary disposition objective and handled property disposition similarly, there were some variations in policies and procedures. For example, VA offered greater financing flexibility to buyers of foreclosed properties. Loan guarantees were available for qualified veterans and direct financing was available for veterans and other qualified buyers. FHA and FmHA had a very low- or no-downpayment option not offered by VA or RTC. FmHA marketed its foreclosed properties primarily to applicants in its Single Family Housing Program for rural Americans. RTC is required by law to offer "first right of refusal" to low-income buyers on all single-family properties valued below certain thresholds. The other three agencies have no similar legal requirement. Additional information on single-family property disposition policies and procedures appears in appendix II.

Scope and Methodology

We conducted our review from September 1989 through January 1991. To prepare this report, we collected information from the four agencies about their single-family property disposition activities, including the number of properties acquired, sold, and held in inventory and the costs associated with property disposition. To the extent possible, we gathered information for fiscal years 1986-90 to show trends in federal single-family property disposition activities. FHA, VA, and FmHA were able to provide most of the data we requested. However, end-of-fiscal year 1990 loss information for FmHA was not available in time for inclusion in our report.

We did not verify the accuracy of property disposition activity data provided by the agencies. However, our audits of the financial statements of FHA and FmHA identified inaccuracies in property inventories.[5] For example, the FmHA Acquired Property Tracking System listed properties no longer owned by FmHA and failed to list others. In the Department of Agriculture's 1989 evaluation of its management controls and financial management systems required under the Federal Managers' Financial Integrity Act, the Secretary noted that the Acquired Property Tracking System was the system in greatest need of improvement within the Department. Nevertheless, the data used are the best currently available.

The information that RTC was able to provide on its single-family property disposition activities to date was limited in that much of the data are not compiled on a nationwide basis. In addition, some problems may exist in the RTC data because of the enormity of the task RTC faced in cataloguing the inventories of hundreds of savings and loan institutions, many of which had poorly maintained records. RTC acknowledges these problems, but expects to have most of them resolved when it implements a new information system designed for this purpose.

A detailed examination of internal controls was beyond the scope of this review. However, internal control problems in property disposition have been identified by us and the agencies involved. We will examine internal control issues in our follow-on work.

To obtain information on property disposition procedures, we interviewed headquarters officials of the four agencies and reviewed policy and procedures manuals they provided. We also contacted the following field offices: FHA's region VI (covering New Mexico, Texas, Arkansas, Louisiana, and Oklahoma) and region VIII (covering Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming); VA's Colorado-Wyoming and Southern Texas regions; and RTC's Denver Regional Office. We focused our fieldwork on these field offices because of the large single-family property inventories they handle. We did not contact individual FmHA field offices.

As your office requested, we did not obtain written agency comments on a draft of this report; however, we discussed its contents with agency

[5]Farmers Home Administration's Financial Statements for 1988 and 1987 (GAO/AFMD-90-37, Jan. 25, 1990) and Federal Housing Administration Fund's 1988 Financial Statements (GAO/AFMD-90-36, Feb. 9, 1990).

officials and incorporated their comments and suggestions where appropriate.

Unless you publicly announce it contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, we will send copies to interested congressional committees, the Secretary of Agriculture, the Secretary of Housing and Urban Development, the Secretary of Veterans Affairs, the Executive Director of the Resolution Trust Corporation, the Director of the Office of Management and Budget, and other interested parties. Please contact me on (202) 275-5525 if you have further questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

John M. Ols, Jr.

John M. Ols, Jr.
Director, Housing and
Community Development Issues

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Abbreviations

AMB	Area Management Broker
FmHA	Farmers Home Administration
FHA	Federal Housing Administration
GAO	General Accounting Office
PMB	Property Management Broker
RTC	Resolution Trust Corporation
VA	Department of Veterans Affairs

Single-Family Property Acquisition and Disposition Statistics

The single-family property disposition efforts of the federal government constitute a major activity for the agencies involved, but not a profitable one. The Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and Farmers Home Administration (FmHA), acquire and sell thousands of properties each year and usually lose thousands of dollars on each transaction. The overall cost of acquiring and selling these single-family properties amounts to billions of dollars. Likewise, the Resolution Trust Corporation (RTC), the newcomer in government single-family property disposition, has acquired and sold thousands of properties, but comparable data were limited. This appendix presents information for FHA, VA, FmHA, and RTC on (1) the number and cost of properties acquired; (2) the number, average selling price, and selling time of properties sold; (3) the losses associated with acquiring and selling properties; and (4) number, geographical distribution, and holding times of properties in inventory.

Acquisitions Are Declining for FHA, VA, and FmHA; RTC Acquisitions Are Substantial

FHA, VA, and FmHA acquired fewer single-family properties in fiscal year 1990 than in earlier years. In fiscal year 1990 FHA acquired about 71,100 properties—17 percent fewer than in fiscal year 1988 when it acquired almost 85,600 properties. VA's acquisitions also were highest in fiscal year 1988—over 39,400 properties. In fiscal year 1990 VA acquired about 36,700 properties—a decrease of about 7 percent from the highest year, 1988. FHA and VA officials attribute the decreases to economic improvement in depressed areas such as Texas and Colorado. Despite the decreases, however, both FHA and VA are still acquiring more properties than they acquired at the beginning of the 5-year period. FHA's 1990 acquisitions were nearly 1.5 times as great as the number acquired in 1986 and VA's were over 1.2 times as great.

Only FmHA has seen a steady decrease in acquisitions over the 5-year period: Acquisitions dropped nearly 60 percent from 20,714 properties in fiscal year 1986 to 8,370 properties in fiscal year 1990. FmHA officials credited this reduction to a change in FmHA's policy rather than to any change in economic conditions. Specifically, FmHA discontinued a practice under which the agency had allowed a borrower to voluntarily convey title to FmHA if he or she no longer wanted to keep the house.[1]

[1]The borrower's indebtedness to FmHA was forgiven under this arrangement; thus, according to FmHA officials, there was no incentive for the borrower to try to sell the house instead of conveying the title to FmHA.

FHA's acquisitions far exceeded those of VA and FmHA. An FHA official attributed this to two factors. First, FHA's single-family mortgage insurance pool was much larger than VA's and FmHA's. As of September 30, 1990, FHA was insuring about 7 million loans compared with fewer than 4 million guaranteed by VA and 752,000 housing loans made by FmHA. Second, VA can pay a lender the guarantee amount and leave the property with the lender if doing so is likely to result in a smaller loss for the government. Under the FHA program's design, FHA always pays the claim and acquires the property (provided that the lender followed FHA policies and procedures).

RTC was unable to readily provide precise information on the number of single-family properties it has acquired nationwide. However, the inventory data as of September 30, 1990, imply that RTC acquired a minimum of 27,000 single-family properties since it was established in August 1989. This number does not include any properties that RTC had sold as of September 30, 1990.

The 1990 costs of acquiring a property from a lender, that is, the payment of the lender's claim (unpaid mortgage balance, interest, costs of foreclosure, and related expenses), were similar for FHA and VA. Overall, FHA's claim costs increased 23 percent from 1986 to 1990. VA's increased by only 8 percent.[2] As the lender, FmHA does not pay a private lender's claim to acquire properties, but may incur certain foreclosure costs; however, this information was not tracked. RTC did not report an acquisition cost, but considered the average book value of its single-family properties—$72,105—to be comparable to acquisition cost. Table I.1 presents information on the number and average cost of single-family properties acquired in the 5 fiscal years from 1986 through 1990.

[2]Increases in acquisition costs are important because the level of the cost to acquire a property is largely responsible for how much the agency will lose when it is sold. However, an examination of the components of acquisition costs and their trends was beyond the scope of this review.

Table I.1 Number and Average Acquisition Cost of Single-Family Properties Acquired in Fiscal Years 1986-90

Agency	1986	1987	1988	1989	1990
FHA:					
Number	47,935	64,880	85,598	83,014	71,091
Cost	$47,479	$52,858	$56,765	$59,072	$58,202
VA:					
Number	29,972	36,422	39,430	38,060	36,747
Cost	$52,229	$54,206	$55,343	$54,369	$56,366
FmHA:					
Number	20,714	17,435	14,901	11,317	8,370
Cost[a]					
RTC[b]:					
Number	•	•	•	•	26,954
Cost					$72,105

Note: Dollars not adjusted for inflation.

[a]FmHA does not report acquisition costs in a manner similar to FHA and VA. Instead, the agency records a loss at the time of acquisition which reflects the difference between the outstanding loan balance and the appraised value of the property. This amount is included in the loss figures shown in tables I.7 and I.8.

[b]RTC officials could not readily report an acquisition figure. This figure is an assumed minimum number of properties based on the single-family property inventory reported by RTC as of September 30, 1990. The cost figure shown for RTC is the average book value for RTC single-family properties in inventory—a figure that RTC considered comparable to acquisition cost.

Sales Trends Differed Among the Agencies

Similarities did not exist among the agencies' acquisition trends. FHA's sales reached a peak of about 79,500 in fiscal year 1988 and have remained close to that level since. VA's sales climbed steadily for the first 4 years of the period, then dropped by about 15 percent in the last year. A VA official noted that in the last year, VA focused on reducing the losses associated with property disposition (see table I.5) and less on selling the properties as quickly as it had in the past. FmHA's sales generally declined over the 5-year period (paralleling the drop in acquisitions). RTC had sales data available only for the 9-month period from January through September 1990.

At about $45,900, VA's properties had the highest average sales price, followed by FHA's average of about $40,600. FmHA's properties sold for an average of $29,000 in fiscal year 1990. Over the 5-year period, FHA's average sales price increased by about 20 percent, compared with a 6-percent increase for VA during the same period. FmHA's average price showed a 3-percent increase between fiscal years 1987 and 1990. Table I.2 shows the number and average sales price of properties sold by each agency in fiscal years 1986-90. RTC could not readily provide information on average sales prices because such information is not compiled at the national level.

Table I.2: Number and Average Sales Price of Properties Sold in Fiscal Years 1986-90

Agency	1986	1987	1988	1989	1990
FHA:					
Number	39,042	52,261	79,460	79,144	79,207
Price	$33,975	$37,479	$38,050	$41,200	$40,637
VA:					
Number	27,910	34,181	40,630	42,796	36,304
Price	$43,367	$43,713	$41,610	$41,102	$45,885
FmHA:					
Number	21,542	17,500	18,557	15,015	11,147
Price	[a]	$28,095	$27,427	$27,919	$29,006
RTC[b]:					
Number	•	•	•	•	11,176
Price	•	•	•	•	[a]

Note: Dollars not adjusted for inflation.

[a]Data not available.

[b]While RTC was established in August 1989, it had sales data available only for the period between January and September 1990. The figure shown includes some properties, such as mobile homes, not considered by the other agencies as single-family properties.

VA properties sold more quickly than those sold by FHA and FmHA. For 1990 sales, VA sold properties in an average of about 6 months, about 3 months quicker than FHA and 4-1/2 months faster than FmHA. The limited information available for RTC showed that, for the 3,000 sales for which such data were available, properties sold in about 5.8 months. Table I.3 shows average selling times for FHA, VA, FmHA, and RTC.

Table I.3: Average Time Taken to Sell Properties (In Months)

Agency	1986	1987	1988	1989	1990
FHA	6	7	7	7	9
VA	8.8	8	6.9	6.7	5.9
FmHA	[a]	9.3	10.1	11.1	10.6
RTC	•	•	•	•	5.8[b]

[a]Data not available.

[b]Based on partial sales data.

Another way to compare the agencies' sales records is by using their ratios of sales to acquisitions. Table I.4 shows the number of properties sold for each property acquired in fiscal years 1986-90.

Table I.4: Sales to Acquisition Ratios for FHA, VA, and FmHA

Agency	1986	1987	1988	1989	1990
FHA	0.81	0.81	0.93	0.95	1.11
VA	0.93	0.94	1.03	1.12	.99
FmHA	1.04	1.00	1.25	1.33	1.33

The 1990 data, the most current available, show that FHA and FmHA were selling properties at a faster rate than they acquired new properties. VA's sales to acquisition ratio dropped from the previous year. According to a VA official, the agency began emphasizing loss reduction over moving properties quickly.

Single-Family Property Sales Result in Losses

Property disposition is a losing business. In general, a sale results in a loss because the costs to acquire, manage, and sell a property exceed its sales price. FHA showed the highest average loss—$23,436 per property sold in fiscal year 1990. This was about 43 percent more than VA's average loss the same year and 38 percent greater than FmHA's in the previous fiscal year.

Table I.5 shows the average losses associated with the sale of single-family properties by FHA, VA, and FmHA in fiscal years 1986-90. For FHA and VA, the table also shows how much of this loss is directly related to managing and selling the property (disposition expenses). FmHA data shows only total losses.

Table I.5: Average Losses Associated With Properties Sold

Agency	1986	1987	1988	1989	1990
FHA:					
Total	$17,358	$19,616	$23,652	$23,448	$23,436
Disposition	3,854	4,237	4,937	5,576	5,871
VA:					
Total	13,687	15,672	18,673	18,587	16,339
Disposition	5,150	5,179	5,118	5,526	6,149
FmHA:					
Total	9,983	15,963	16,231	16,944	[a]

Note: Dollars not adjusted for inflation.

[a]Data not available.

In general, FmHA's average loss was smaller than the average loss for FHA and VA. In part, this may be due to the generally lower amount of an FmHA loan. Further, because FmHA itself makes the loan, it does not pay a private lender's claim (unpaid mortgage balance and interest) to acquire a property. FmHA does record a loss that equals the difference between the borrower's indebtedness to FmHA and the appraised value of the property when FmHA takes title. An additional loss is recorded when the property is sold, taking into account the selling expenses and the price the buyer paid for the foreclosed property. However, other property disposition expenses are not included in this loss calculation because FmHA is unable to identify those expenses by property sold.[3] Thus, the numbers reported here do not reflect all of FmHA's losses on properties sold.

When compared with VA, FHA's larger loss figure appeared to be attributable to FHA's relatively larger acquisition expenses rather than to disposition expenses. More specifically, the fiscal year 1990 data from tables I.1 and I.2 show that, on average, FHA paid $58,202 to acquire a property that brought only $40,637 when sold. VA spent $56,366 to acquire a property that sold for $45,885. Thus, FHA spent about $1,800 more than VA to acquire property worth about $5,200 less.

Another way of comparing FHA and VA losses is on the basis of return per dollar invested in the properties. With an average sales price of $40,637 and average total investment of $64,073, FHA's return was about 63 cents on the dollar in fiscal year 1990. VA's average investment of

[3]FmHA expects to have implemented by October 1991 a new automated information system to track these costs.

$62,515 and sales price of $45,885 yielded a return of 73 cents on the dollar. Table I.6 shows the return that FHA and VA recognized on properties sold in fiscal years 1986-90.

Table I.6: Return Per Dollar Invested on Foreclosed Properties

Agency	1986	1987	1988	1989	1990
FHA	$.66	$.66	$.62	$.64	$.63
VA	.76	.74	.69	.69	.73

While a detailed examination of the components of a lender's claim was not within the scope of this review, FHA and VA officials offered possible explanations for the difference between FHA's and VA's claim-related losses. First, on an FHA-insured loan, the lender calculates its claim for interest from the time the borrower defaults on the mortgage until the property title is conveyed to FHA. VA allows the lender to claim interest payments only through the day of foreclosure. Second, VA does not pay the lender an amount similar to that which FHA terms "debenture interest." Debenture interest, an allowance paid to lenders at the discretion of the FHA Commissioner, is calculated on the unpaid loan balance and on the lender's expenses associated with acquiring the property.

In FHA's peak sales year, the agency's total loss on sales was nearly $1.9 billion. In its highest sales year, VA lost nearly $800 million. Table I.7 shows the total losses associated with the acquisition and disposition of all properties sold by FHA, VA, and FmHA in fiscal years 1986-1990. Comparable information was unavailable for RTC sales.

Table I.7: Total Losses on Sales, Fiscal Years 1986-90

Dollars in millions

Agency	1986	1987	1988	1989	1990	5-year total
FHA	$678	$1,025	$1,879	$1,856	$1,856	$7,294
VA	382	536	759	795	593	3,065
FmHA	215	279	301	254	[a]	1,050[b]
Total						**$11,409**

[a]Data not available.

[b]Does not add due to rounding.

Inventory Levels Are Declining for FHA, VA, and FmHA

As shown in table I.8, by the end of the 5-year period examined, inventory levels were generally declining for FHA, VA, and FmHA. Also as shown, RTC's single-family property inventory made it the second largest player among the four agencies.

Table I.8: Inventory Levels for FHA, VA, FmHA, and RTC, Fiscal Years 1986-90

	Number of properties				
Agency	**1986**	**1987**	**1988**	**1989**	**1990**
FHA	25,506	38,308	44,338	47,798	38,920
VA	20,567	22,633	21,161	16,157	16,227
FmHA	13,751	16,443	12,330	9,104	6,750
RTC	•	•	•	•	26,954

The 1990 data show that the majority of the properties in inventory have been held fewer than 6 months. Table I.9 shows holding times for FHA, VA, and FmHA properties. No data were readily available for RTC.

Table I.9: Holding Time for Properties in Inventory on September 30, 1990

	Number of properties		
Time in months	**FHA**	**VA**	**FmHA**
Up to 6 months	25,106	11,021	2,978
6.01 to 12 months	7,124	3,537	1,146
12.01 to 18 months	3,014	659	745
18.01 to 24 months	2,311	120	408
24.01 to 30 months	779	45	143
30.01 to 36 months	396	23	78
36.01 to 42 months	123	11	90
42.01 to 48 months	50	5	36
More than 48 months	81	6	0
Total[a]	**38,984**	**15,427**	**5,624**

[a]The data for FHA show 64 more properties than the data shown in tables I.8 and I.10. The FHA data in table I.9 were produced at a later date and include some adjustments not reflected in the earlier figure. VA's data also vary with those shown in tables I.8 and I.10. These data differ because of possible coding errors and because the data shown in table I.9 exclude properties that were subject to redemption by homeowners. The FmHA data show 1,126 fewer properties than the total shown in tables I.8 and I.10. The lower figure excludes any properties that were sold or acquired between September 30, 1990, and November 29, 1990, when the holding time data were produced.

Decreases in inventory may reflect a decrease in acquisitions, an increase in sales, or a combination of both. FmHA's large decrease can be attributed primarily to decreased acquisitions because sales actually declined in every year except one during the 5-year period. FHA's and VA's more recent declines were, in general, the product of both decreased acquisitions and increased sales.

In fiscal year 1990 the three agencies had their lowest combined inventory since the beginning of the 5-year period—about 62,000 properties. However, RTC reported that it had an inventory of nearly 27,000 properties as of September 30, 1990; thus, the total federal inventory of single-family properties stood at almost 89,000. Table I.10 shows this inventory by state, and totals both with and without the inclusion of the RTC inventory.

Table I.10: Inventories for FHA, VA, FmHA, and RTC as of September 30, 1990, by State

State	FHA	VA	FmHA	RTC	Total without RTC	Total with RTC
Alabama	584	104	294	117	982	1,099
Alaska	382	44	16	18	442	460
Arizona	2,568	858	80	1,938	3,506	5,444
Arkansas	592	93	174	227	859	1,086
California	817	431	104	359	1,352	1,711
Colorado	4,988	2,063	131	1,189	7,182	8,371
Connecticut	15	2	1	15	18	33
Delaware	3	3	5	1	11	12
Florida	1,930	1,254	158	1,938	3,342	5,280
Georgia	869	504	326	488	1,699	2,187
Hawaii	3	0	3	0	6	6
Idaho	123	92	72	8	287	295
Illinois	1,305	427	109	276	1,841	2,117
Indiana	599	297	164	20	1,060	1,080
Iowa	151	111	17	64	279	343
Kansas	174	339	57	358	570	928
Kentucky	173	140	65	36	378	414
Louisiana	2,150	408	491	2,559	3,049	5,608
Maine	24	10	18	4	52	56
Maryland	304	125	14	59	443	502
Massachusetts	10	1	2	43	13	56
Michigan	673	464	99	37	1,236	1,273
Minnesota	754	394	58	163	1,206	1,369
Mississippi	573	56	493	154	1,122	1,276
Missouri	562	202	107	176	871	1,047
Montana	292	84	56	4	432	436
Nebraska	111	43	26	72	180	252
Nevada	243	101	5	39	349	388
New Hampshire	7	7	10	15	24	39
New Jersey	142	95	22	83	259	342

(continued)

State	FHA	VA	FmHA	RTC	Total without RTC	Total with RTC
New Mexico	156	176	151	454	483	937
New York	286	47	70	101	403	504
North Carolina	388	238	171	46	797	843
North Dakota	273	55	143	86	471	557
Ohio	625	637	72	92	1,334	1,426
Oklahoma	2,169	150	324	1,263	2,643	3,906
Oregon	107	15	82	74	204	278
Pennsylvania	752	184	64	372	1,000	1,372
Rhode Island	2	0	0	6	2	8
South Carolina	1,600	223	351	130	2,174	2,304
South Dakota	115	42	25	0	182	182
Tennessee	1,109	226	267	292	1,602	1,894
Texas	7,574	3,505	613	13,027	11,692	24,719
Utah	669	175	47	299	891	1,190
Vermont	1	0	1	0	2	2
Virginia	902	910	152	120	1,964	2,084
Washington	252	525	27	43	804	847
Washington, D.C.	116	22	0	4	138	142
West Virginia	29	63	129	10	221	231
Wisconsin	175	107	95	29	377	406
Wyoming	369	163	43	24	575	599
Other[a]	130	12	746	22	888	910
Total	**38,920**	**16,227**	**6,750**	**26,954**	**61,897**	**88,851**

[a]"Other" includes: Puerto Rico for VA and RTC; Puerto Rico and the Virgin Islands for FHA; and Puerto Rico, the Virgin Islands, and Western Pacific Territories for FmHA.

As shown, the largest inventory was in Texas, followed by Colorado, Louisiana, Arizona, and Florida. The states with the fewest properties included Vermont, Hawaii, Rhode Island, and Delaware—each of which had fewer than 20 properties.

The addition of the RTC inventory particularly affected the combined inventories of several states, but the most dramatic impact was on the inventory in Texas. Over fiscal year 1990 the inventory in Texas dropped from 15,444 to 11,692 properties. With the addition of the RTC properties, the total inventory in Texas more than doubled to 24,719 properties.

Policies and Procedures Followed by Federal Agencies in Disposing of Single-Family Properties

The property disposition process begins when an agency acquires the title to a single-family property and concludes when it transfers the title to a new owner. Property disposition activities involve (1) property management—securing, repairing, and caring for the property—and (2) property sales—appraising, marketing, evaluating and accepting bids for, and completing the transfer of the property. In general, the four agencies handle property disposition similarly; however, there are some differences in their approaches. Table II.1 describes the property disposition objectives and organizations of FHA, VA, FmHA, and RTC and details the procedures established by these agencies for disposing of single-family properties. The information presented is taken from policy and procedures manuals and interviews with agency officials.

Table II.1: Policies and Procedures for Disposing of Federal Single-Family Properties

FHA	VA	FmHA	RTC
PROPERTY DISPOSITION OBJECTIVES			
FHA's objective is to reduce the inventory of acquired properties, using methods to maximize net return without adversely affecting the character of residential communities.	The objective of VA property disposition is to sell acquired properties as quickly as possible at prices which result in a maximum recovery for the government.	FmHA's objective is to sell property as quickly as possible, giving preference to applicants in FmHA's Single Family Housing Program so that the agency's inventory of houses remains in that program.	RTC's objectives are to maximize return and minimize losses to the federal government; minimize impacts on local real estate markets; and maximize homeownership opportunities for low- to moderate-income persons.
ORGANIZATION			
FHA's 10 multistate regions and their field offices are responsible for implementing the agency's property disposition activities. Their role is primarily one of oversight since actual management, marketing, and closings are generally handled by private-sector contractors. FHA property disposition policy and guidance are established at headquarters, but regional offices have considerable latitude regarding implementation.	VA conducts single-family foreclosure sales through its 49 regional offices. Their role is to contract for and oversee property management and sales activities performed by private real estate professionals. VA property disposition policy and procedures are established by headquarters, but regional offices have considerable latitude regarding implementation.	FmHA's national headquarters provides property disposition guidance to its state, district, and county offices. County offices conduct property disposition activities under the direction of state and district FmHA offices. FmHA field staff both sell and oversee sales by real estate agents. FmHA has offices that cover every rural county and parish in the 50 states and in the Pacific Trust Territories, American Samoa, Guam, Puerto Rico, and the Virgin Islands.	RTC property disposition policy is established by the RTC Oversight Board or by the RTC Board of Directors and RTC staff set operating policies and procedures in that framework. In some cases, the procedures are approved by the Oversight Board or the RTC Board of Directors. Once fully implemented, property disposition policies and procedures are to be carried out by its 4 regional and 14 consolidated offices throughout the nation. These field offices oversee contractors called "asset managers" who, in turn, hire and oversee the work of other RTC-registered contractors who perform property appraisals, marketing, and management services.

(continued)

FHA	VA	FmHA	RTC
PROPERTY MANAGEMENT			
General			
Properties are assigned to Area Management Brokers (AMBs)—contractors who are selected by negotiated procurement to provide property management. An AMB may have responsibility for hundreds of properties. The AMBs' activities are monitored by FHA field personnel. Usually, AMBs are paid a monthly fee for their services. However, under an arrangement called an "exclusive listing," compensation for management activities is paid (as a sales commission) when the property is sold.	Property Management Brokers (PMBs) manage VA properties until they are sold. PMBs are selected by review panels in VA's regional offices. VA does not specify the maximum number of properties a PMB can manage. In assigning the properties to the PMBs, VA distributes them among a limited number of PMBs because it is less costly for VA to monitor the activities of a small number of PMBs. VA realty specialists in field offices monitor the activities of the PMBs. PMBs are paid monthly management fees for their services.	FmHA County Supervisors are responsible for managing FmHA acquired properties. Actual management activities may be done by property managers and real estate brokers hired under negotiated contracts. In general, contracts may cover not more than 25 properties. Exceptions to this limit are made at the discretion of FmHA state officials. Contracts vary according to the density and location of properties and market conditions. FmHA personnel are responsible for ensuring that property is effectively managed.	Generally under a competitive arrangement, RTC hires private asset managers to manage and market groups of properties. Asset managers subcontract with other RTC-registered contractors for some services. RTC field office staff oversee asset managers' activities. Asset managers receive a monthly management fee and also a "disposition fee" based on the asset manager's performance. Under RTC's asset disposition incentive system, the amount of fees earned depends on both the speed of property sales and the net return on the property.
Security			
The AMB secures all openings to the properties. Some properties are boarded shut when necessary—for example, in cases of repeated vandalism. Some offices encourage neighborhood watch activities.	PMBs secure doors and windows to prevent unauthorized access. VA generally does not board up a property unless there has been repeated vandalism.	FmHA initially inspects the property. The property is then secured by FmHA or the property manager. Locks are changed and "no trespassing" signs may be posted. FmHA or the property manager is responsible for reporting theft or damage to local police.	RTC asset managers subcontract for security services. The subcontractor is responsible for securing properties and making sure that they do not present a hazard to public safety. RTC relies on the asset manager's expertise to take all security measures that are necessary.
Repairs			
AMBs assess the need for property repairs. In general, FHA's policy is to sell properties on an "as is" basis. Field offices are authorized to make repairs only when staff and contractor resources are available and if (1) repairs would definitely net a greater return; (2) repairs are necessary to meet FHA-insurance property standards in areas where conventional financing is unavailable; (3) the condition severely impedes sale; or (4) repairs are needed to comply with enforced local codes and ordinances.	PMBs may make repairs to improve the appearance of the property, to make it more marketable, or to bring it up to agency program standards. However, when VA cannot recapture the repair cost in the sales price, VA will sell the property "as is." Recently, VA has cut back on property repairs because the competitive bidding process used to hire contractors is time-consuming.	If a property is included in FmHA's Single Family Housing Program, FmHA makes necessary repairs, which may include landscaping. FmHA generally does not repair properties unsuitable for the Single Family Housing Program unless the repairs increase the property's market value by an amount beyond the cost of the repairs.	Generally, RTC does not authorize property repairs beyond those necessary to protect the value of a property (e.g., roof repairs). However, under RTC's Affordable Housing Program, more extensive repairs may be authorized up to 15 percent of the listing price of an eligible property.

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FHA	VA	FmHA	RTC
Custodial care			
AMBs provide basic custodial services for the properties, including initial cleaning, appropriate seasonal and grounds maintenance, and periodic inspection.	PMBs provide regular custodial care for properties, including initial cleanup, visits to check the condition of the property, and other basic upkeep such as seasonal and grounds maintenance.	Property managers provide basic custodial services such as seasonal and grounds maintenance, and periodic inspection.	RTC asset managers are required to subcontract for seasonal and grounds maintenance and other custodial activities.
Rentals			
FHA rarely rents properties. According to staff in FHA's Denver Regional Office, Denver has not pursued rentals because of the already high vacancy rate and the possible competition with investors who buy FHA properties to rent. Headquarters officials and staff in the Ft. Worth field office told us that, in the past, FHA has not rented properties because FHA resources were insufficient to handle the additional work involved. When properties are rented, AMBs collect the rent and manage the property. For fiscal year 1991, headquarters has offered field offices the option of renting properties in "soft" markets. In such cases, a portion of the rent may be applied toward a downpayment to buy the property.	VA usually does not rent properties because it believes that vacant properties are easier to sell. However, VA does rent properties that are likely candidates for vandalism or unlikely candidates for quick sale. In very limited instances, VA rents some properties with an option to purchase. PMBs assist in securing tenants and collecting rents.	FmHA generally does not rent single-family housing because it believes that renting can delay the sale of a property.	RTC's policy is to rent any property it anticipates holding 6 months or more to help (1) offset holding costs; (2) reduce vandalism; and (3) ensure regular property maintenance. The rented property remains on the market and is available to RTC or the asset manager for sales or appraisal purposes. Rent is collected by a subcontractor.
PROPERTY SALES			
General			
All sales are handled by the private sector under the oversight of FHA field offices.	Generally, sales are handled by the private sector under the oversight of VA field offices. In a very limited number of cases, properties are sold by VA staff.	Real estate brokers sell FmHA properties usually under exclusive listing arrangements. County officials monitor their activities. FmHA staff may sell the properties when there are fewer than five properties in the county office jurisdiction.	RTC lists and sells its single-family properties through asset managers. Asset managers must prepare a plan that describes a marketing strategy and a disposition budget. For single-family properties, these plans are usually prepared for a group of properties assigned to one asset manager. RTC field office staff oversee asset managers. Under the Affordable Housing Program, "clearinghouses" (which are typically state housing finance agencies and nonprofit organizations) are used to facilitate marketing efforts during the program's 90 day marketing period for eligible properties.

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FHA	VA	FmHA	RTC
Appraisals			
Starting in fiscal year 1991, FHA began to require that all newly acquired single-family properties be appraised by an industry-recognized appraiser. Previously, AMBs suggested a listing price based on a property inspection and sales prices for comparable properties. In either case, FHA staff set the listing price. FHA reviews 10 percent of all property appraisals. If a property does not sell, FHA reevaluates its listing price; however, FHA policy prohibits setting unreasonably high or low prices.	PMBs inspect the property and report to VA an opinion of the value if sold "as is" and if sold with repairs. VA sets the listing price based on the PMB's inspection report, past appraisals of the actual property, sales prices of comparable properties in the area, and other factors. At least every 6 months, VA reevaluates the prices of unsold properties. In the interim, predetermined "step-downs" in listing prices may be made.	Typically, FmHA employees appraise single-family properties. Outside appraisers may be used to expedite appraisals. FmHA reappraises a property any time additional market data indicate the need to do so. If an actively marketed property suitable for FmHA's Single Family Housing Program does not sell within 75 days, FmHA reduces the sales price by 10 percent. This process may be repeated every 75 days. A similar policy applies to unsuitable properties, but reductions are made at 45-day intervals.	RTC uses contract appraisers to establish the listing price for a property. Properties are appraised annually on a cash sale basis. RTC adopted a policy of case-by-case reductions to the listing price— up to 15 percent after 4 months, and an additional 5 percent after 7 months.
Marketing			
Advertising			
FHA advertises single-family properties in local newspapers. In some cases, properties are listed with realtors' Multiple Listing Service. Field offices sometimes use local television home showcases, telephone information lines, and brochures on purchasing procedures. In 1991, FHA plans to make available to the public a national brochure on basic purchasing information. FHA currently has a national advertising campaign through which regions are advised on possible advertising techniques.	In large markets, VA publishes in local newspapers general sales information and addresses of properties for sale. In smaller markets, VA sends property lists to real estate brokers who market the properties to the public. Some offices use a telephone information line that provides property listings and the status of individual properties. Local VA offices also maintain property listings that are available to the public.	FmHA advertising techniques vary depending on who is selling the property. Generally, advertising is included as part of exclusive listing arrangements. When open listings are used or when FmHA is selling the property, FmHA advertises each property, usually once a week in local newspapers. Notices are posted in prominent places in local FmHA offices. In addition, FmHA advertises on radio and television depending on their availability in a local area.	RTC asset managers' subcontractors advertise in trade journals and newspapers and list properties with real estate brokers. Usually, advertising includes listing on the Multiple Listing Service. Local clearinghouses provide to prospective purchasers listings of properties available under the Affordable Housing Program.

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FHA	VA	FmHA	RTC
Showing properties			
Any FHA certified realtor can show FHA properties to prospective buyers. FHA pays the broker submitting a successful bid a commission up to 6 percent. FHA also uses "exclusive listing" arrangements under which the exclusive listing agent is guaranteed a commission regardless of who makes the sale. According to Denver Regional officials, the premise behind this arrangement is that the exclusive listing agent, who is responsible for both managing and selling the property, will provide better services because his or her payment depends upon the sale. FHA requires that each FHA region have at least one exclusive listing arrangement.	Any VA authorized real estate broker may show VA properties to prospective buyers. Brokers who sell VA properties typically earn a sales commission of up to 6 percent of the selling price. VA's Southern Texas and Southern California regions experimented with a pilot project where PMBs both manage and list properties. (This is similar to FHA's use of exclusive listing agents.)	Generally, real estate agents show FmHA properties although properties also may be shown by FmHA personnel. Exclusive listing and open listing sales commissions are based on the current local market. FmHA has no set maximum or minimum rate of commission. However, all are paid at "the best and most reasonable rate."	Any real estate broker may show and sell an RTC property. Asset managers may subcontract with real estate brokers or listing agents under exclusive or open listing arrangements. Asset managers earn a disposition fee for property sales, the level of which varies with the net return on the sale of the property. In addition, asset managers may receive bonuses for selling properties quickly.
Buyer incentives			
FHA headquarters allows the field offices to choose among several incentives to attract prospective buyers. For example, FHA frequently allows owner-occupant buyers to purchase a home with as little as $100 down. Also, FHA insurance is available to qualified purchasers of homes meeting FHA property and underwriting standards. If the successful bid includes a request for FHA assistance with discount points and closing costs, FHA will pay up to 3 percent of such costs. Although recent legislation makes FHA insurance generally unavailable for investor-purchases of single-family properties, FHA's property disposition procedures still allow investors to purchase FHA properties with FHA-insured loans.	VA offers buyers various incentives to purchase homes from its inventory. Purchasers who are owner-occupants may, in some VA regions, make no downpayment or downpayments as low as $500. VA also offers direct loans and guarantees on loans made by private lenders to veterans. VA may pay reasonable discount points charged by other lenders who finance purchases of VA homes, and VA pays closing costs customary for the area. VA also offers buyers rehabilitation loans to repair VA homes.	Interest rates on FmHA loans are generally less than commercial rates. If a purchaser secures non-FmHA financing, FmHA may pay up to three discount points. In addition, FmHA offers properties with zero downpayment required and occasionally offers new appliances with the properties.	RTC generally prefers cash sales. In some cases however, RTC offers direct financing. Under the Affordable Housing Program, qualified participants can utilize several buyer incentives such as low-interest loans, closing cost assistance, and subsidized downpayments through state bond issues and private lenders.

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FHA	VA	FmHA	RTC
Other sales approaches			
In the 1980s FHA auctioned properties to cope with rapidly increasing inventories. In 1988, the agency discontinued the practice because of adverse real estate industry response and because auctions did not provide the greatest net return to FHA. FHA plans to implement a program to reduce the property disposition inventory while stabilizing, preserving, and improving neighborhoods as well as providing additional affordable housing. Under this program, FHA will allow state and local governments to purchase the properties in bulk.	VA has sold some properties at public auctions to dispose of its older inventory and to increase public awareness of VA properties. However, this sales approach is not regular policy and requires specific approval of VA headquarters. VA policy allows for "bulk sales" in which packages of housing units are offered to investors, speculators, or financial institutions. These bulk sales may involve properties concentrated in tracts or a package of properties scattered throughout a city.	If a property unsuitable for the FmHA Single Family Housing Program has not sold after the price has been adjusted down to 80 percent of the appraised value, then FmHA may use sealed bids, negotiated bids, or an auction to sell the property. By contrast, a suitable property that has reached 80 percent of its appraised value through price adjustments is reappraised to start a new price adjustment cycle. If the property has not sold after reaching 80 percent of the second appraised value, the case is sent to headquarters where a decision is made to sell the property by sealed bid or auction.	RTC has four methods of sale: (1) contracts with real estate brokers, (2) sealed bids, (3) bulk sales and auctions, and (4) direct sales through RTC Sales Centers. To date, a few small auctions have included the sale of single-family properties.
Bidding			
Bidding periods			
Initial bidding lasts 10 days from the date the property is first advertised. If no acceptable bids are received during that period, FHA receives and evaluates bids daily until one is accepted.	Bids are accepted for at least 5, but no more than 10, days after the initial listing of a property. All acceptable bids received during this period are considered to have been received simultaneously. If no bid is accepted, property is relisted until sold.	FmHA may receive and accept offers for property any time after the effective date the property is available for sale unless the property is listed under an exclusive broker contract. For those properties not under an exclusive listing contract, FmHA will not consider offers until 5 business days after the properties are listed.	RTC may receive and accept offers for property any time after the effective date the property is available for sale. No bidding period is established for such offers. In the past, sealed bids were rarely used. However, recent policy states that RTC is planning to offer for sale properties under $100,000 by a series of sealed bids and auctions. When sealed bids are accepted, a separate marketing plan that includes a bidding period must be established for each property. RTC is required to respond within 30 days to any bid submitted or issue an explanation for the delay.
Bidding procedures			
Sealed bids are submitted to the local FHA office, signed by the broker and the prospective buyer, with an earnest money deposit or a broker's earnest money deposit certificate. The minimum acceptable deposit is $500 and the maximum is $2,000. The required amount of earnest money is determined by each local FHA office.	Bids on VA properties must be made through real estate brokers or agents. Earnest money deposits are determined by each regional office and can be as little as $100. No national maximum is specified.	Typically, individuals present their offers through exclusive listing agents or real estate brokers. In some cases, offers may be placed directly with FmHA. A $50 earnest money deposit is required for properties listed under exclusive listing arrangements or for open listings where real estate agents place offers for individuals. The deposit is held by the exclusive listing agent and later applied to closing costs.	In general, RTC has no national bidding procedure. Field offices may develop localized procedures but it is likely that asset managers have considerable latitude in implementing them. An earnest money deposit of 5 percent is required with all bids.

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FHA	VA	FmHA	RTC
Opening, evaluating, and accepting bids			
All bids received are opened on the first workday following the close of the 10-day bidding period. FHA accepts the bid providing to FHA the greatest net return. In the event of duplicate bids, priority is given to offers by potential owner-occupants. Results are announced at the bid opening, by telephone recording, or by mail. A bid acceptance is not considered final until a sales contract is signed. Back-up offers may also be accepted. If none of the offers meet FHA's price threshold, FHA may enter into counter-offer negotiations. All unaccepted bids and earnest money deposits are returned to the unsuccessful bidders.	VA opens bids no later than 2 workdays after the end of the bidding period. VA selects the offer that provides the highest net return to VA and notifies the successful bidder. VA announces the successful bid in the newspaper and over the telephone information line, if available. Earnest money is returned to unsuccessful bidders following the bid acceptance. After accepting a bid, VA generally will not refund earnest money except when the purchaser is disapproved for financing by a third-party lender.	FmHA opens and evaluates offers as they are received. FmHA only accepts offers for at least the listing price. Additionally, offers from applicants in the single-family housing program are given priority over non-program offerors. Offerors are notified of the status of their offer. For unsuccessful offers, earnest money is refunded. If outside financing fails for the successful offeror, FmHA takes the next highest offer.	RTC's general policy is to accept the highest value available in the market for a property. Asset managers are authorized to accept bids that are at least 90 percent of the original appraised value or 90 percent of a downwardly adjusted value. Bids lower than 90 percent may be accepted on an exception basis by various levels of RTC management depending on the amount the bid is below the appraised value. Legally, RTC is barred from accepting bids of less than 95 percent of the downwardly adjusted value in six states: Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, and Texas.
Completing the sale			
Financing			
Obtaining financing is the bidder's responsibility. Currently, FHA does not offer direct financing. However, recent legislation requires development and implementation of credit terms for FHA-owned single-family property. As of January 1991, FHA Office of General Counsel stated that the legislation does not require direct financing. Hence, no plan for financing the sale of single-family foreclosed properties has been developed. FHA does provide insurance on the sale of qualified properties for qualified buyers.	Successful bidders can finance their purchase through (1) VA guaranteed loans made to veterans; (2) direct loans from VA for the entire loan balance, available to veterans or non-veterans; (3) conventional private mortgage loans; or (4) cash.	For FmHA's Single Family Housing Program properties, FmHA provides direct financing to qualified applicants. (This accounts for most properties sold.) Purchasers who are not eligible for the Single Family Housing Program must pay cash.	In general, RTC prefers cash sales. However, RTC recently introduced a seller financing program and outlined specific eligibility criteria for that program. At least $250 million is earmarked for the Affordable Housing Program.
Closing			
Closings may be conducted by FHA-approved agents or FHA personnel. Closing must take place within 30 to 60 days of a sales contract. Under certain circumstances, such as a delay in processing loan paperwork, an extension may be granted provided that loan approval is imminent.	Sales of VA properties may be closed by attorneys, salaried employees of VA, sales brokers, or PMBs. Although VA policy does not specify a time limit for closing a sale, VA expects closing to be completed within 30 days from the date VA receives the offer to purchase the property, and not later than the closing date specified in the contract for sale.	Title insurance companies or attorneys approved by the FmHA state director close FmHA loans. FmHA encourages successful offerors to close as soon as possible, although no limitation is specified for a closing time frame. FmHA personnel are responsible for ensuring timely closings.	Closing should take place generally within 30 days but not more than 60 days. Extensions may be granted but must be accompanied by an increase in earnest money deposited, and the purchase price may be increased.

(continued)

FHA	VA	FmHA	RTC
Funds and documents transfer			
Closing agents are responsible for wire transfer of the sale proceeds to the U.S. Treasury on closing day or the next regular banking day. Closing documents must be received at the field office within 24 hours of the closing. The field office has 2 days to transfer the documents to FHA headquarters.	VA policy does not specify procedures for how and when sales proceeds and closing documents are to be transmitted to VA after a sale is closed, except to say that "sales proceeds will be promptly deposited." The Southern Texas Region may delay the payment of commissions until all "legal instruments" are received. VA's Denver Region specifies that closing papers for VA-financed sales must be received no later than 3 business days after closing. Although VA has no formal monitoring procedure over the transfer of funds, its agency wide computer alerts the field office if funds haven't been received 14 days after the closing date.	Purchasers of properties who do not obtain FmHA financing must submit a check or have their lending institution submit a check to the county FmHA office along with a special FmHA transmittal form at the time of closing. The closing agent usually transfers the funds and documents to FmHA the day of closing. FmHA staff are responsible for ensuring that funds and documents are received in a timely manner. Bonds on closing agents ensure that FmHA will receive its funds.	Since RTC sales are handled like private sales, any necessary sales documents or closing funds are submitted in accordance with customary closing practices for each state. In practice, funds are wired directly into an RTC account immediately after closing is completed.
ADDITIONAL CONSIDERATIONS			
Affordable housing programs			
While part of FHA's mission is to make housing affordable for low- and moderate-income families, no specific initiative exists in the foreclosed property disposition program to help achieve this goal. Features such as $100 downpayments, used in some FHA offices, may aid in this effort though not specifically designed to do so. Furthermore, homes sold by FHA were, on average, moderately priced at around $40,600 in fiscal year 1990, which may help promote ownership among the low- and moderate-income persons. Also, the bulk sales program for state and local governments will also make homes available to low and moderate-income purchasers.	VA has no statutory requirement to have an affordable housing program, and it does not have such a component in its property disposition program. However, at an average sales price of roughly $46,000 in fiscal year 1990, VA properties provide homeownership opportunities for low- to moderate-income persons.	FmHA's Single Family Housing Program objective is to provide adequate housing for low-income rural Americans. FmHA specifically markets its foreclosed properties to rural Americans who are eligible for that program. In addition, at an average sales price of $29,000 for fiscal year 1990, these homes provide affordable housing opportunities to persons who are not eligible for that program.	All RTC single-family properties valued at $67,500 or less ($76,000 for duplex, $92,000 for triplex, and $107,000 for quadplex) must be included in the Affordable Housing Program and offered first to low-income individuals and families and then to the general public. Only low-income program participants may exclusively make offers during a 90-day first-right of refusal marketing period. As of November 30, 1990, 2,336 single-family properties had sold through the Affordable Housing Program.

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FHA	VA	FmHA	RTC
Programs for the homeless			
FHA has several homeless initiatives to make available 10 percent of its single-family inventory to qualified providers for the homeless. According to FHA officials, as of September 1990, 283 properties had been sold and 1,285 had been leased through various FHA homeless programs — property disposition initiatives that were established as early as 1984. An FHA official believes that response to the initiative has not been greater because homeless providers have little interest in the program.	VA has a program to combine the goal of helping homeless veterans find shelter and the goal of selling VA properties. Under this program, selected properties that have been in VA's inventory for 6 months or more can be sold "as is" at a 50-percent discount to state agencies or nonprofit organizations that work on behalf of homeless persons. A VA official suggested that very little activity has occurred in the program because homeless providers do not want to use single-family homes for transitional housing. In addition, VA homes usually are located in suburbs, not in areas where homeless housing needs are severe. Only two properties have been sold to homeless providers.	By an agreement between FmHA and the Department of Health and Human Services, FmHA may lease properties to public agencies and nonprofit organizations for use as transitional housing for the homeless. Under the program, five FmHA properties have been sold and two have been leased. Because properties unsuitable for the Single Family Housing Program are the only ones eligible for the homeless program, they are generally in poor condition. This may account, in part, for the limited activity in the program. FmHA officials also attribute the limited activity to the rural location of the properties.	RTC has guidelines for conveying, free of charge, properties to public agencies and qualifying nonprofit organizations for public use. "Public use" includes not only homeless shelters, but also low-income housing and day care for low-income families, among other uses. Properties for this purpose are generally limited to those valued at $5,000 or less.
Interaction with agencies			
FHA cooperates with local housing authorities at both the regional and local levels, as well as urban homesteading programs, and other federal agencies, such as the Department of Defense, to dispose of properties.	According to a VA official, VA is not required to coordinate with other government or private sector entities. However, Denver and Southern Texas regional offices contact local, state, and other federal agencies (including military housing authorities), as well as various nongovernmental organizations regarding the management and disposition of VA properties. Contact with FHA, FmHA, and RTC occurs occasionally.	FmHA meets with FHA and VA to discuss property disposition. However, FmHA considers its property disposition program to be different from the other agencies' because of FmHA's focus on low-income rural Americans.	RTC headquarters holds interagency meetings on federal property disposition topics so that information regarding disposition activities can be exchanged. RTC field staff are required to hold regular meetings with counter-part staff in other agencies.

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