



Highlights of [GAO-04-208](#), a report to the Chairman, Subcommittee on Housing and Transportation, Committee on Banking, Housing and Urban Affairs, U.S. Senate

SINGLE-FAMILY HOUSING

Cost, Benefit, and Compliance Issues Raise Questions about HUD's Discount Sales Program

Why GAO Did This Study

In 2001, the Department of Housing and Urban Development's (HUD) Inspector General reported on serious problems in HUD's Discount Sales Program, under which nonprofit organizations purchase HUD-owned properties at a discount, rehabilitate them, and resell them to low- and moderate-income homebuyers. The objectives of the program are to expand affordable housing opportunities, help revitalize neighborhoods, and reduce HUD's property inventory in a timely, efficient, and cost-effective manner. Although the Inspector General recommended that the agency suspend the program and evaluate its viability, HUD did neither. GAO was asked to assess (1) the costs of the program to HUD, (2) the benefits of the program to homebuyers, and (3) HUD's efforts to monitor participating nonprofits and enforce program requirements.

What GAO Recommends

GAO recommends that HUD (1) evaluate options to improve the program's benefit to homebuyers, the agency's monitoring of nonprofits, and enforcement of excess profits requirements; (2) assess the extent to which the program is meeting its objectives; and (3) terminate the program if its current cost plus the resources needed to improve it exceed the program's benefits. HUD agreed with GAO's recommendations to evaluate the program but said that the report overstated the program's

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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.

What GAO Found

GAO found that the Discount Sales Program poses significant costs to HUD, is of questionable benefit to homebuyers, and has serious monitoring and compliance problems. GAO estimates that the program cost HUD between \$18.8 and \$23.9 million in calendar year 2002. Between \$15.1 and \$20.2 million was a reduction in net revenue resulting from HUD's selling approximately 1,200 properties through the program instead of through its regular sales process. Personnel expenses for administering the program accounted for the remaining \$3.7 million. GAO's analysis of 238 properties sold under the program in 2002 suggests that most of the homebuyers did not benefit financially. Assuming that nonprofits and homebuyers would incur the same rehabilitation costs, GAO estimates that 76 percent of the homebuyers would have spent less purchasing the properties through HUD's regular process and paying for the rehabilitation work themselves. And while the program can help homebuyers access a range of homeownership services, these services are also available from other sources. GAO did not evaluate the extent to which the program generated other benefits, such as neighborhood revitalization.

While uncovering numerous program violations, HUD's monitoring efforts have faced challenges. For example, HUD monitors nonprofits through desk reviews of the annual reports it requires nonprofits to submit each February. However, as of July 2003, HUD's four homeownership centers, which administer the program, had not received reports for more than half of the properties the agency estimates were purchased and resold under the program in 2002. Even with this problem, the desk reviews found that 28 of the 44 nonprofits that submitted reports violated resale limits, earning an estimated total of \$704,720 in excess profits (see figure). HUD requires that nonprofits use their excess profits to pay down the mortgages of the homebuyers they overcharged, but the agency's ability to enforce this requirement is extremely limited. As of July 2003, nonprofits had made only \$62,000 in payments on mortgages.

Resale Price Violations on Discounted Properties Sold in Calendar Year 2002

Home-ownership center	Nonprofits with resale price violations out of all that reported	Properties with resale price violations out of all properties reviewed	Total estimated excess profits
Atlanta	9 / 12	27 / 58	\$123,059
Denver	4 / 9	45 / 77	\$253,926
Philadelphia	3 / 6	18 / 37	\$186,942
Santa Ana	12 / 17	34 / 93	\$140,793
Total	28 / 44	124 / 265	\$704,720

Denotes number of nonprofits or properties with violations out of total.

Source: HUD.