

DOCUMENT RESUME

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[Collection of Credit Report Fees by the Farmers Home Administration]. CED-77-134; B-114860. October 7, 1977. 6 pp.

Report to Secretary, Department of Agriculture; by Baltas F. Birkle (for Henry Eschwege, Director, Community and Economic Development Div.).

Issue Area: Domestic Housing and Community Development:

Minimizing Mortgage Insurance Losses (2108).

Contact: Community and Economic Development Div.

Budget Function: Commerce and Transportation: Mortgage Credit and Thrift Insurance (401).

Organization Concerned: Farmers Home Administration.

Congressional Relevance: House Committee on Banking, Currency and Housing; Senate Committee on Banking, Housing and Urban Affairs.

The Farmers Home Administration's rural housing loan program was reviewed to determine whether it was economical and efficient. The agency has joined other governmental agencies in obtaining credit reports from credit-reporting companies which are under contract with The Department of Housing and Urban Development. The Farmers Home Administration's regulations list the credit bureaus to be used, the areas covered by each bureau, and the fees charged the Government for each report. Under the agency's current procedures, credit reports may be ordered for each rural housing loan applicant and are paid for by the agency. If the applicant is successful, he is required to pay an \$8 fee for the credit report at the time the loan is closed. If unsuccessful, the applicant is not required to reimburse the agency for the cost of the credit report. In addition, the agency does not collect the actual cost of the credit report from all borrowers. Findings/Conclusions: During the 12 month period ended June 30, 1977, the Farmers Home Administration lost about \$721,000 by paying for the credit reports of ineligible applicants and by not collecting the actual cost of credit reports for eligible applicants. The cost of credit reports for ineligible applicants is borne by the Rural Housing Insurance Fund, which is reimbursed annually for losses through appropriations. Since 1967, the number of applications for individual housing loans withdrawn or rejected has risen sharply. As the number of withdrawn and rejected applications increased, the agency's losses on credit reports also increased. According to preliminary data from the Department of Agriculture's Office of Audit, the Farmers Home Administration paid over \$2 million for credit reports on loan applicants who did not receive loans from fiscal year 1972 through fiscal year 1976. Recommendations: The Secretary of Agriculture should require the Farmers Home Administration to charge applicants for the cost of the credit reports at the time of application. This can be in the form of a loan initiation fee sufficient to cover

the basic credit report and any necessary supplemental or antecedent reports. Any difference between estimated and actual cost could be adjusted at loan closing or loan rejection.
(Author/SW)



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03761
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

IN REPLY
REFER TO:

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

OCT 07 1977

B-114860

The Honorable
The Secretary of Agriculture

Dear Mr. Secretary:

We reviewed several aspects of the Farmers Home Administration (FmHA) rural housing loan program to determine whether the program is economical and efficient. One aspect of this program that can be improved is FmHA's practice of charging either a standard fee or nothing for the credit reports which it uses to evaluate the credit history of housing loan applicants. We found that FmHA can save an estimated \$721,000 or more annually by following the commercial practice of requiring all applicants to pay for credit reports at the time they apply for loans.

Our review was performed at FmHA headquarters, Washington, D.C., and at the FmHA finance office, St. Louis, Missouri. We reviewed FmHA's policies, procedures, practices, and program statistics for its rural housing loans. We held discussions with FmHA officials and discussed commercial practices on credit reports with 60 commercial lenders in six major metropolitan areas throughout the country. Among these were lenders who make housing loans under the Department of Housing and Urban Development (HUD) and Veterans Administration (VA) guaranty programs.

In addition, we reviewed efforts by the U.S. Department of Agriculture auditors in this area.

The following is a summary of our findings.

SAVINGS POSSIBLE BY ADOPTING
COMMERCIAL PRACTICES

FmHA has joined other governmental agencies in obtaining credit reports from credit-reporting companies which are under

CED-77-134
(38807)

contract with HUD. FmHA regulations list the credit bureaus to be used, the areas covered by each bureau, and the fees charged the Government for each report.

Under FmHA's current procedures, credit reports may be ordered for each rural housing loan applicant and are paid for by FmHA. If he is successful, the applicant is required to pay an \$8 fee for the credit report at the time the loan is closed. If unsuccessful, the applicant is not required to reimburse FmHA for the cost of the credit report.

In addition, FmHA does not collect the actual cost of the credit report from all eligible borrowers. Although the reports cost from \$6 to \$15.50, a standard fee of \$8 is charged. If antecedent or supplemental reports 1/ are needed, the cost is higher. Consequently, FmHA is subsidizing the cost of credit reports when the actual cost is more than \$8 and is making a profit when the actual cost is less than \$8.

FmHA's records show that during the 12-month period ended June 30, 1977, FmHA lost about \$721,000 by paying for the credit reports of ineligible applicants and by not collecting the actual cost of credit reports for eligible applicants. The cost of credit reports for ineligible applicants is borne by the Rural Housing Insurance Fund, which is reimbursed annually for losses through appropriation.

Since 1967 the number of applications for individual housing loans withdrawn or rejected has risen sharply:

1/ Antecedent reports are required when the applicant has moved from one credit bureau area to another during the past 2 years. Supplemental reports are required when the applicant gives credit references in or works in a different credit bureau area than the one in which he lives.

<u>Year</u>	<u>Number</u>	<u>Percent of total</u>
1967	46,380	34
1968	62,419	37
1969	67,455	37
1970	79,961	36
1971	102,492	35
1972	135,686	40
1973	131,075	43
1974	116,351	42
1975	157,451	57
1976	170,309	61

Naturally, as the number of withdrawn and rejected applications increases, FmHA's losses on credit reports also increases.

COMMERCIAL PRACTICES

Conventional lenders generally require applicants for housing loans to pay for the cost of credit reports. We contacted 60 mortgage lenders in six metropolitan areas throughout the country to determine the general practice they follow on credit reports. Included in our sample were many businesses that made loans under the HUD and VA home loan guaranty program.

Sixty-three percent of the lenders charge the applicants for the cost of credit reports even when the applications are disapproved. Responses of the 60 lenders follow:

- Thirty-one said they collect the estimated cost of the credit report at the time of application;
- Seven said they collect for the credit report at the time of loan closing, but the applicant would be billed for the credit report if the application was disapproved;
- Fifteen said they collect for the credit report at the time of loan closing and would sustain

the cost of the credit report if the application was disapproved. Lenders in this category told us they screen applicants to ensure a high percentage of approvals;

--Two said they collect for the credit report at the time of loan closing and would sustain the cost of the credit report if the application was disapproved. Lenders in this category told us they did not screen applicants to insure a high percentage of approvals; and

--Five said that they do not charge for credit reports.

VIEWS OF FmHA OFFICIALS

We discussed this matter with the Assistant Administrator for Rural Housing and members of his staff. They felt that charging for credit reports at the time of application might cause an undue hardship on rural housing applicants. They also stated that it would be difficult to estimate the cost of credit reports in advance because supplemental and/or antecedent reports may be required, and a change in policy could create additional administrative costs which would outweigh the savings.

Under current FmHA regulations a successful applicant must pay an \$8 fee for the credit report when the loan is closed. To obtain a home ownership loan, the applicant must have the ability to repay the loan, pay the necessary taxes and insurance, and maintain the property as required by FmHA regulations. We do not believe that a serious applicant for a home ownership loan would have trouble paying \$6 to \$15.50 for a credit report.

Since FmHA publishes the cost of credit reports nationwide in its regulations, we do not believe that determining the estimated cost of a credit report would be difficult or that a change in policy would create substantial additional administrative costs. It is true that in some cases the applicant may have recently moved

into the locality and an antecedent report from his previous residence may be necessary. But, since the application shows an applicant's employment history, including other locales, it should be a sufficient indication of whether an antecedent report is needed and should give FmHA a basis for determining a reasonably accurate credit report fee. A fee covering the cost of the basic credit report and any anticipated supplemental or antecedent reports could then be assessed at loan application. Any difference between estimated and actual credit report costs could be adjusted at loan closing or loan rejection.

As for administrative costs, FmHA currently has a system at the county office level for collecting rural housing payments from borrowers. This system could also be used for collecting the credit report fee at loan application.

INTERNAL AUDIT REVIEW

The U.S. Department of Agriculture's Office of Audit is currently reviewing FmHA's practice regarding credit reports.

Preliminary information developed by the Office of Audit shows that from fiscal year 1972 through fiscal year 1976 (including the transition quarter) FmHA paid over \$2 million for credit reports on loan applicants who did not ultimately receive loans. About \$910,000 of that amount was paid in fiscal year 1976 (including the transition quarter). The Office of Audit also found that in other Government loan programs, such as VA and HUD, such costs are borne by the individual applicants. The Office of Audit expects to have issued its report on this matter in October 1977.

CONCLUSIONS

The basic reason for requiring housing loan applicants to pay for credit reports at the time they apply for their loans is money. During the 12 months ended June 30, 1977,

FmHA could have saved \$721,000 if it had followed this procedure. And the savings would increase as the home ownership program expands. Further, the cost of the credit reports--from \$6 to \$15.50--would not appear to create an undue burden on a person who can afford to buy a home.

RECOMMENDATION

We recommend that the Secretary of Agriculture require the Administrator, FmHA, to charge applicants for the cost of credit reports at the time of application. This can be in the form of a loan initiation fee sufficient to cover the basic credit report and any necessary supplemental or antecedent reports. Any difference between estimated and actual cost could be adjusted at loan closing or loan rejection.


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Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, OMB, and Chairmen, House and Senate Committees on Appropriations, House Committee on Government Operations, and Senate Committee on Governmental Affairs. We are also sending copies to your Assistant Secretary for Rural Development; the Administrator, FmHA; and the Director, Office of Audit.

We would appreciate being advised of actions taken on the matters discussed in this letter.

Sincerely yours,


for Henry Eschwege
Director