GAO Highlights

Highlights of GAO-13-542, a report to congressional requesters

Why GAO Did This Study

With mortgage foreclosures at historic levels in recent years, FHA is faced with disposing of a high volume of REO properties. The enterprises, other federal agencies, and private sector mortgage servicers also dispose of REO properties from their foreclosures. To assess the relative effectiveness of FHA's REO dispositions, GAO examined (1) FHA's disposition goals, strategies, practices, and effectiveness in disposing of properties compared with those of the enterprises and private servicers; and (2) FHA's oversight of the contractors that maintained and marketed its REO properties. GAO analyzed REO disposition data from FHA and the enterprises, including modeling to control for property differences across the entities. GAO also collected information from program requirements, policies, and interviews on each entity's oversight of its REO dispositions.

What GAO Recommends

GAO makes 10 recommendations intended to increase FHA's returns on the disposition of REO properties, including considering repairs that increase net proceeds, requiring the use of additional information for setting initial and subsequent listing prices; and improving its oversight of its contractors, including updating and maintaining comprehensive guidance, implementing a performance scorecard, increasing in-person inspections, and ensuring that listing brokers are appropriately located. FHA reviewed a draft of this report and agreed with GAO's recommendations.

View GAO-13-542. For more information, contact Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov.

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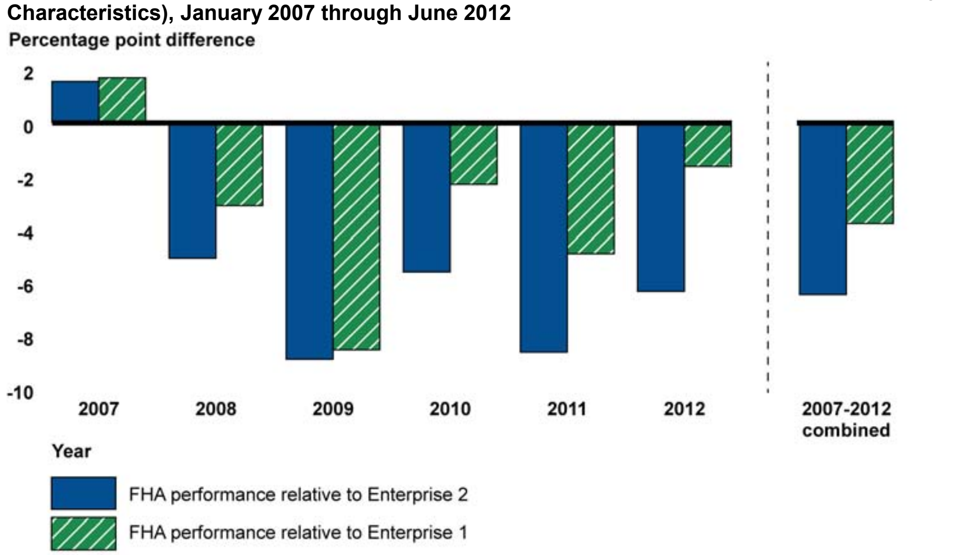
FEDERAL HOUSING ADMINISTRATION

Improving Disposition and Oversight Practices May Increase Returns on Foreclosed Property Sales

What GAO Found

The Federal Housing Administration's (FHA) performance in selling its foreclosed properties—known as real estate-owned (REO) properties—lagged the performance of both of the government-sponsored enterprises (enterprises), Fannie Mae and Freddie Mac. FHA disposed of more than 400,000 properties from January 2007 through June 2012. Its combined 2007-2012 returns, measured by the net execution rate (net sales proceeds divided by independently assessed property values) were about 4 to 6 percentage points below the enterprises' returns (see figure). After controlling for certain differences in their properties' characteristics (e.g., value, location, and local market conditions), differences in combined returns between FHA and the enterprises persisted at an estimated 2 to 5 percentage points.

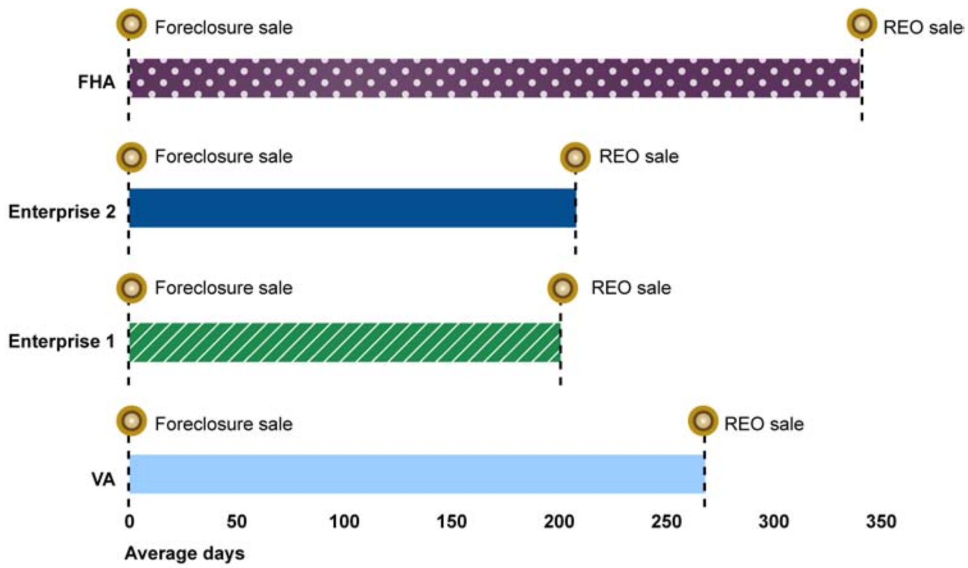
FHA's Aggregate Net Execution Rate Based on Independently Assessed Property Value Relative to the Enterprises' Rates for REO Dispositions (Results Not Controlled for Property Characteristics), January 2007 through June 2012



Sources: GAO analysis of FHA, Fannie Mae, and Freddie Mac data.

Further, while the enterprises took an average of around 200 days after foreclosure to dispose of REO properties, FHA took about 340 days—more than 60 percent longer (see figure). A similar pattern persisted even after controlling for certain property differences. FHA also took longer than the Department of Veterans Affairs (VA). For FHA, unlike the others, a significant part of the time between the foreclosure sale and REO sale is taken by loan servicers who must complete certain activities before conveying title to FHA. In the first half of 2012, FHA's disposition returns and timelines generally improved relative to the enterprises'. All three entities use similar strategies to dispose of their REO properties, but FHA does not use some practices that the enterprises and private mortgage servicers use that may have the potential to improve its sales performance. For example, FHA does not repair its properties to increase their marketability, something both enterprises do. And unlike the enterprises, FHA does not incorporate information from multiple sources in setting list prices or consistently take into account market conditions when reducing prices. Instead, it relies on one appraisal in setting initial prices and often reduces them by set amounts. GAO found that if FHA's execution rate and disposition time frame had equaled those of the enterprises in 2011, it could have increased its proceeds by as much as $400 million and decreased its holding costs—which can include items such as taxes, homeowners' association fees, and maintenance costs—by up to $600 million for the year.

Average Disposition Timelines by Entity for REO Dispositions (Results Not Controlled for Property Characteristics), January 2008 through June 2012 (All Years Combined)



Sources: FHA, Fannie Mae, Freddie Mac, and VA data.

In addition, FHA's oversight of the contractors that it uses to maintain and dispose of REO properties has weaknesses, and it does not use some of the oversight tools other entities use that might prove effective. First, government internal control standards require complete, updated policies and procedures to guide program oversight. But FHA has not updated its REO disposition handbook since 1994, even though the agency implemented a different program and contractor structure in 2010. In the absence of a central source of updated guidance, GAO and FHA internal auditors found inconsistencies in both contractor activities and staff oversight across FHA's four regional homeownership centers. Second, FHA has not implemented a uniform system for evaluating contractor performance. For instance, FHA has yet to implement a proposed version of the type of scorecard that the enterprises use to assess differences in contractor performance. Also, its planned incentive structure for contractors has been found not to comply with federal contracting rules. These two shortcomings have prevented FHA from assigning work according to contractors' performance—a key quality control in its new REO program structure. Further, FHA aims to inspect 2 to 6 percent of its REO properties annually, although other entities with REO properties report inspecting between 25 and 35 percent monthly, or between 7 and 40 percent annually. Finally, FHA has not taken steps to ensure that the listing brokers marketing its REO properties are located close enough to the properties to have adequate knowledge of local markets. Without implementing more effective activities to evaluate contractor performance and ensure compliance with program requirements, FHA's REO properties may continue to remain on the market longer and sell for lower prices than properties held by the enterprises.