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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-24, a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Federal Housing Administration (FHA) permits borrowers to obtain down payment assistance from third parties; but, research has raised concerns about the performance of loans with such assistance. Due to these concerns, GAO examined the (1) trends in the use of down payment assistance with FHA-insured loans, (2) the impact that the presence of such assistance has on purchase transactions and house prices, (3) how such assistance influences the performance of these loans, and (4) FHA's standards and controls for these loans.

What GAO Recommends

The Secretary of Housing and Urban Development should direct the FHA Commissioner to implement additional controls to manage the risks associated with loans that involve down payment assistance. Such controls could involve considering the presence and source of down payment assistance when underwriting loans. Further, the FHA Commissioner should consider additional controls for loans with down payment assistance from seller-funded nonprofits. In written comments, HUD generally agreed with the report's findings. HUD also commented on certain aspects of selected recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-24.

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

MORTGAGE FINANCING

Additional Action Needed to Manage Risks of FHA-Insured Loans with Down Payment Assistance

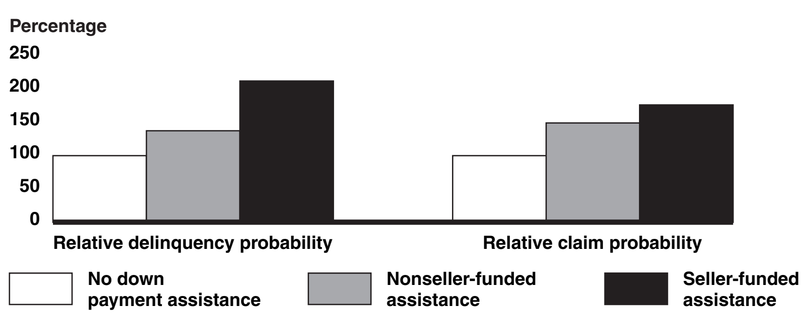
What GAO Found

Almost half of all single-family home purchase mortgages that FHA insured in fiscal year 2004 had down payment assistance. Nonprofit organizations that received at least part of their funding from sellers provided assistance for about 30 percent of these loans and represent a growing source of down payment assistance. However, assistance from seller-funded nonprofits alters the structure of the purchase transaction. First, because many seller-funded nonprofits require property sellers to make a payment to their organization; assistance from these nonprofits creates an indirect funding stream from property sellers to homebuyers. Second, GAO analysis indicated that FHA-insured homes bought with seller-funded nonprofit assistance were appraised at and sold for about 2 to 3 percent more than comparable homes bought without such assistance.

Regardless of the source of assistance and holding other variables constant, GAO analysis indicated that FHA-insured loans with down payment assistance have higher delinquency and claim rates than do similar loans without such assistance. Furthermore, loans with assistance from seller-funded nonprofits do not perform as well as loans with assistance from other sources. This difference may be explained, in part, by the higher sales prices of comparable homes bought with seller-funded assistance.

Although FHA has implemented some standards and controls on loans with down payment assistance, stricter standards and additional controls could help in managing the risks these loans pose. FHA standards permit assistance from seller-funded nonprofits; in contrast, mortgage industry participants restrict such assistance. Further, government guidelines call for routine identification of risks that could impede meeting program objectives; however, FHA has not conducted routine analysis of the performance of loans with down payment assistance.

Effect of Down Payment Assistance on the Probability of Delinquency and Claim



Source: GAO.

Note: Loans without assistance are set at 100 percent. Data are from a national sample of FHA-insured loans from 2000, 2001, and 2002; and the analysis controlled for selected variables.