

DOCUMENT RESUME

04299 - [B3474712]

[Department of Housing and Urban Development's Requirement That the Department of Defense Pay Mortgage Insurance Premiums on Wherry and Capehart Family Housing Properties]. CED-78-14; B-133102. December 12, 1977. 4 pp.

Report to Patricia R. Harris, Secretary, Department of Housing and Urban Development; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development (2100). Contact: Community and Economic Development Div.

Budget Function: National Defense: Defense-related Activities (054); Commerce and Transportation: Mortgage Credit and Thrift Insurance (401).

Organization Concerned: Department of Defense; Department of Housing and Urban Development: Federal Housing Administration.

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

Authority: National Housing Act, as amended (P.L. 81-211). Housing Amendments of 1955 (P.L. 84-345). P.L. 84-348, sec. 404.

The Department of Housing and Urban Development (HUD) requires the Department of Defense (DOD) to pay mortgage insurance premiums on Wherry and Capehart family housing properties owned by DOD and insured by HUD. A review of this practice indicated that it is no longer necessary for HUD to require DOD to insure HUD against DOD's default, especially since DOD has guaranteed the payment of these mortgages and the Congress has provided annual appropriations to repay the mortgages. Findings/Conclusions: DOD's insurance premium payments have resulted in an insurance reserve balance in the Armed Services Housing Mortgage Insurance Fund (ASHMIF) of \$76.5 million which far exceeds the \$2.1 million in reserves that HUD considers necessary to insure itself against default. DOD has requested on several occasions that the Secretary of HUD no longer require the mortgage insurance premiums. HUD has maintained that, while ASHMIF has excess reserves, the Servicemen's Mortgage Insurance Fund had a reserve requirement deficit of about \$29.9 million, and the premiums from ASHMIF are needed to help offset this deficit. The excess reserves of \$74.4 million accumulated from the Capehart/Wherry programs are more than sufficient to offset the \$29.9 million reserve requirement deficit in the Servicemen's Mortgage Insurance Fund and to negate any increase in the Servicemen's insurance premiums if HUD did not require further premiums from the Capehart/Wherry program. Recommendations: The Secretary of Housing and Urban Development should terminate the required payment of mortgage insurance premiums on Wherry and Capehart family housing

properties. (Author/SC)



47112

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

IN REPLY
REFER TO:

04299

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-133102

12 DEC 1977

The Honorable Patricia R. Harris
Secretary of Housing and Urban
Development

Dear Mrs. Harris:

We have reviewed the Department of Housing and Urban Development's (HUD's) practice of requiring the Department of Defense (DOD) to pay mortgage insurance premiums on Wherry and Capehart family housing properties owned by DOD and insured by HUD. In our opinion, it is no longer necessary for HUD to require DOD to insure HUD against DOD's default, especially since (1) DOD has guaranteed the payment of these mortgages and (2) the Congress has provided annual appropriations to repay the mortgages. Also, DOD's insurance premium payments have resulted in an insurance reserve balance in the Armed Services Housing Mortgage Insurance Fund (ASHMIF) of \$76.5 million which far exceeds the \$2.1 million in reserves that HUD considers necessary to insure itself against default. We recommend, therefore, that you terminate the required payment of these premiums which will amount to \$900,000 in fiscal year 1979.

Public Law 81-211, dated August 8, 1949, amended the National Housing Act by adding the Military Housing Insurance Program, known as Wherry housing. The program was to increase the supply of rental housing available to military and DOD civilian personnel assigned to military installations where the permanence of the installation could not be definitely stated.

As part of the program the Commissioner, Federal Housing Administration (FHA), was authorized to insure mortgages on rental housing projects built and operated

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(990591)

by private sponsors for the use of military or DOD civilian personnel. The Commissioner could charge an insurance premium of not less than one-half of 1 percent and not more than 1 and one-half percent per year on mortgages insured. This program produced about 84,000 housing units.

The Housing Amendments of 1955, established by Public Law 84-345, dated August 11, 1955, replaced the Wherry program with the Armed Service Housing Mortgage Insurance Fund generally known as the Capehart housing program. The Wherry program was also included in the new insurance fund. Under the Capehart program private contractors built the housing, private lenders financed it, and FHA insured the mortgage. Unlike Wherry housing, which was privately owned and operated, the Departments of the Army, Navy, and Air Force took title to the Capehart housing upon completion, assumed the mortgage, and paid FHA an insurance premium of one-fourth of 1 percent each year. This program produced almost 115,000 housing units.

In order to preserve and fully use existing Wherry housing, section 404 of Public Law 84-348 authorized the Secretary of Defense to acquire Wherry housing projects wherever Capehart housing was being built or where the Wherry units were needed as DOD-owned housing. The law permitted the FHA Commissioner to charge an insurance premium of less than one-half of 1 percent on DOD acquired Wherry projects. DOD acquired 78,571 Wherry units.

DOD has requested on several occasions that the Secretary of HUD no longer require mortgage insurance premiums on the Capehart and acquired Wherry units for two reasons. First, DOD has guaranteed the mortgage payments on the Wherry and Capehart housing projects. According to DOD, these guarantees remove any risk of loss to ASHMIF on properties held by the military departments. Also, the Congress has provided annual appropriations to repay the mortgages. Second, HUD has accumulated sufficient reserves to offset estimated losses to ASHMIF. As of September 30, 1976, insurance reserves in the fund attributable to Wherry/Capehart housing were \$76.5 million. HUD's estimated reserve requirements for the fund as of June 30, 1976, were \$2.1 million, leaving excess reserves of \$74.4 million. The Congress appropriates funds annually for payments of these insurance premiums, which will amount to \$900,000 in fiscal year 1979.

HUD has cited two reasons why DOD should continue paying the Capehart/Wherry mortgage insurance premiums. First, HUD has maintained that while ASHMIF has excess reserves, the Servicemen's Mortgage Insurance Fund, an inservice loan program which requires DOD to pay mortgage insurance premiums, has a reserve requirement deficit of about \$29.9 million. Consequently, the premiums from ASHMIF are needed to help offset this deficit. Second, if HUD no longer required that DOD pay the Capehart/Wherry insurance premiums, HUD would need to increase the premium rate for the Servicemen's Mortgage Insurance Fund to help offset the deficit.

We disagree with HUD's reasons. HUD has excess reserves of \$74.4 million accumulated from the Capehart/Wherry programs which are more than sufficient to (1) offset the \$29.9 million reserve requirement deficit in the Servicemen's Mortgage Insurance Fund and (2) negate any increase in the Servicemen's insurance premiums if HUD did not require further premiums from the Capehart/Wherry program.

RECOMMENDATION

Because the large reserves in the Armed Services Housing Mortgage Insurance Fund can cover any losses from both the Capehart/Wherry program and the Servicemen's inservice program and, most importantly, because DOD has guaranteed the Fund against risk of loss, further mortgage insurance premiums on DOD-acquired Wherry and DOD-owned Capehart housing are no longer necessary. We recommend, therefore, that you terminate the requirement that such premium payments be made.

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As you know, 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 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.

Copies of this report are being sent to the House Committees on Armed Services; Appropriations; Government Operations; and Banking, Finance and Urban Affairs; Senate Committees on Armed Services; Governmental Affairs; Banking, Housing, and

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Urban Affairs; and Appropriations, Subcommittees on Defense and HUD-Independent Agencies; Acting Director, Office of Management and Budget; and the Secretaries of Defense; the Army; the Navy; and the Air Force.

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

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege
Director