February 2006

Highlights

Highlights of GAO-06-316, a report to congressional committees

HOSPITAL MORTGAGE INSURANCE PROGRAM

Program and Risk Management Could Be Enhanced

Why GAO Did This Study

Under its Hospital Mortgage Insurance Program, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) insures nearly $5 billion in mortgage loans for the renovation or construction of hospitals that would otherwise have difficulty accessing capital. In response to a requirement in the 2005 Consolidated Appropriations Conference Report, GAO examined (1) the design and management of the program, as compared with private insurance, (2) the nature and management of the relationship between HUD and the Department of Health and Human Services (HHS) in implementing the program, (3) the financial implications of the program to the General Insurance/Special Risk Insurance (GI/SRI) fund, including risk posed by program and market trends, and (4) how HUD estimates the annual credit subsidy for the program, including the factors and assumptions used.

What GAO Recommends

GAO recommends that the HUD Secretary ensure that program performance measures are useful, update the program handbook, develop a formal geographic diversification strategy, and explore adding factors to HUD's credit subsidy model. HUD agreed with GAO's recommendations but said that the report did not adequately emphasize the program's accomplishments.

www.gao.gov/cgi-bin/getrpt?GAO-06-316.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-6878 or WoodD@gao.gov.

What GAO Found

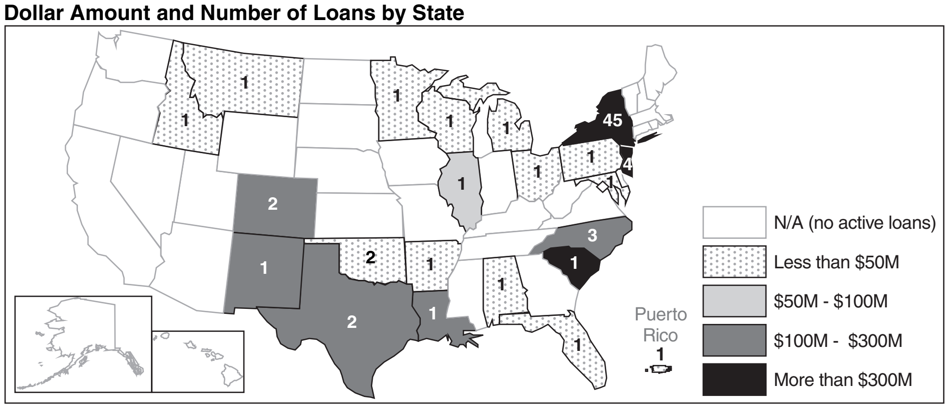
The Hospital Mortgage Insurance Program insures the mortgages of hospitals that are generally riskier than those that can obtain private bond insurance. While FHA's process for reviewing mortgage insurance applications includes more steps and generally takes longer, the agency monitors active loans with many of the same techniques that private bond insurers use.

Under a Memorandum of Agreement, FHA and HHS work together in a variety of ways to review mortgage insurance applications and monitor active loans. However, FHA does not collect data to assess program performance against most performance measures specified in the memorandum, some of which are not objective. Further, FHA has not kept its program handbook of policies and procedures for applicants, lenders, and others up-to-date.

The hospital program is small compared with other programs in the GI/SRI fund, and the losses from claims have been relatively low. Despite the program's relatively small size, some program and market trends may pose risks. For example, 61 percent of the program's total insured, outstanding loan amount is concentrated in New York, which makes the program vulnerable to state policies and regional economic conditions. While FHA has goals to diversify the hospital insurance portfolio and has made efforts to do so, it does not have a formal strategy to achieve these goals.

To estimate the credit subsidy cost, or program costs, over the life of the outstanding loans insured, HUD uses a model that incorporates factors and assumptions about how loans will perform, including estimated claim and recovery rates, which are consistent with federal guidance. However, HUD's model does not explicitly consider some factors, such as the potential impacts of prepayment penalties or restrictions, which according to some economic studies, are important in modeling default risk.

FHA Hospitals Remain Concentrated in the Northeast as of December 2005: Active Loan Dollar Amount and Number of Loans by State



Sources: GAO analysis of HUD's F47 database, a multifamily database (data); Art Explosion (map).