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**REPORT TO THE COMMITTEE  
ON BANKING AND CURRENCY  
HOUSE OF REPRESENTATIVES**

RELEASED

Cost Differences Of Purchasing  
Comparable Houses Through The  
Departments Of Housing And  
Urban Development And Agriculture

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**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

**089944**

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MAY 10, 1973



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

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The Honorable Wright Patman  
Chairman, Committee on Banking  
and Currency  
House of Representatives

Dear Mr. Chairman:

Pursuant to your request of November 20, 1972, we made a limited review of homebuyers' costs for comparable houses purchased through the Department of Housing and Urban Development section 203(b) program and through the Department of Agriculture section 502 program, administered by the Farmers Home Administration.

We orally presented the results of our work in Georgia to your office on March 30, 1973. So your Committee could use the results as part of its study on proposed changes in the structure of financial institutions throughout the Nation, we agreed to issue the following summary document used during the presentation.

Agency officials did not formally comment on the summary, however, local field officials did orally comment on the results of the review pertaining to their respective programs.

We do not plan to distribute the summary further unless you agree or publicly announce its contents.

Sincerely yours,

*Paul S. Stankiewicz*

Acting Comptroller General  
of the United States

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### ABBREVIATIONS

HUD	Department of Housing and Urban Development
USDA	Department of Agriculture

SUMMARY  
REVIEW OF THE COST DIFFERENCES OF PURCHASING  
COMPARABLE HOUSES THROUGH THE DEPARTMENTS OF  
HOUSING AND URBAN DEVELOPMENT AND AGRICULTURE

OBJECTIVE

We made this review to determine whether a homebuyer pays more for a house under the Department of Housing and Urban Development (HUD) section 203(b) housing program than he pays for the same house under the Department of Agriculture (USDA) section 502 housing program. In addition, we were to identify any cost differentials for the selected comparable houses and obtain agency comments on those identified.

SCOPE OF WORK

We reviewed pertinent records and regulations and interviewed responsible officials of HUD's region IV and Atlanta area offices and of the Georgia State office of the Farmers Home Administration, USDA.

The records we reviewed at the HUD Atlanta area office covered the period January 1, 1972, through November 15, 1972. The records we reviewed at USDA's Georgia State office covered the period July 1, 1971, through December 31, 1972.

We interviewed the builders and sellers of the houses selected and we inspected and photographed the houses.

For comparison, we selected five houses purchased through the HUD section 203(b) program and five houses purchased through the USDA section 502 program. We will refer to these houses as HUD houses or USDA houses.

BACKGROUND

SIGNIFICANT DIFFERENCES  
IN THE HOUSING PROGRAMS

During the review, we observed and were advised by HUD and USDA employees that there were significant differences between the housing programs which limited comparability.

- An applicant for a section 502 loan must meet certain eligibility requirements; for example, he must be unable to secure the necessary credit from other sources on terms and conditions which he reasonably could be expected to fulfill and he must be unable to obtain a HUD section 235 insured mortgage. There are no similar requirements for an applicant for a HUD section 203(b) insured loan.
- USDA section 502 loans are restricted to families with adjusted annual incomes of \$8,000 or less; however, anyone who can make the required cash investment and payments on the mortgage can be approved for a HUD section 203(b) insured loan
- USDA's income restriction and its requirement for modest housing limit the total purchase cost of a section 502 house to less than \$18,000 in almost all cases, HUD insures section 203(b) loans up to \$33,000 for single-family houses.
- USDA can make loans only in areas with populations of 10,000 or less, whereas HUD-insured loans may be made in any area, HUD makes most of its loans in urban areas.
- Relatively few USDA section 502 loans are for existing houses; a substantial number of HUD-insured loans are for existing houses

Although there were a number of differences between the HUD and USDA programs which limited comparability, the programs overlapped in certain areas, from which we were able to select houses for comparison.

#### WORK ACCOMPLISHED

##### SELECTING HOUSES FOR COMPARISON

For practical purposes \$18,000 is the maximum cost of a USDA house. Reports had been received by the Committee that a homebuyer had to pay 10 to 20 percent more for a house if he bought it through HUD than if he bought it through USDA. Therefore, we added 20 percent to the maximum USDA cost (\$18,000 + \$3,600 = \$21,600) and rounded the figure upward to the next thousand, or \$22,000,

which is 22 percent higher. By not considering HUD-insured loans exceeding \$22,000, we isolated the HUD houses that more closely compared with the USDA houses.

We did not review any purchases of existing houses built before 1965. Comparison of houses that old would be of doubtful significance due to the variety of things that can change the value of the houses over the years, such as the value of the house location, the quality and extent of upkeep or maintenance of the house, and improvements made.

From January 1, 1972, through November 15, 1972, HUD processed 3,269 section 203(b) and 221(d)(2) insured mortgages in Georgia; we categorized the insured mortgages as follows.

<u>Category</u>	<u>Number</u>
Houses with sales prices over \$22,000	838
Houses built before 1965, excluding those costing over \$22,000	1,838
Houses built between 1965 and 1972 with sales prices of not more than \$22,000	593
Total	<u>3,269</u>

We considered only the 593 houses shown above to be comparable to the USDA section 502 houses. Most of these houses were in urban areas where USDA does not make loans; therefore, we screened them to identify the HUD houses located in primarily rural areas and grouped them as shown below.

<u>Category</u>	<u>Number</u>
New houses--built in late 1971 and in 1972.	
Houses in primarily urban areas	285
Houses in primarily rural areas	<u>120</u>
Total	<u>405</u>
Existing houses--built between 1965 and 1971:	
Houses in primarily urban areas	132
Houses in primarily rural areas	<u>56</u>
Total	<u>188</u>
TOTAL	<u>593</u>

We compared HUD's rural houses (120 new and 56 existing) with the houses purchased under USDA's section 502 program from July 1, 1971, through December 31, 1972.

From our review and analysis of HUD and USDA records and from discussions with USDA county supervisors, we selected 16 houses (15 new and 1 existing) from each program. These were all of the houses we could identify as being comparable. The houses were to

- have approximately the same amount of square feet of living area,
- be close to each other,
- preferably be built by the same builder, and
- have other similar characteristics, such as those discussed on page 6 .

After discussing our selections with the applicable county supervisors, we chose what we believed to be the five most comparable houses (four new and one existing) from each program.

#### COST COMPARISON OF SELECTED HOUSES

Our comparison of five houses purchased under each program showed that homebuyers under HUD programs paid

from 2.3 percent to 18.7 percent more than homebuyers under the USDA program because of HUD's

- higher costs for basic structures,
- loan discount points,
- higher closing costs, and
- sales commissions.

Comparison of HUD and  
USDA new houses in  
Waynesboro, Georgia

Our review of virtually identical houses in Waynesboro, Georgia, disclosed that the HUD house cost 18.7 percent more than the comparable USDA house. The cost differences between the houses are shown below.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$20,617 24	\$16,170 00	\$4,447 24	
Less				
Loan discount points	922 50	-	922 50	
Closing costs	615 00	170 00	445 00	
Prepaid expenses	117 24	50.00	67 24	
Sales commission	512 50	-	512.50	
Cost of basic house	18,450 00	15,950 00	2,500 00	
Value of extra amenities in the HUD house	1,236.70	-	1,236.70	
Adjusted cost of basic house	17,213 30	15,950 00	1,263 30	7.8
Add				
Adjusted loan discount points	860.67	-	860 67	5.3
Adjusted closing costs	587 26	170.00	417 26	2.6
Adjusted sales commission	478.53	-	478.53	3.0
Total adjusted cost	\$19,139 76	\$16,120 00	\$3,019.76	18.7



A comparison of the two houses is shown below.

<u>Characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet (living area)	1,000	1,000
Type of construction	Site	Site
Type of structure	Frame	Frame
Exterior walls	Brick	Brick
Number of stories	1	1
Basement	No	No
Rooms:		
Bed	3	3
Living	1	1
Dining-kitchen	1	1
Baths	1	1
Storage	Yes	Yes
Carpport	Yes	Yes
Water and sewers	Public	Public
Type of street	Paved	Paved
Curb	Yes	Yes
Location	Subdivision	Subdivision
Type of heating	Central	Electric baseboard
Type of cooling	Central	None
Carpeting	Yes	No

Pictures of the two houses are on page 8 .

Both houses, built by the same builder using the same plans and specifications, were sold about the same time. The houses were in different subdivisions; however, the builder considered the two lots to be of equal value. The only other differences in the houses were that the HUD house had carpeting while the USDA house had vinyl floor covering, the HUD house also had central heating and cooling, whereas the USDA house had only electric baseboard heating units. The builder estimated the extra amenities in the HUD house to be worth \$1,237.

After adjusting for the \$1,237 difference in the value of the houses, we determined that, for comparable houses, the HUD homebuyer paid \$3,020, or 18.7 percent, more than did the USDA homebuyer.

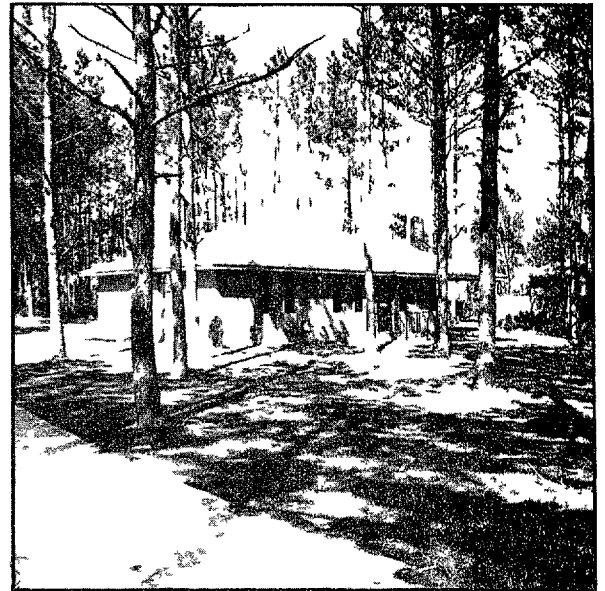
Included in the \$3,020 was \$1,757 for points, higher closing costs, and sales commission and \$1,263

more for the basic house and lot. HUD appraised its house at \$19,850, whereas USDA appraised its house at \$16,250.

The builder stated that the \$1,263 was attributable to HUD's higher appraisal; however, he believed that HUD's appraisal was more realistic than USDA's. He said that, because of HUD's more realistic appraisals, builders could make more money selling houses through HUD's programs and that the main reason he was building for USDA was that housing for low-income families was the only substantial market in Waynesboro and Burke County, Georgia, at this time.

Houses in Waynesboro, Georgia.

Two Views of the  
HUD house



Two Views of the  
USDA house



Comparison of HUD and  
USDA new houses in  
Fitzgerald, Georgia

There were a number of differences between the houses we reviewed in Fitzgerald, Georgia; however, we made adjustments for the differences and determined that the HUD house cost about 18 percent more than the comparable USDA house. The cost differences between the houses are shown below.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference (decrease(-))</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$18,600 00	\$15,731.00	\$2,869 00	
Less				
Loan discount points	887.50	-	887 50	
Closing costs	516 30	170.00	346 30	
Prepaid expenses	40.53	61.00	-20 47	
Cost of basic house	17,155 67	15,500 00	1,655 67	
Less adjustment for differences	68 00	-	68.00	
Adjusted cost of basic house	17,087 67	15,500 00	1,587.67	10.1
Add				
Adjusted loan discount points	884 10	-	884.10	5.7
Adjusted closing costs	513 85	170.00	343.85	2.2
Total adjusted cost	\$18,485 62	\$15,670 00	\$2,815 62	18.0

A comparison of the two houses follows.

<u>Characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet (living space)	1,051	1,042
Type of construction	Precut	Site
Type of structure	Frame	Frame
Exterior walls	Brick	Brick
Number of stories	1	1
Basement	No	No
Rooms:		
Bed	3	3
Living	1	1
Dining-kitchen	1	1
Baths	1-1/2	2
Storage	No	Yes
Carport	Unfinished garage	Yes
Water and Sewers	Public	Public
Type of street	Unpaved	Paved
Curb	No	No
Location	Subdivision	Subdivision
Type of heating	Central	Central
Type of cooling	Central	None
Carpeting	Yes	Yes
<u>Dissimilar characteristics</u>		
Lot size	79 x 134	80 x 160
Bathrooms	Ceramic tile	Panel board
Interior walls	Sheetrock	Paneling
Kitchen sink	Porcelain	Stainless steel
Driveway	Paved	Unpaved
Walkway	Yes	No
Rake (roof overhang)	No	Yes
Exterior trim	Yes	No
Landscaping	Yes	No
Cabinets	Good quality	Better quality
Foundation	Pilasters	Solid
Ceiling	Sheetrock on joists	Sheetrock on strips
Lighting fixtures	Good quality	Better quality
Front door	Good quality	Better quality
Closet lights and shoe racks	No	Yes
Windows (frame)	Wood	Aluminum
Front porch	Yes	No

Pictures of the two houses are on page 12.

Although the houses were built by different builders and had a number of differences, their basic floor plans were similar and they were both sold about the same time.

Together with the builders of both houses, we estimated the cost of differences between the houses and determined that the HUD house had a net value of \$68 more than the USDA house. After adjusting for the \$68 net difference, we found that the HUD homebuyer paid about \$2,816, or 18 percent, more than did the USDA homebuyer. The \$2,816 included \$1,228 for points and closing costs and \$1,588 which represented a higher charge by the seller for the basic house and lot.

HUD appraised its house at \$18,000; USDA appraised its house at \$15,500.

The builder of the HUD house stated that he did not build for USDA because its appraisals were lower than HUD's. He stated also that he had lost money on a number of HUD houses completed in calendar year 1972.

The builder of the USDA house agreed that HUD's appraisals were higher than USDA's and that he could make more profit on houses sold through HUD; however, he stated that he preferred to build houses under the USDA program because

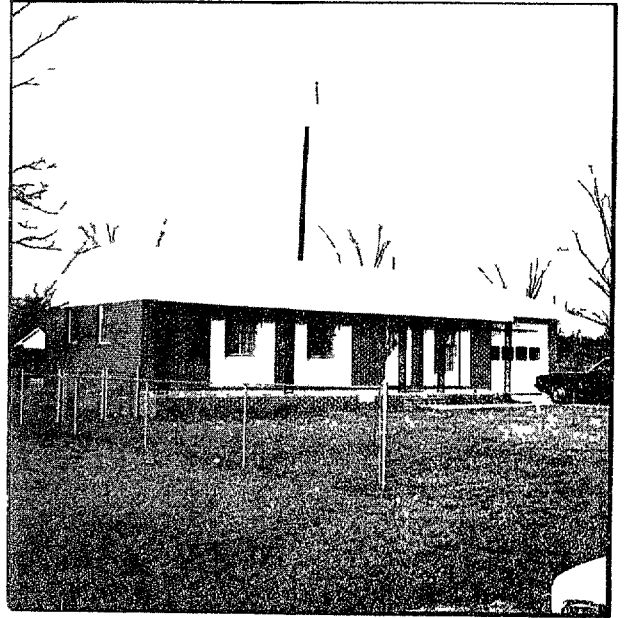
--USDA inspects the houses more promptly than HUD,

--he received payment faster through USDA, and

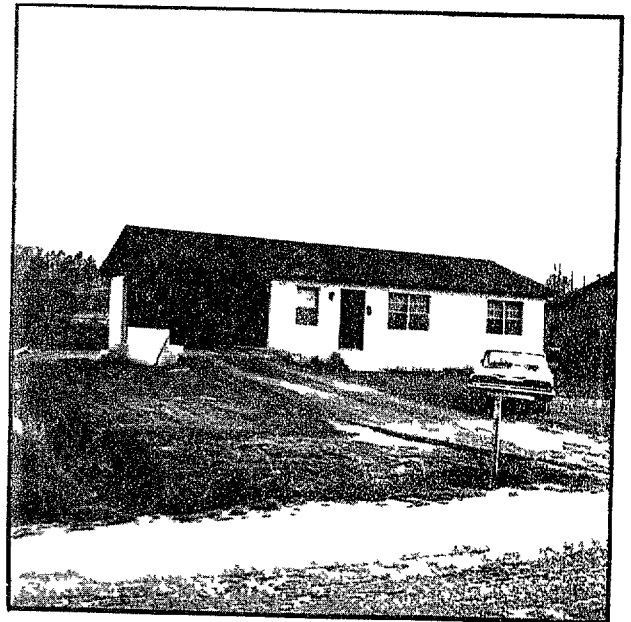
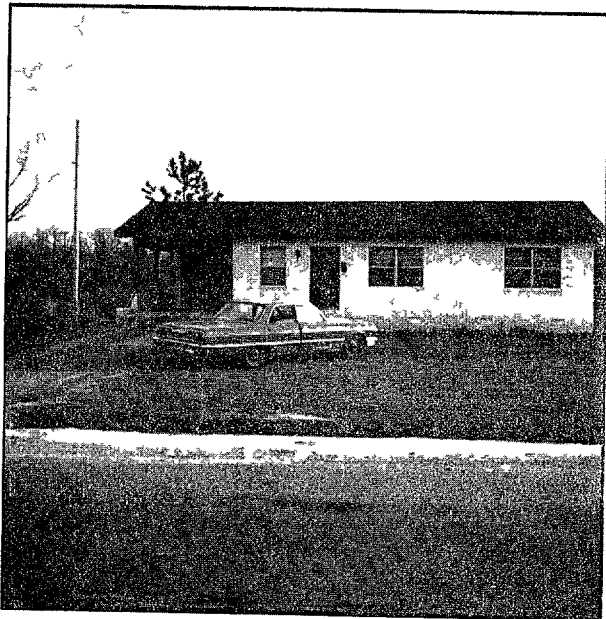
--a USDA house can be sold for less as a result of not having to pay loan discount points, higher closing costs, etc.

Houses in Fitzgerald, Georgia.

Two views of the  
HUD house



Two views of the  
USDA house



Comparison of HUD and  
USDA new houses in the  
Newnan, Georgia, area

Our review of essentially identical houses in the Newnan, Georgia, area disclosed that the HUD house cost 17.3 percent more than the comparable USDA house. The cost differences between the houses are shown below.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$17,672 07	\$13,473 00	\$4,199 07	
Less				
Loan discount points	932 25	-	932 25	
Closing costs	601 13	210.00	391.13	
Prepaid expenses	120 94	63 00	57.94	
Cost of basic house	16,017.75	13,200.00	2,817.75	
Value of extra amenities in the HUD house	1,700 00	-	1,700 00	
Adjusted cost of basic house	14,317.75	13,200 00	1,117 75	8 3
Add				
Adjusted loan discount points	838 75	-	838 75	6.3
Adjusted closing costs	567 97	210 00	357 97	2.7
Total adjusted cost	\$15,724 47	\$13,410 00	\$2,314.47	17.3

Both houses were essentially identical since they were built from the same basic plans and specifications and were designed and manufactured in sections by the same manufacturer. These houses were assembled at the site by different builders and were sold about 4 months apart. A comparison of the two houses follows.



<u>Characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet (living area)	1,008	1,008
Type of construction	Prefabricated	Prefabricated
Type of structure	Frame	Frame
Exterior walls	Wood siding	Wood siding
Number of stories	1	1
Basement	No	No
Rooms •		
Bed	3	3
Living	1	1
Dining-kitchen	1	1
Baths	1	1
Storage	Outside storage shed	No
Carport	No	No
Water	Public	Public
Sewers	Septic tank	Septic tank
Type of street	Paved	Paved
Curb	Yes	No
Storm sewer	Yes	No
Type of heating	Central	Central
Type of cooling	None	None
Carpeting	Yes	Yes
Location	Subdivision	Subdivision

Dissimilar  
characteristics

Driveway	Paved	Unpaved
Porch	Yes	No
Lot value	\$2,500	\$2,000

Pictures of the two houses are on page 16.

The only significant differences in the houses were that

--the HUD house was in Newnan while the USDA house was 10 miles from Newnan in the small community of Grantville, Georgia, and

--the HUD house had a front porch, outside storage shed, and paved drive, whereas the USDA house did not.

For the above differences, the builders of the two houses estimated that the HUD house would cost about \$1,700 more than the USDA house.

After adjusting for the differences, we determined that the HUD homebuyer paid \$2,314, or 17.3 percent, more than did the USDA homebuyer for a comparable house. Of the \$2,314, \$1,196 was for points and closing costs, and the remaining \$1,118 appeared to be a result of HUD's higher appraisal. HUD appraised its house at \$16,950; USDA appraised its house at \$13,200.

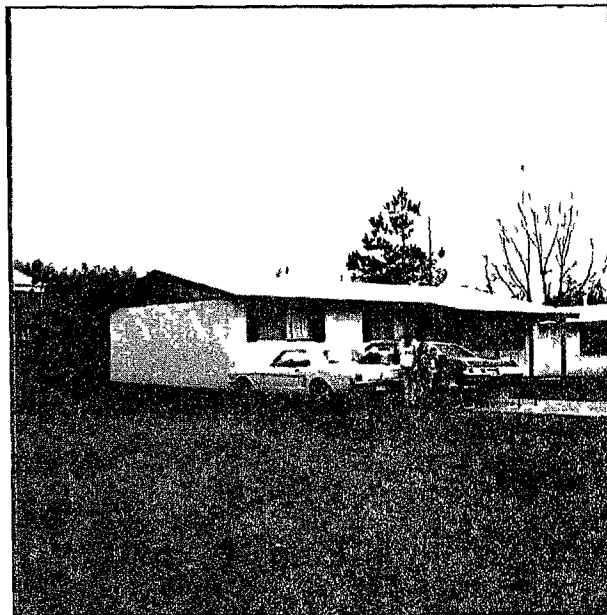
The builder of the USDA house stated that HUD appraisals were higher than USDA's; however, he said that he does not plan to build any HUD houses for low-to moderate-income families because of the length of time necessary to obtain required HUD inspections and to satisfy the demands of the HUD inspectors. He said the delays caused by HUD result in the builder paying additional interest on construction loans.

The builder of the USDA house stated that he had lost money on the last four USDA houses he had built. His records on the USDA house we selected for comparison showed that it cost him \$13,304.57, whereas he sold the house for \$13,200. He stated that, because he was losing money, he would not build any more houses for USDA unless he could get USDA to increase its appraisals of the houses that he builds.

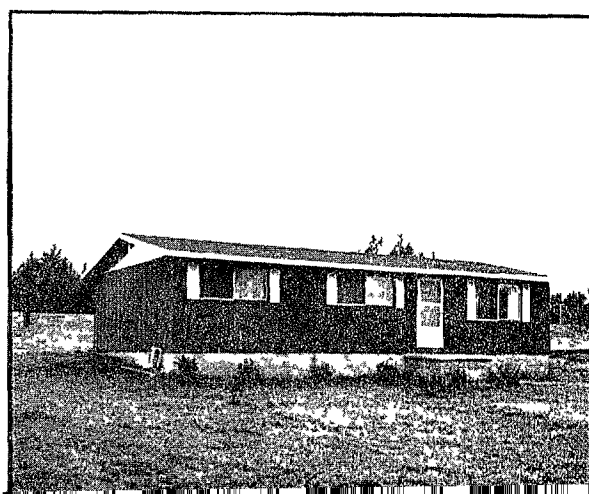
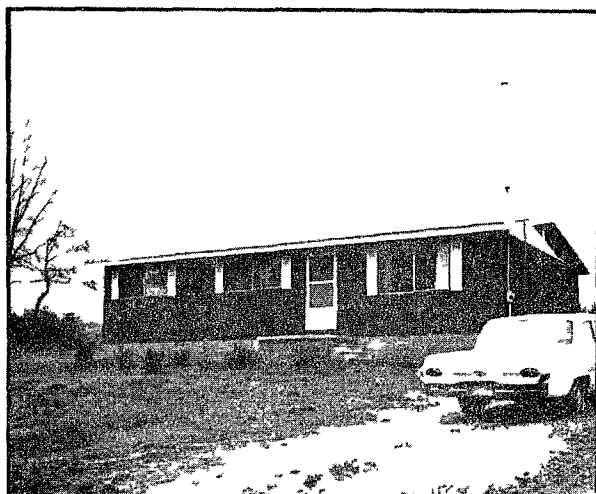
We also interviewed the builder of the HUD house. He informed us that he had stopped building houses because he was not making enough profit.

Houses in the Newnan, Georgia, area.

Two views of the  
HUD house



Two views of the  
USDA house



Comparison of HUD and  
USDA new houses in  
LaFayette, Georgia

Our review of virtually identical houses in LaFayette, Georgia, showed that the HUD house cost 2.3 percent more than the comparable USDA house. The cost differences between the houses are shown below.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference (decrease(-))</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$16,200 00	\$15,791 00	\$409 00	
Less				
Loan discount points	620.00	-	620 00	
Closing costs	518 25	236 00	282.25	
Prepaid expenses	100.00	55 00	45 00	
Cost of basic house	14,961.75	15,500 00	-538 25	
Adjusted cost of basic house	14,961 75	15,500 00	-538 25	3.4
Add.				
Adjusted loan discount points	620.00	-	620.00	3.9
Adjusted closing costs	518 25	236.00	282 25	1 8
Total adjusted cost	\$16,100 00	\$15,736.00	\$364.00	2.3

A comparison of the two houses follows.

<u>Characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet (living area)	1,070	1,050
Type of construction	Frame	Frame
Type of structure	Precut	Precut
Exterior walls	Brick	Brick
Number of stories	1	1
Basement	No	No
Rooms		
Bed	3	3
Living	1	1
Dining-kitchen	1	1
Baths	1	1
Storage	No	Yes
Carpport	Unfinished garage	Yes
Water and sewers	Public	Public
Type of street	Paved	Paved
Curb	Yes	Yes
Location	Subdivision	Subdivision
Type of heating	Central	Central
Type of cooling	None	None
Carpeting	No	No

Pictures of the two houses are shown on page 20.

Both houses were built by the same builder using essentially the same plans and specifications and were sold about 4 months apart. The builder stated that the HUD house had an unfinished garage, whereas the USDA house had a finished carport. He stated that he charged both homeowners the same amount for the carport and the garage. Both HUD and USDA appraised the basic house at \$15,500.

We determined that the HUD homebuyer paid \$364, or 2.3 percent, more for the HUD house. However, after considering that the HUD homebuyer paid \$1,138 for points and higher closing costs, we found that he paid \$538 less than the USDA homebuyer for the basic house and lot.

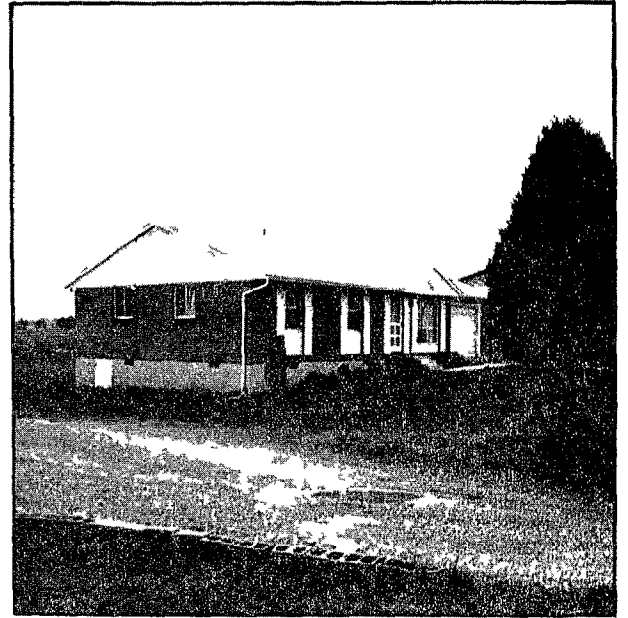
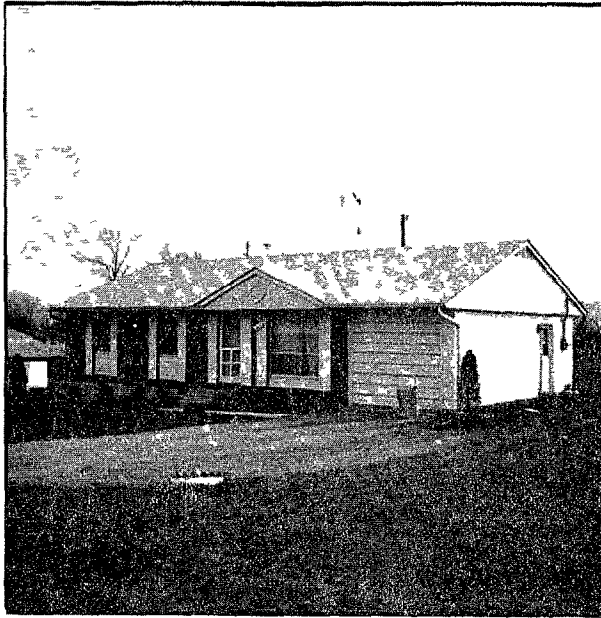
The builder informed us that he under charged the HUD homebuyer about \$500 because he made a \$500 error in computing the lot value. He said he made about \$1,300 profit on the USDA house and about \$800 on the HUD house.

He said that, for the same house, he had to charge the HUD homebuyer from 6 to 8 percent more than he did the USDA homebuyer because of the points and higher closing costs that must be paid on the HUD house.

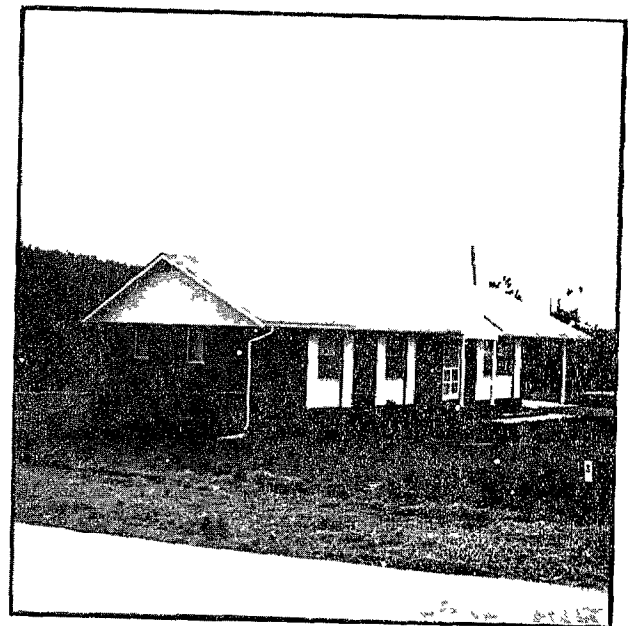
The builder stated that he was building houses only for the USDA program because the county supervisor was able to inspect houses as they were being built, which allowed the builder to avoid the costly delays he had encountered on HUD inspections of houses which he had built under HUD programs.

Houses in LaFayette, Georgia (new houses).

Two views of the  
HUD house



Two views of the  
USDA house



Comparison of existing  
HUD and USDA houses in  
LaFayette

Our review of virtually identical houses in LaFayette showed that the HUD house cost 14.7 percent more than the comparable USDA house. The cost differences between the houses are shown below.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference (decrease (-))</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$15,314 48	\$15,520 00	\$ -205 52	
Less				
Loan discount points	885.00	-	885 00	
Closing costs	412 06	246 00	166 06	
Prepaid expenses	54.48	74 00	-19 52	
Sales commission	915 60	-	915 60	
Cost of basic house	13,047 34	15,200.00	-2,152 66	
Adjustment for differences	2,152 66	-	2,152 66	
Adjusted cost of basic house	15,200 00	15,200 00	-	0 0
Add				
Adjusted loan discount points	1,014 16	-	1,014 16	6 5
Adjusted closing costs	457 33	246 00	211 33	1.4
Adjusted sales commission	1,049 22	-	1,049 22	6 8
Total adjusted cost	\$17,720 71	\$15,446 00	\$2,274 71	14.7



A comparison of the two houses follows.

<u>Characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet (living area)	950	950
Type of construction	Frame	Frame
Type of structure	Precut	Precut
Exterior walls	Brick	Brick
Number of stories	1	1
Basement	No	No
Rooms:		
Bed	3	3
Living	1	1
Dining-kitchen	1	1
Baths	1	1
Storage	Yes	Yes
Carport	Yes	Yes
Water and sewers	Public	Public
Type of street	Paved	Paved
Curb	Yes	Yes
Location	Subdivision	Subdivision
Type of heating	Gas furnace	Gas furnace
Type of cooling	Window unit	None
Carpeting	Yes	Yes

Dissimilar characteristics

Patio	No	Yes
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Pictures of the two houses are shown on page 24.

We compared the 1972 resale cost of houses initially constructed side by side in 1967 by the same builder using the same plans and specifications. The houses were subsequently renovated and resold by another builder in 1972. One was sold through HUD in January 1972 and the other through USDA in December 1972.

We determined that there were a few minor structural differences between the basic houses; however, the builder stated, and we agreed, that the differences offset each other.

We determined that the USDA homebuyer paid \$2,153 more for the basic structure and lot than did the HUD

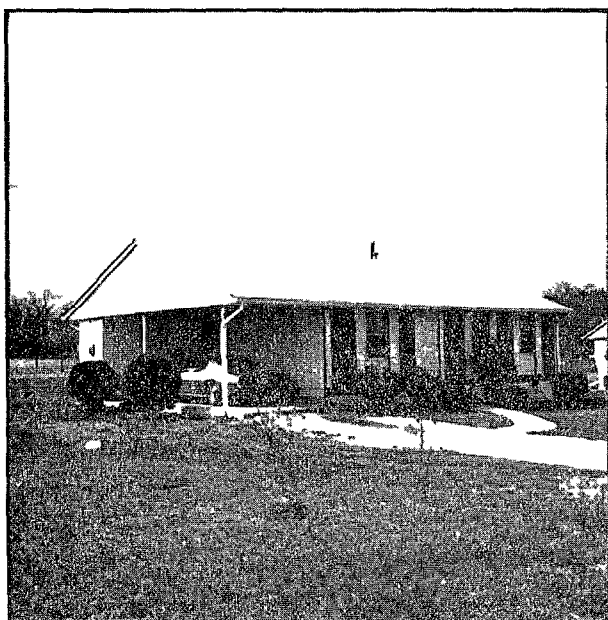
homebuyer. The builder stated that the \$2,153 cost difference was misleading because the HUD house was sold 1 year before the USDA house was sold and, in addition, was sold below market value to obtain a quick sale.

The builder stated that the HUD and USDA houses were comparable in value and that, if they were sold on the same day, the purchase price of the HUD house would be higher because of points, higher closing costs, and the sales commission.

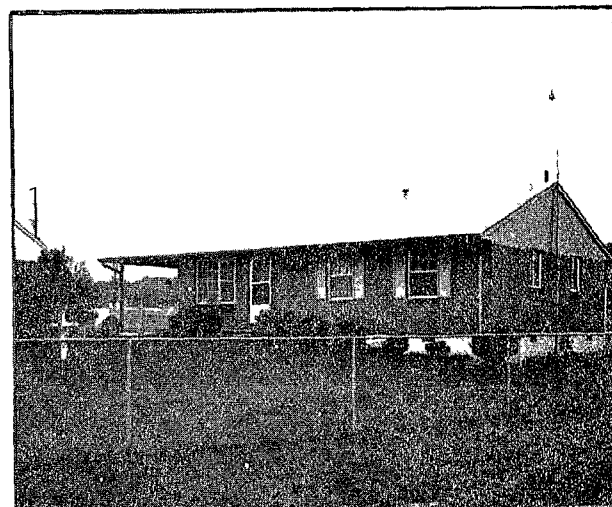
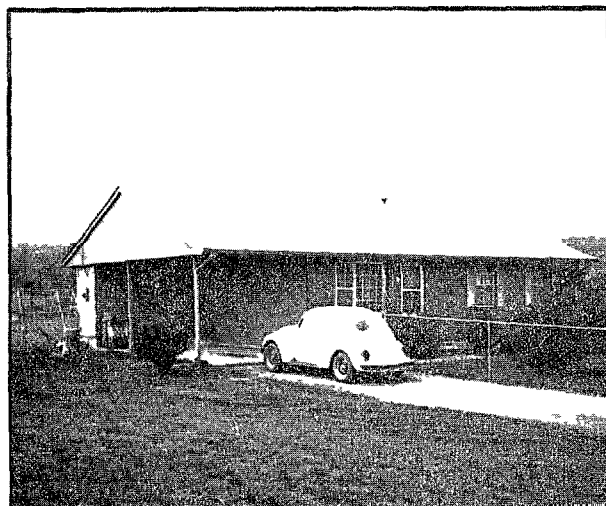
We agreed with the builder. Using the same conditions under which the USDA house was sold, we adjusted the cost of the HUD house by \$2,153 to reflect the cost it would have sold for in December 1972. This amount includes \$950 for inflation and \$1,203 representing the estimated amount that the HUD house was sold below market value in January 1972.

Houses in LaFayette, Georgia (existing houses).

Two views of the  
HUD house



Two views of the  
USDA house



## AGENCY COMMENTS

### HUD COMMENTS

In a meeting with HUD officials, we explained the objective of our review, the differences in the programs selected for comparison, the method we used to select comparable houses, and the results of our review as shown in the summary. HUD officials essentially agreed with our findings and made the following comments.

A HUD official asked if part of the cost differences could be attributed to the fact that HUD normally builds on improved urban lots, whereas USDA normally builds in unimproved rural areas. We answered that this was not a reason for the differences because we selected houses in comparable locations and made dollar adjustments where necessary.

Another official asked how much profit and overhead was considered in the USDA appraisals. We replied that we did not compare the amount of profit and overhead actually charged by the builders. However, a number of builders told us that they could realize more profit in constructing a home insured by HUD because of its higher appraisals.

HUD officials asked why the house would cost more just because HUD appraised it higher. We stated that in our five comparisons the purchase prices of the HUD houses were very close to the appraised amounts.

A HUD official said he could see no reason why a house would sell below market value. We said that this might occur if the owner of existing property requested an amount below market value to obtain a quick sale. (HUD does not appraise a house for more than the seller requests.)

Another official stated that the differences of the basic houses could be attributed to

--different builders having different estimates for the same house,

--different landscape of the lots which would require more foundation work, and

--different qualities of construction.

We stated that the same builder built both houses in three of our comparisons and that we made adjustments for different foundations when necessary.

An official stated that, due to the large number of adjustments, he did not consider our comparison in Fitzgerald to be very meaningful. We said we recognized that there were a large number of adjustments which increased the possibility of error. However, we obtained estimates from the builders of both houses and made our adjustments from these estimates. We stated that the cost differences were in line with the differences identified at two other locations.

Officials stated that our sample was not large enough to make a general statement that HUD houses cost from 14 to 18 percent more than USDA houses. We said we were not making any projections from our selection and that we were only reporting the facts on the five comparisons.

One official stated that, although he agreed that we could not make projections from our small selection, he believed that we would find essentially the same thing if we looked at a larger number of houses. He said he was aware of the cost differences because he had made a similar study which showed essentially the same thing as our review.

Regarding the builders' statements that delays occur because the HUD building inspectors do not make inspections on time, an official stated that the builders are not required to wait for the inspections. He stated that, once the builder has requested the inspection, it is HUD's responsibility to make the inspection on time and the builder can go on with the work if the HUD inspector is late.

#### USDA COMMENTS

USDA officials agreed with our findings and made the following comments.

They were surprised to learn that the overall cost differences ran as high as 18 percent. One official stated that he would have estimated the cost difference in a basic house and lot to be \$1,000 less for USDA; he knew that loan discount points, higher closing costs,

and sales commissions would make the HUD houses cost even more but he had not realized until now that these factors could add up to 18 percent.

One official was not surprised that some of the builders said that USDA appraisals were too low. He stated that a "constant stream" of builders goes through the Georgia Farmers Home Administration office saying that they must have higher appraisals to continue building. He also stated that USDA does increase some of its appraisals and added that some builders have stopped building under USDA because of the low appraisals; however, most builders only threaten to stop building. He stated that USDA could use more builders in some areas; however, generally speaking, it has an adequate number in most areas.