

GAO Highlights

Highlights of [GAO-16-193](#), a report to congressional requesters

Why GAO Did This Study

In recent years, RHS's single-family mortgage guarantee program has grown significantly, and RHS currently manages a guaranteed portfolio of more than \$100 billion. RHS helps low- and moderate-income rural residents purchase homes by guaranteeing mortgages made by private lenders.

GAO was asked to examine the program's cost estimation methodology and risk-management structure. This report discusses (1) recent trends in the credit subsidy costs of RHS's guarantee program and the process for estimating those costs and (2) the extent to which RHS's policies and procedures for the program are consistent with federal standards for managing credit programs. GAO analyzed RHS budget data for fiscal years 2004 through 2014, examined RHS policies and procedures, reviewed OMB standards, and interviewed RHS officials.

What GAO Recommends

GAO is making 11 recommendations to USDA to help ensure that RHS's policies and procedures are consistent with OMB standards and to strengthen management of the guarantee program and other credit programs. Areas on which the recommendations focus include overseeing lenders, formalizing or establishing key risk management functions, and assessing and reporting on portfolio risk and performance. RHS agreed with or said it was acting on five of the recommendations. RHS neither agreed nor disagreed with the rest but said it generally recognized the underlying risk implications. GAO maintains that the recommendations are valid, as discussed in the report.

View [GAO-16-193](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov

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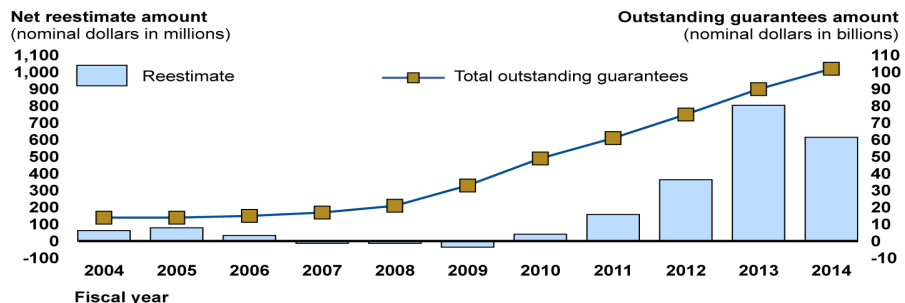
RURAL HOUSING SERVICE

Actions Needed to Strengthen Management of the Single Family Mortgage Guarantee Program

What GAO Found

The estimated credit subsidy costs (expected net lifetime costs) of single-family mortgages guaranteed by the Department of Agriculture's (USDA) Rural Housing Service (RHS) substantially increased in recent years, partly due to high losses from the 2007 through 2011 housing crisis. For example, the fiscal year 2013 and 2014 reestimates (which federal agencies must do annually) indicated higher expected costs of \$804 million and \$615 million, respectively, compared with the prior reestimates (see fig.). To improve the current estimation method (which relies on average historical losses), RHS hired a contractor to develop statistical models that will predict losses based on loan, borrower, and economic variables.

Rural Housing Service Guaranteed Single-Family Mortgage Portfolio and Annual Net Credit Subsidy Reestimates for the Portfolio, Fiscal Years 2004-2014



Source: GAO analysis of data from Rural Development and the President's budget. | GAO-16-193

RHS's policies and procedures are not fully consistent with all Office of Management and Budget (OMB) standards for managing credit programs (OMB Circular A-129). RHS's policies and procedures are consistent with the OMB standards in most areas, including loan documentation, collateral requirements, and aspects of applicant screening and lender oversight. However, RHS

- has not established and published all required lender eligibility standards such as principal officer qualifications (e.g., experience level) and financial standards (e.g., minimum net worth);
- lacks written policies and procedures for a committee responsible for analyzing and addressing the credit quality (default risk) of guaranteed loans;
- has not established a position independent of program management to help manage the risks of its guaranteed portfolio;
- has not established risk thresholds (for example, maximum portfolio- or loan-level loss tolerances) and uses certain loan performance benchmarks that have limited value for risk management; and
- has not incorporated a discussion of areas needing increased management focus into its "dashboard" reports.

These and other inconsistencies occurred in part because RHS has not completed an ongoing assessment of its policies and procedures against Circular A-129. Furthermore, the Office of Rural Development (which oversees RHS) has not established procedures for prioritizing Circular A-129 reviews of its credit programs based on risk. More fully adhering to Circular A-129 standards would enhance RHS's effectiveness in managing the risks of its guarantee program.