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Highlights

Highlights of GAO-05-227, a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

HOUSING FINANCE

Options to Help Prevent Suspensions of FHA and RHS Loan Guarantee Programs

Why GAO Did This Study

In fiscal year 2004, the Department of Housing and Urban Development's Federal Housing Administration (FHA) and the Department of Agriculture's Rural Housing Service (RHS) guaranteed approximately $136 billion in mortgages for single-family homes, multifamily rental housing, and healthcare facilities under a variety of programs. In past years, both agencies have occasionally had to suspend the issuance of guarantees under some programs when they exhausted the dollar amounts of their commitment authority (which serves as a limit on the volume of new loans that an agency can guarantee) or credit subsidy budget authority (the authority to cover the long-term costs—known as credit subsidy costs—of extending these guarantees) before the end of a fiscal year. These suspensions can be disruptive to homebuyers, developers, and lenders. GAO was asked to determine (1) how often and why FHA and RHS have suspended their loan guarantee programs over the last decade, (2) how these agencies manage and notify Congress of the rate at which the authorities for these programs will be exhausted, and (3) options Congress and the agencies could exercise to help prevent future suspensions and the potential implications of these options.

www.gao.gov/cgi-bin/getrpt?GAO-05-227.

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

On 10 occasions since 1994, FHA and RHS have suspended the issuance of loan guarantees after exhausting the commitment authority or credit subsidy budget authority for certain programs before the end of a fiscal year. Specifically, FHA suspended several programs six times and RHS suspended one program four times. The resources budgeted for these programs have not always been adequate to keep them operating for a full fiscal year due partly to difficulties in estimating demand for loan guarantees—a difficulty compounded by the process of preparing the budget request to Congress, which requires that the agencies forecast demand nearly 2 years in advance.

FHA and RHS both manage their programs on a first-come, first-served basis, a factor limiting their ability to control the rate at which they use commitment authority and obligate budget authority. However, the agencies have different requirements and approaches for estimating the rate at which they will exhaust these authorities and notifying Congress. For example, unlike RHS, FHA is statutorily required to notify Congress when it has used 75 percent of its commitment authority and when it estimates that it will exhaust this authority before the end of a fiscal year. GAO's analysis indicates that FHA's basic approach for making estimates—applying utilization rates experienced up until the time of the analysis to the remainder of the fiscal year—does not always accurately forecast whether the agency will exhaust its commitment authority. However, FHA officials and federal budget experts said that more complex methods would not necessarily produce better estimates.

Through discussions with federal agency and mortgage industry officials, GAO identified several options that Congress, FHA, and RHS could exercise to help prevent future suspensions; however, the options would also have budgetary impacts (such as increasing the budget deficit), make oversight of the programs more difficult, or impose additional administrative burdens on the agencies. For example, Congress could require FHA to provide more frequent notifications about the percentage of commitment authority the agency has used and expand this requirement to include obligations of credit subsidy budget authority. This option, which could also be applied to RHS, could give Congress additional and more timely information to consider whether to provide supplemental appropriations before the end of a fiscal year. Other options for Congress include (1) authorizing FHA to use revenues generated by some of its loan guarantee programs to cover any shortfalls in budget authority for others and (2) providing "advance funding"—budget authority made available in an appropriation act for the current fiscal year that comes from a subsequent year's appropriation—for FHA and RHS program credit subsidy costs. Further, FHA and RHS can continue to use or be given additional administrative tools—such as transferring budget authority—to help delay or prevent program suspensions.