United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Banking and Financial Services, House of Representatives

July 1995

PROPERTY DISPOSITION

Information on HUD's Acquisition and Disposition of Single-Family Properties

GAO/RCED-95-144FS

GAO

United States
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Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-261237

July 24, 1995

The Honorable Rick A. Lazio
Chairman, Subcommittee on
Housing and Community
Opportunity
Committee on Banking and
Financial Services
House of Representatives

Dear Mr. Chairman:

Each year, lenders foreclose on thousands of defaulted mortgages on single-family properties insured by the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA).[1] With few exceptions, HUD then takes ownership of, and subsequently sells, these properties. FHA almost always loses money on the sale of foreclosed properties. The costs of settling the lenders' insurance claims and maintaining and selling the properties are typically higher than the proceeds from the sale of the properties. However, typically, the premiums that FHA receives from borrowers with mortgages insured by FHA more than offset these losses, and FHA's principal insurance fund for single-family mortgages—the Mutual Mortgage Insurance Fund (MMI Fund)—has sustained itself over the years and has not required appropriations from the U.S. Treasury.[2]

Factors external to HUD, such as trends in housing prices, affect both the rate of foreclosure on mortgages insured by FHA and HUD's recovery of the costs attributable to foreclosed mortgages.[3] For example, declining housing prices can lower the value of properties below the amount of their mortgages. This can lead to increased foreclosures and larger average losses per foreclosure. In addition, HUD's policies and practices in acquiring, managing, and selling foreclosed single-family properties

[1]HUD defines a single-family property as a one- to four-unit residential dwelling.

[2]Almost all of the single-family properties that HUD sold (88 percent) during fiscal years 1992 through 1994 were financed by mortgages backed by the MMI Fund. The rest of the mortgages were financed by loans insured by two other FHA funds—the General Insurance Fund and the Special Risk Insurance Fund. For FHA's MMI Fund mortgages originated from 1975 through 1985, claims in the 10-year period following origination averaged about 11 percent.

[3]Our report on the financial health of the MMI Fund, Mortgage Financing: Financial Health of FHA's Home Mortgage Insurance Program Has Improved (GAO/RCED-95-20, Oct. 18, 1994), discusses in detail the factors influencing the probability that borrowers will default on their mortgage loans.

influence the financial health of the funds and the level of the mortgage insurance premiums that home buyers may be required to pay.

Concerned about the costs that HUD incurs in acquiring, managing, and selling foreclosed single-family properties, you asked us to provide you with information on (1) the losses on such properties sold during the 3 fiscal years ending September 30, 1994, and the breakdown of the costs associated with these losses, (2) the number of properties that HUD acquired and sold over the 3-year period, and (3) the length of time that the properties remained in HUD's inventory before being sold. This information should be useful to the Congress during its debate on the future of FHA and on the possibility of developing public-private partnerships for purposes such as disposing of acquired single-family properties. The information could also serve as a baseline for evaluating the effectiveness of HUD's actions to reduce losses to the funds resulting from foreclosures.

In summary, we found the following:

- Although HUD spent nearly $14 billion to acquire, manage, and dispose of nearly 200,000 single-family properties that it sold during fiscal years 1992 through 1994, it received about $9.2 billion from the sale of these properties.[4] The median loss per property was about $22,500. The losses for a relatively small percentage of the properties were substantially higher. However, premiums for the principal fund for single-family mortgages—the MMI Fund—have more than offset the losses incurred for mortgages financed by loans insured by this fund.
- The largest costs that HUD incurs through the property foreclosure and disposition processes are the acquisition costs. These costs, which, under the law, HUD is required to pay as an insurance claim to the lender, represent about 89 percent of the total costs. HUD officials stated that acquisition costs are the driving factor in the losses sustained in the sale of foreclosed properties. HUD paid more than $12.4 billion to acquire the single-family properties sold during fiscal years 1992 through 1994. In addition, HUD paid about $691 million to manage these properties. These management, or holding, costs represent about 5 percent of the total costs. Finally, HUD paid about $867 million, or about 6 percent of the total costs, to sell the properties. Section 1 of this report discusses in more detail the losses to the funds and the breakdown of the costs associated with these losses.

[4]Except where otherwise noted, all dollar figures used in this report have been adjusted to reflect their estimated value in 1994.

- During fiscal years 1992 through 1994, HUD acquired an average of more than 63,000 single-family properties per year and sold an average of nearly 66,000 such properties per year. Hence, the number of single-family properties in HUD's inventory declined slightly during this period. Most of the acquisitions and sales occurred in a few states. (See sec. 2 for more information.)
- On a median basis, single-family properties remained in HUD's inventory about 5 months before being sold. However, 38 percent of the properties remained in inventory from 5 months to 1 year, and 8 percent remained more than 1 year before being sold. The losses for properties that remained in inventory for longer periods were usually much larger than the losses for properties that were sold within 5 months. (See sec. 3.)

We based our analysis of (1) the costs and revenues associated with HUD's single-family property disposition program, (2) the number of properties in inventory, and (3) the length of time that properties remain in inventory on data from HUD's automated Single-Family Accounting Management System (SAMS). This system, which tracks the properties acquired and sold by HUD and contains extensive information on HUD's property disposition activities, did not become fully operational until fiscal year 1992. Therefore, we did not have relevant nationwide data for prior years and had to limit our analysis to data from fiscal year 1992 through fiscal year 1994. To analyze acquisition costs by type and program administrative expenses, we used data from HUD's single-family insurance claims system. The effects of these limitations on our analysis are discussed in appendix I.

The data in this report were current as of September 30, 1994. We did not independently verify the accuracy of HUD's data. However, we worked with HUD officials and the SAMS database contractor to ensure that we understood which costs and revenues were and were not included in SAMS. We then developed an appropriate methodology for using the data to estimate losses, costs, and revenues to the funds for fiscal years 1992 through 1994. To determine when and how long a property was in HUD's inventory, we used the date that the property was acquired and the date when HUD reconciled the settlement statement with the funds received by the U.S. Treasury. We also excluded from analysis certain properties, such as those that HUD sold on behalf of the Department of Defense and those for which HUD's acquisition date was not recorded or was obviously incorrect. Consequently, the data on the inventory and costs reported here may not match those published by HUD. We performed our work from June 1994 through July 1995.

We provided a draft of this report to HUD officials to obtain their comments. In a meeting with the Director of the Single-Family Property Disposition Division, the Director of the Single-Family Post-Insurance Division, and the Acting Director of HUD's Office of Evaluation, we obtained HUD's comments. HUD generally agreed with the facts as presented. We incorporated, where appropriate, technical and editorial changes suggested by HUD to further clarify certain information presented.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies to interested congressional committees, the Secretary of HUD, and other interested parties. We will also make copies available to others on request.

Please contact me at (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,

Judy England-Joseph

Judy A. England-Joseph
Director, Housing and Community
Development Issues

Contents

Abbreviations

FHA	Federal Housing Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
MMI	Mutual Mortgage Insurance Fund
SAMS	Single-Family Accounting Management System

Losses and Costs Associated With HUD's Acquisition, Management, and Sale of Single-Family Properties

The Department of Housing and Urban Development's (HUD) single-family mortgage insurance programs are intended to protect lenders from financial losses resulting from defaults on mortgage loans to home buyers. As part of this insurance protection, HUD acquires foreclosed properties from lenders and manages these properties until they can be sold from its inventory. This section describes the costs and revenues associated with HUD's acquisition and disposition activities as well as the losses to the Federal Housing Administration's (FHA) insurance funds incurred through these activities.

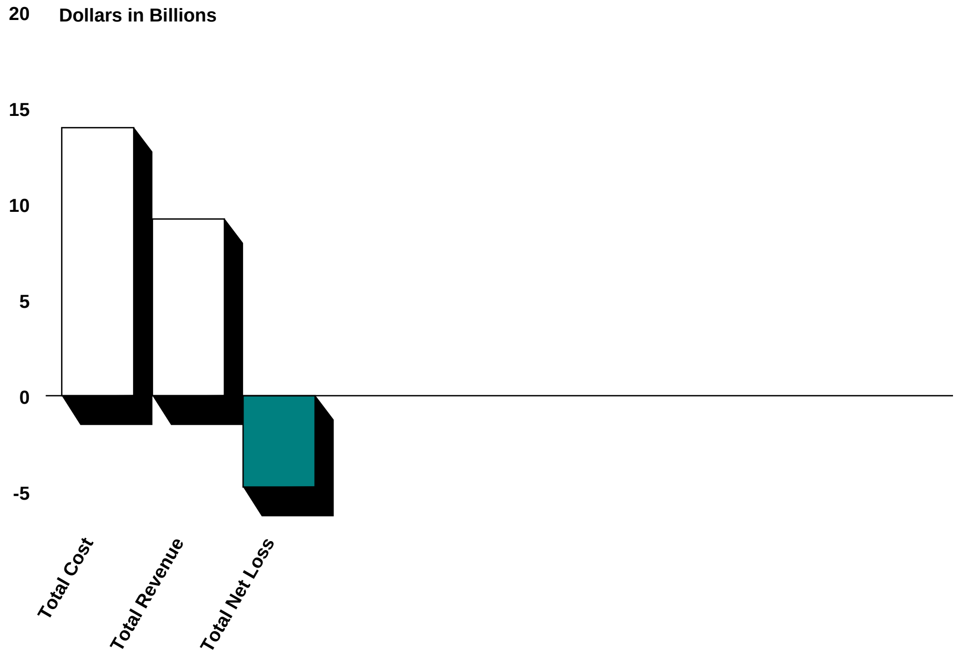
Overall Costs and Revenues

During fiscal years 1992 through 1994, HUD sold about 200,000 single-family properties. It spent nearly $14 billion to acquire, manage, and sell these properties, and it sold these properties for about $9.2 billion.[1] Overall, FHA's insurance funds lost about $4.75 billion from the foreclosure of these loans.[2] (See fig. 1.1.) However, premiums for the principal single-family fund—the Mutual Mortgage Insurance (MMI) Fund—have more than offset the losses incurred for properties financed by loans insured by this fund.

[1]We adjusted all dollar figures used in this report to reflect their estimated value in 1994 unless otherwise noted. Because our SAMS data extract did not show the dates when some expenses were incurred, we assumed that these expenses were incurred during the year in which HUD sold the property, and we adjusted them to 1994 dollars using the year of sale.

[2]Mortgage insurers commonly lose money on a mortgage foreclosure in part because typically, a delinquent borrower would rather sell a house than suffer foreclosure unless the value of the house had dropped below the value of the mortgage.

Figure 1.1: Total Costs, Revenues, and Losses From HUD's Single-Family Properties Sold During Fiscal Years 1992-94



Note: Dollar amounts are in 1994 dollars.

The data supporting this figure appear in app. III, table III.1.

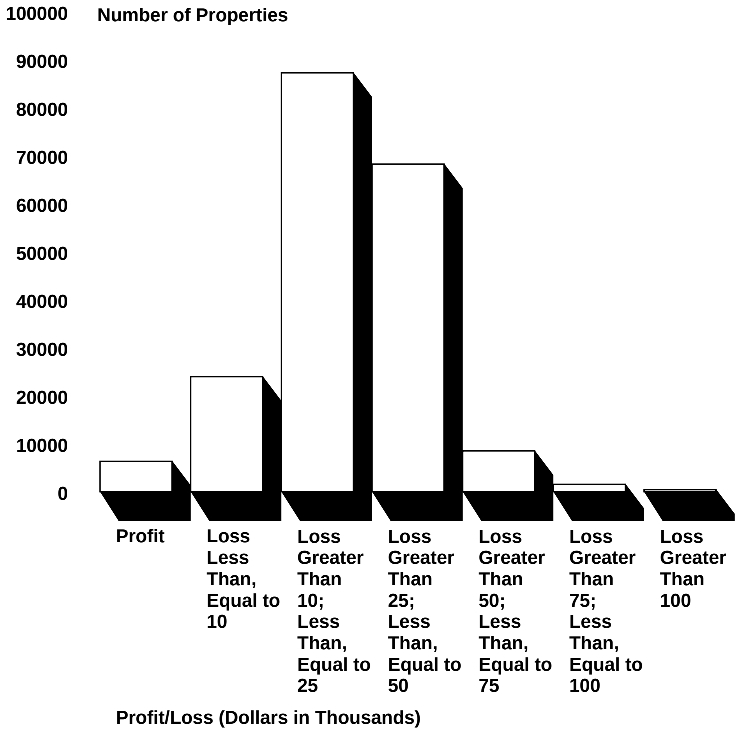
Source: GAO's analysis of SAMS data.

For the properties sold from HUD's inventory during fiscal years 1992 through 1994, the median loss per property for foreclosure and disposition activities was about $22,500, or about 39 percent of the costs paid to acquire these properties. The insurance funds incurred losses on about 97 percent of the properties sold from HUD's inventory during this period.

For a relatively small portion of the properties sold, the losses were much higher than the median and substantially increased the total loss to the funds. About 11,500 properties, or 6 percent of the properties sold, accounted for about 16 percent of the total loss to the funds—about $750 million. The funds lost more than $50,000 through the acquiring and selling of each of these properties. Moreover, 482 of these properties incurred losses of more than $100,000 each, resulting in losses to the funds of more than $57 million.

Of the properties with unusually high losses, a disproportionately large number were multiunit dwellings. For example, although less than 1 percent of the single-family properties that HUD sold during this period had three or four dwelling units, one-third of the properties with losses exceeding $100,000 had three or four dwelling units. These multiunit properties may have had higher mortgage loans and higher unpaid principal balances at the time of default than most of the properties sold by HUD. In addition, the properties with very high losses were concentrated in just a few states. Twenty percent of all properties with losses from $50,000 to $100,000 were in California; about half of all properties that lost this much were located in five states—California, Connecticut, Illinois, New York, and Texas. Forty-four percent of the properties with losses exceeding $100,000 were located in five states—California, Colorado, Connecticut, Massachusetts, and New York. According to HUD officials, losses of this magnitude may be due to a number of reasons, such as the collapse of a local real estate market due to the closing of a locally based industry. Figure 1.2 illustrates the range of losses per property.

Figure 1.2: Losses to FHA's Insurance Funds From the Sale of HUD's Single-Family Properties, Fiscal Years 1992-94



Note: Dollar amounts are in 1994 dollars.

The data supporting this figure appear in app. III, table III.2.

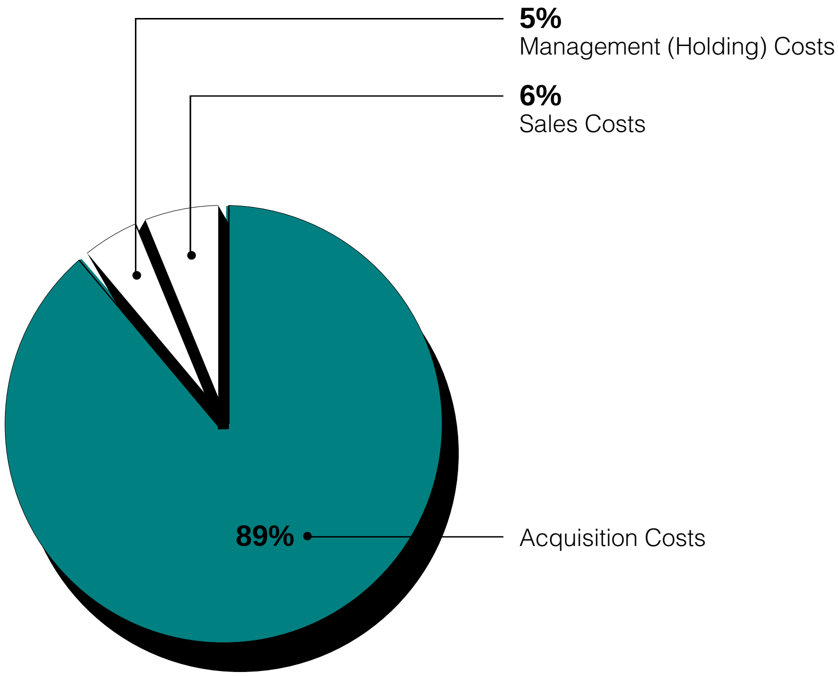
Source: GAO's analysis of SAMS data.

The losses presented in this report do not include the program administration costs—staff salaries, benefits, and the Single-Family Accounting Management System (SAMS) contractor costs—that HUD incurred to administer its single-family property disposition program. HUD estimated that these administrative costs were about $43 million annually in nominal dollars during fiscal years 1992 through 1994. These costs are paid out of the insurance funds but are not part of the profit and loss calculations computed in the SAMS system, from which we obtained our data. Likewise, the estimates of costs associated with single-family property disposition in SAMS and reported in this report do not include interest foregone on money drawn from FHA's funds to pay the insurance claims on properties. When HUD sells the acquired properties, the net sales proceeds are deposited in the appropriate insurance fund; however, interest is foregone for the length of time between property acquisition and sale.

Breakdown of Costs

For the single-family properties sold during fiscal years 1992 through 1994, HUD incurred by far the largest proportion of its total costs—about 89 percent, or more than $12.4 billion—to acquire the properties. In addition, it incurred about 5 percent of its total costs, or about $691 million, to manage the properties and about 6 percent of its total costs, or about $867 million, to sell the properties. (See fig. 1.3.)

Figure 1.3: Overall Costs of HUD's Single-Family Property Disposition Program for Properties Sold in Fiscal Years 1992-94



Note: The data suppporting this figure appear in app. III, table III.3.

Source: GAO's analysis of SAMS data.

Property Acquisition Costs

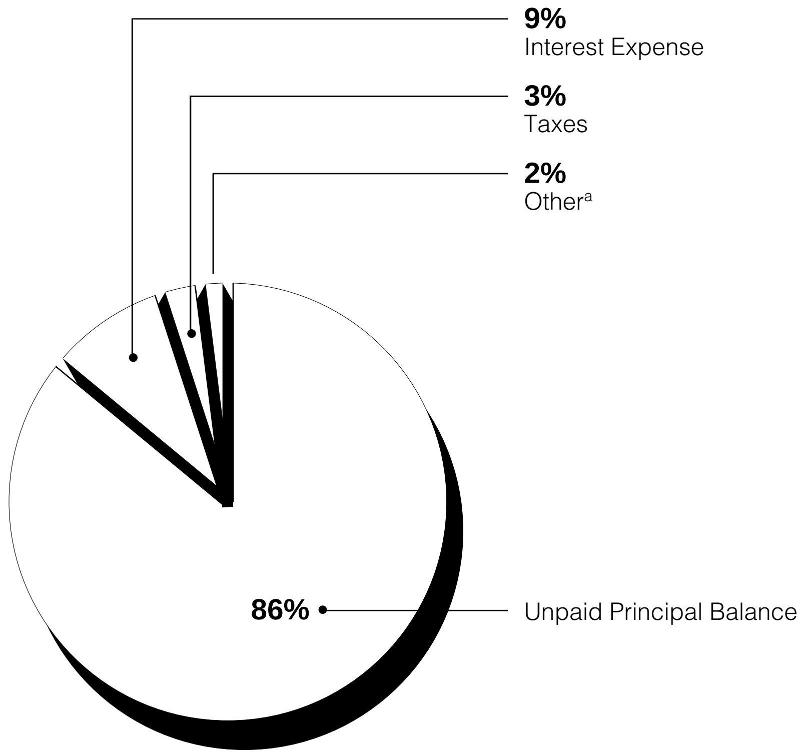
HUD protects lenders from loss by insuring mortgages against the risk of default. As part of this insurance program, HUD acquires properties that have gone through foreclosure.

The acquisition costs incurred by HUD represent all of the expenses paid by or on behalf of the lender in connection with the foreclosure, acquisition, operation, protection and preservation, and conveyance of the property to HUD. In accordance with the law, HUD reimburses the lender for the unpaid principal balance of the loan—even if the property is worth less than the mortgage balance, covers a portion of the costs associated with foreclosure, and makes interest payments to compensate the lender for the interest lost when the borrower defaults on the loan.[3]

The details on the components of acquisition costs are contained in HUD's single-family insurance claims system rather than the SAMS system. HUD provided us with a nationwide breakdown of the acquisition costs for acquired properties from the claims data system. As figure 1.4 shows, the largest portion of the acquisition costs nationwide is the unpaid principal balance, which represents about 86 percent of the total. Other acquisition costs include the interest paid to compensate lenders for the interest lost through defaults on loans and the reimbursement made to lenders for various costs, including the property taxes paid by the lender, the legal fees associated with the foreclosure, expenses to protect and preserve the property, and other miscellaneous costs. Appendix II presents a more detailed breakdown of HUD's property acquisition costs.

[3]Full interest is not paid if lenders fail to meet time requirements when filing their claims on defaulted loans.

Figure 1.4: Acquisition Costs for Single-Family Properties for Which Final Claims Were Paid During Fiscal Years 1992-94



Note: Includes partial and final claim payments, for conveyances only.

The data supporting this figure appear in app. III, table III.4.

[a]Includes costs to protect and preserve the property, legal fees, and other miscellaneous costs and deductions associated with property acquisition.

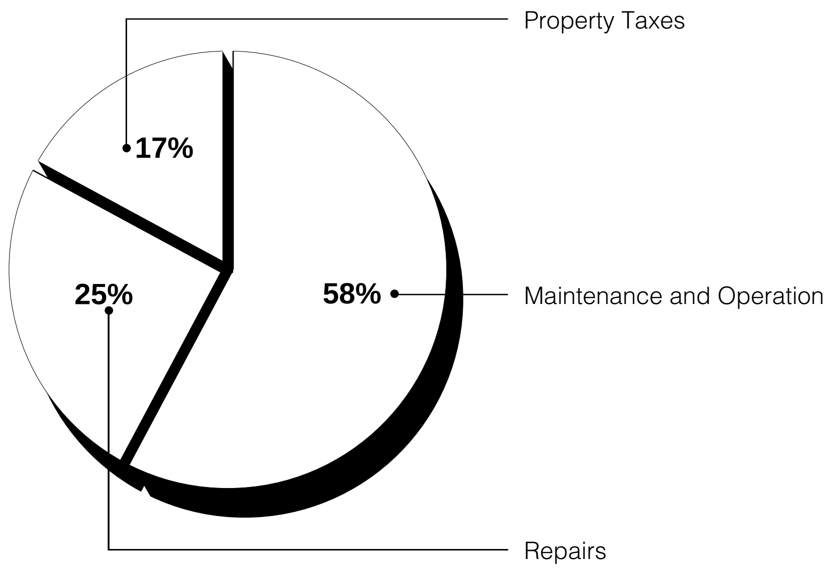
Source: HUD's Mortgage Insurance Accounting System.

An example of a property acquisition cost is an FHA insurance claim for about $126,300 that HUD paid to a lender in 1994. This payment included nearly $105,000 for the unpaid principal balance, about $16,000 as compensation for lost interest, and about $6,700 for other acquisition costs, including legal fees and costs to protect and preserve the property, less about $1,400 for an escrow account held by the lender.

Property Management (Holding) Costs

The property management, or holding, costs—for maintenance and operation, repairs, and property taxes—were much smaller than the acquisition costs for the properties sold from fiscal year 1992 through fiscal year 1994. Nevertheless, these costs totaled more than $691 million. Over the 3-year period, maintenance and operating expenses accounted for about 58 percent of the total holding costs; repairs, about 25 percent; and property taxes, the remaining 17 percent, as shown in figure 1.5. The median total holding cost was just under $2,700 per property.

Figure 1.5: Holding Costs for HUD's Single-Family Properties Sold During Fiscal Years 1992-94



Note: The data supporting this figure appear in app. III, table III.5.

Source: GAO's analysis of SAMS data.

The following example illustrates property holding costs: HUD acquired a property in January 1994 and sold it about 5 months later. During this time, the holding costs amounted to $2,279, including $1,014 in fees to a private company for managing the property, $868 in real estate taxes, $221 in utility charges, and $176 in miscellaneous costs.

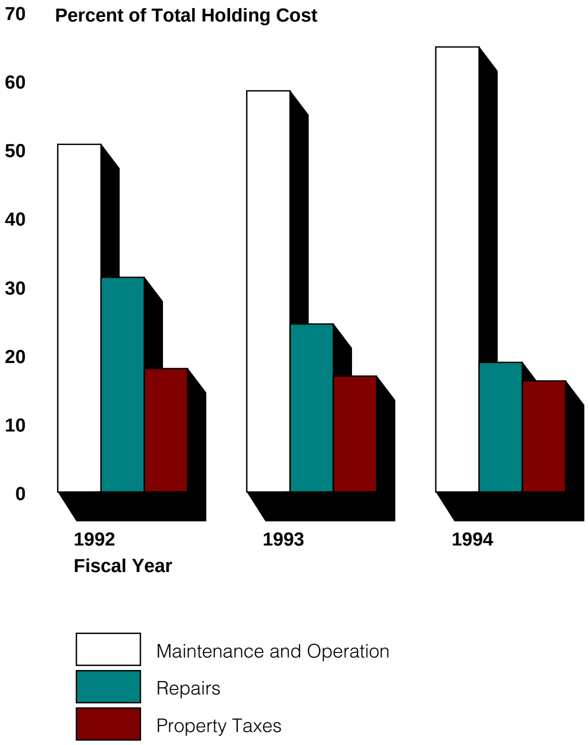
For a small number of properties sold, the holding costs were substantially higher than the median holding cost and accounted for a significant percentage of the total holding costs. For example, although the median amount spent by HUD on repairs for the 3-year period was $290 per property sold, the amount spent on repairs for about 6,000 properties exceeded $5,000 each, totaling more than $45 million. Thus, 3 percent of the properties sold accounted for 26 percent of the $173 million spent by HUD on repairs during this period. Likewise, although the median amount spent on maintenance and operation for the 3-year period was $1,542 per property sold, the amount spent on these costs for about 12,150 properties exceeded $5,000 per property. In this case, total maintenance and operating expenses for 6 percent of the properties sold were more than $87 million, or about 22 percent of the approximately $400 million spent by HUD in this expense category.

Overall, a shift occurred from fiscal year 1992 to fiscal year 1994 in the proportion of the total holding costs spent on maintenance and operation, repairs, and property taxes for properties sold in the 3-year period. While the median amount spent per year on maintenance and operation increased from $1,302 in fiscal year 1992 to $1,672 in fiscal year 1994, the median amount spent per year on repairs decreased from $431 in fiscal year 1992 to $165 in 1994. The median amount spent per year on property taxes, the smallest of the three expense categories, decreased slightly from $429 in fiscal year 1992 to $383 in fiscal year 1994. (See fig. 1.6.)[4]

HUD officials believe that this shift occurred as a result of a number of factors. For example, during the early 1990s, one HUD field office with a very large inventory had a policy of sprucing up many properties by making minor repairs designed to improve their marketability. According to HUD, since this office's inventory has declined, the total number of properties being repaired nationwide has declined as well. HUD also told us that some minor items that were classified as repairs before fiscal year 1994 have been reclassified as part of the maintenance activities required of contractors that manage properties for HUD. Another reason that HUD officials indicated for the shift in the magnitude of the cost categories has been an effort by HUD to discourage time-consuming repairs so that properties can be marketed and sold out of inventory quickly.

[4]Depending on the billing cycle of the local taxing jurisdiction, some property tax liabilities incurred while properties were owned by HUD may have been paid beforehand, as part of the acquisition costs. The timing of the tax payments would not affect the total amount lost per property.

Figure 1.6: Change in Distribution of Holding Costs for Single-Family Properties Sold During Fiscal Years 1992-94



Note: The data supporting this figure appear in app. III, table III.6.

Source: GAO's analysis of SAMS data.

Other costs may have been associated with managing HUD's single-family properties, but they are not part of the calculations of profit and loss in SAMS. For example, the costs reported in SAMS for property taxes do not include the payments made by HUD to local governments for the tax penalties and interest expenses that HUD incurred for the late payment of property taxes on property in its inventory. Therefore, the costs reported in SAMS for property taxes are likely to be somewhat understated. For example, the tax penalty report produced by the SAMS system indicated that HUD had incurred $1.01 million in tax penalties for single-family properties during fiscal year 1994.[5] HUD does not include these tax penalties and interest expenses in its property disposition costs because it

[5]Approximately 18 percent, or about $179,000, of the total penalties reported were attributed to mortgagees and may be collected by HUD in the future.

views them as part of the "cost of doing business," not as an addition to the cost of property disposition for an individual property. These expenses are, however, charged to the appropriate insurance fund.

Property Sales Costs

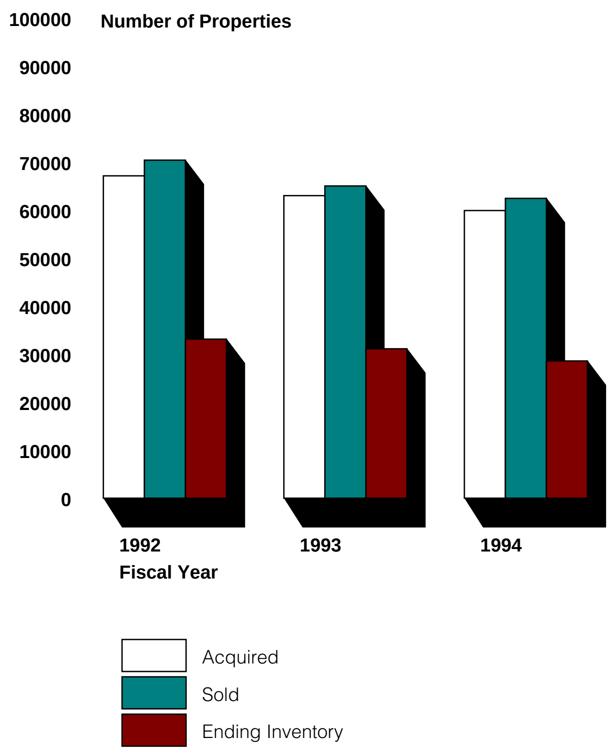
For the single-family properties sold from fiscal year 1992 through fiscal year 1994, HUD incurred about $867 million in sales costs. These costs include commissions paid to real estate agents, advertising expenses, and special discounts offered to encourage potential buyers to purchase HUD's properties.

The following example illustrates property sales costs: HUD acquired a property in May 1994 and sold it about 4-1/2 months later for $46,000, incurring $3,327 in sales costs. Specifically, HUD paid $2,500 to a selling broker, $240 to a closing agent, $552 for advertising expenses, and $35 for miscellaneous expenses.

Number of Single-Family Properties Acquired and Sold

During the 3 fiscal years 1992 through 1994, HUD acquired an average of over 63,000 properties annually. During the same period, HUD sold an average of nearly 66,000 properties each year. Because acquiring and selling are ongoing activities, HUD at any one time owns and manages thousands of properties. Overall, the number of properties held by HUD at a specific time—the end of the fiscal year—declined during these 3 years because sales outpaced acquisitions. At the end of fiscal year 1994, HUD had 28,587 properties in inventory. (See fig. 2.1.)

Figure 2.1: Acquisitions, Sales, and Ending Inventory of Single-Family Properties, Fiscal Years 1992-94



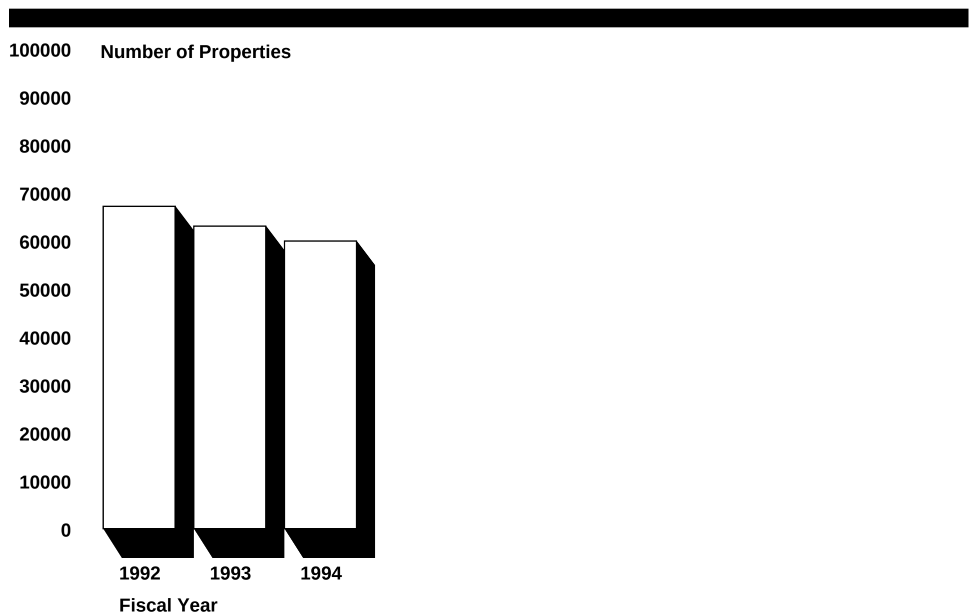
Note: The data supporting this figure appear in app. III, table III.7.

Source: GAO's analysis of SAMS data.

Single-Family Properties Acquired by HUD

Although HUD acquired an average of about 63,000 properties per year in fiscal years 1992 through 1994, it acquired fewer properties in each succeeding fiscal year. The number of properties acquired per year declined from about 67,000 in fiscal year 1992, to about 63,000 in fiscal year 1993, to just under 60,000 in fiscal year 1994. (See fig. 2.2.) In addition, about 42,000 borrowers who had defaulted were able to avoid foreclosure during this period by being accepted into HUD's mortgage assignment program.[1] HUD estimates that more than half of these loans will eventually go into foreclosure and the properties will be acquired by HUD.

Figure 2.2: Single-Family Properties Acquired Annually by HUD, Fiscal Years 1992-94



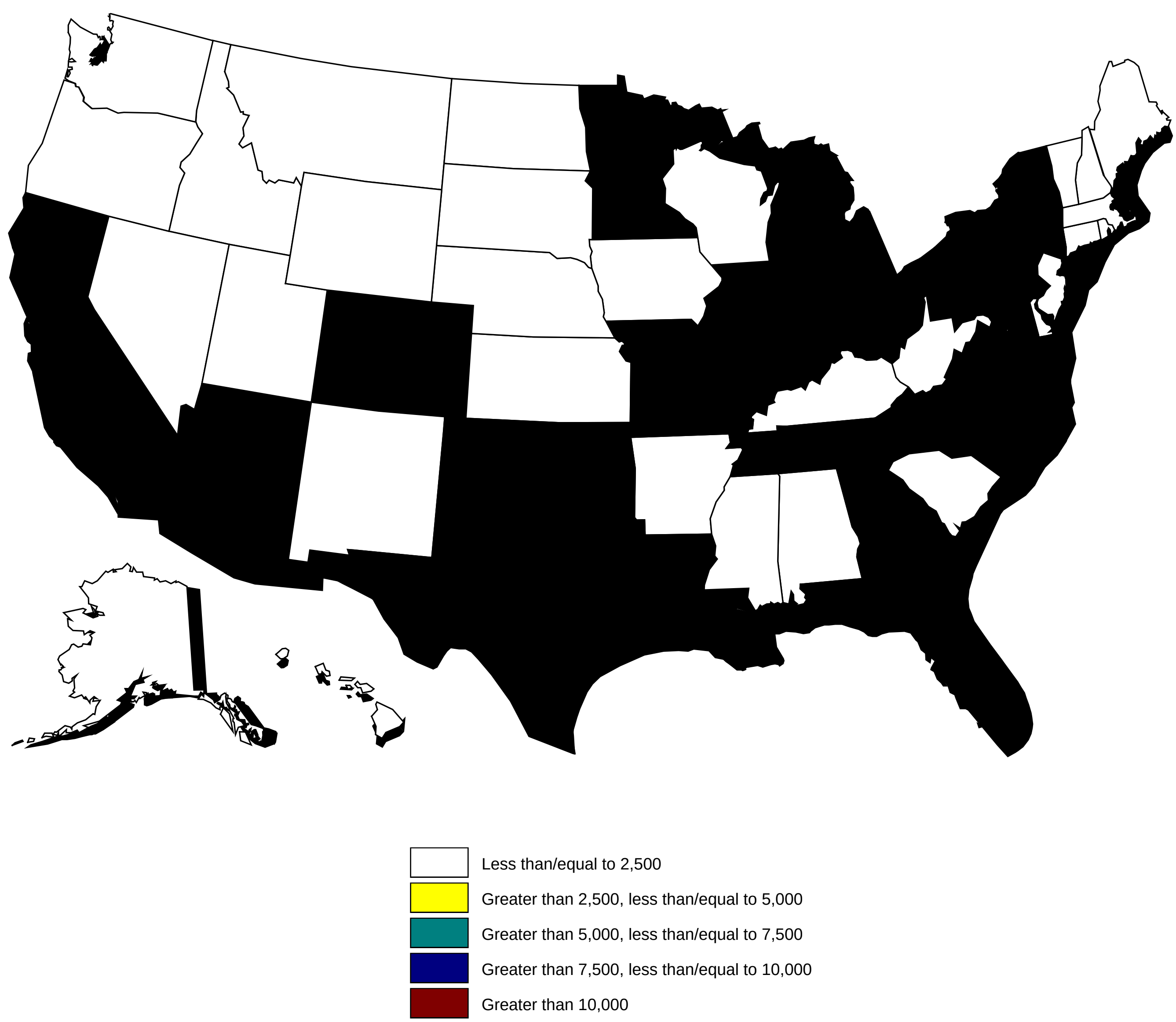
Note: The data supporting this figure appear in app. III, table III.7.

Source: GAO's analysis of SAMS data.

The properties acquired by HUD during fiscal years 1992 through 1994 were concentrated in relatively few states. Over half were located in seven states—Arizona, California, Florida, Georgia, Tennessee, Texas, and Virginia. About 30,000, or more than 15 percent of all the properties acquired by HUD during this 3-year period, were located in Texas. (See fig. 2.3.)

[1]As an alternative to foreclosure, HUD operates a mortgage assignment program. For borrowers accepted into the program, HUD pays the insurance claim, takes assignment of the loan, and develops a repayment plan for the borrower. Other alternatives to property acquisition include claims without conveyance of title and preforeclosure sales.

Figure 2.3: Geographic Distribution of Single-Family Properties Acquired During Fiscal Years 1992-94



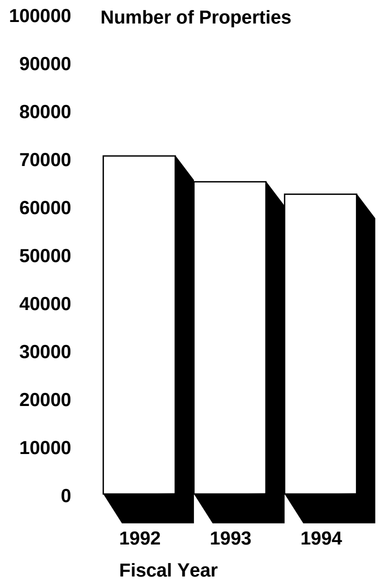
Note: The data supporting this figure appear in app. III, table III.8.

Source: GAO's analysis of SAMS data.

Single-Family Properties Sold by HUD

From fiscal year 1992 through fiscal year 1994, HUD sold an average of about 66,000 properties annually. The number of properties sold per year declined steadily, from about 70,000 in fiscal year 1992, to about 65,000 in fiscal year 1993, to about 62,500 in fiscal year 1994. (See fig. 2.4.)

Figure 2.4: Single-Family Properties Sold by HUD, Fiscal Years 1992-94

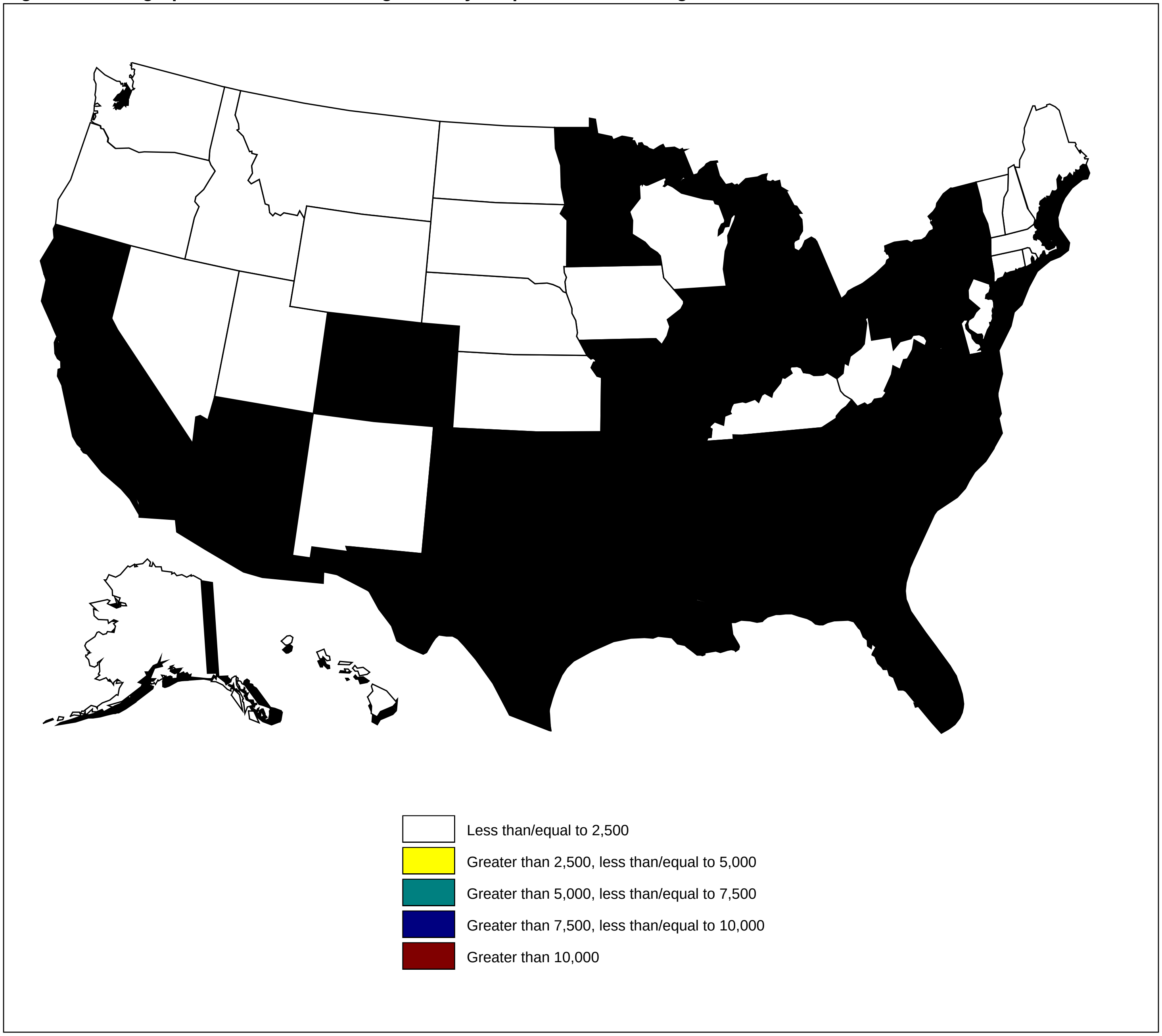


Note: The data supporting this figure appear in app. III, table III.7.

Source: GAO's analysis of SAMS data.

The properties sold by HUD during fiscal years 1992 through 1994 were concentrated in nearly the same states as the properties acquired by HUD. Over half were located in seven states—Arizona, California, Colorado, Florida, Georgia, Texas, and Virginia. The largest number of sales took place in Texas. Specifically, from fiscal year 1992 through fiscal year 1994, 32,561 sales, or 16.5 percent of all the sales during that period, occurred in Texas. (See fig. 2.5.)

Figure 2.5: Geographic Distribution of Single-Family Properties Sold During Fiscal Years 1992-94



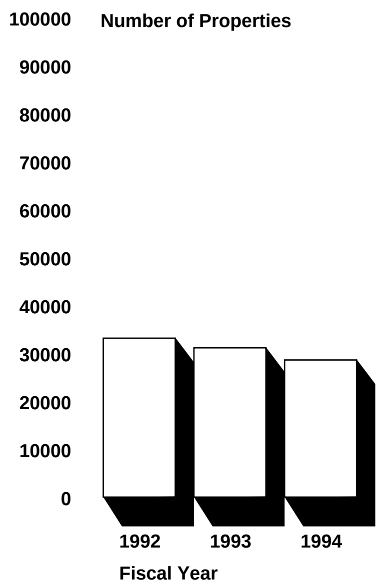
Note: The data supporting this figure appear in app. III, table III.8.

Source: GAO's analysis of SAMS data.

HUD's Inventory of Single-Family Properties to Manage and Sell

At any particular time, HUD has title to and responsibility for managing many thousands of single-family properties; the exact number of properties in inventory changes as new properties are acquired and acquired properties are sold. The number of properties held by HUD at the end of each fiscal year declined during the period of our review. HUD's inventory was reduced from 33,136 properties at the end of fiscal year 1992 to 28,587 properties at the end of fiscal year 1994. (See fig. 2.6.)

Figure 2.6: HUD's Ending Inventory of Single-Family Properties, Fiscal Years 1992-94



Note: The data supporting this figure appear in app. III, table III.7.

Source: GAO's analysis of SAMS data.

Length of Time That Single-Family Properties Remained in HUD's Inventory

The median time required for HUD to sell an acquired single-family property was about 5 months for the properties sold during fiscal years 1992 through 1994.[1] The properties that remained unsold as of September 30, 1994, had been in inventory a median length of 3 months. As discussed in section 1, the costs of acquiring, managing, and selling a single-family property typically exceed the revenues. These costs were higher for properties that remained in inventory for longer periods of time, while sales revenues generally were lower. Holding costs, in particular, are likely to increase with the length of time that a property remains in HUD's inventory. Declining sales revenues, however, may not be caused by the length of time that a property remains in inventory. HUD officials told us, for example, that properties take longer to sell in regions that are experiencing declining property values. Hence, the properties that remain in inventory for longer periods of time usually incur higher losses (sales revenue less costs) than the properties that remain in inventory for shorter periods of time.

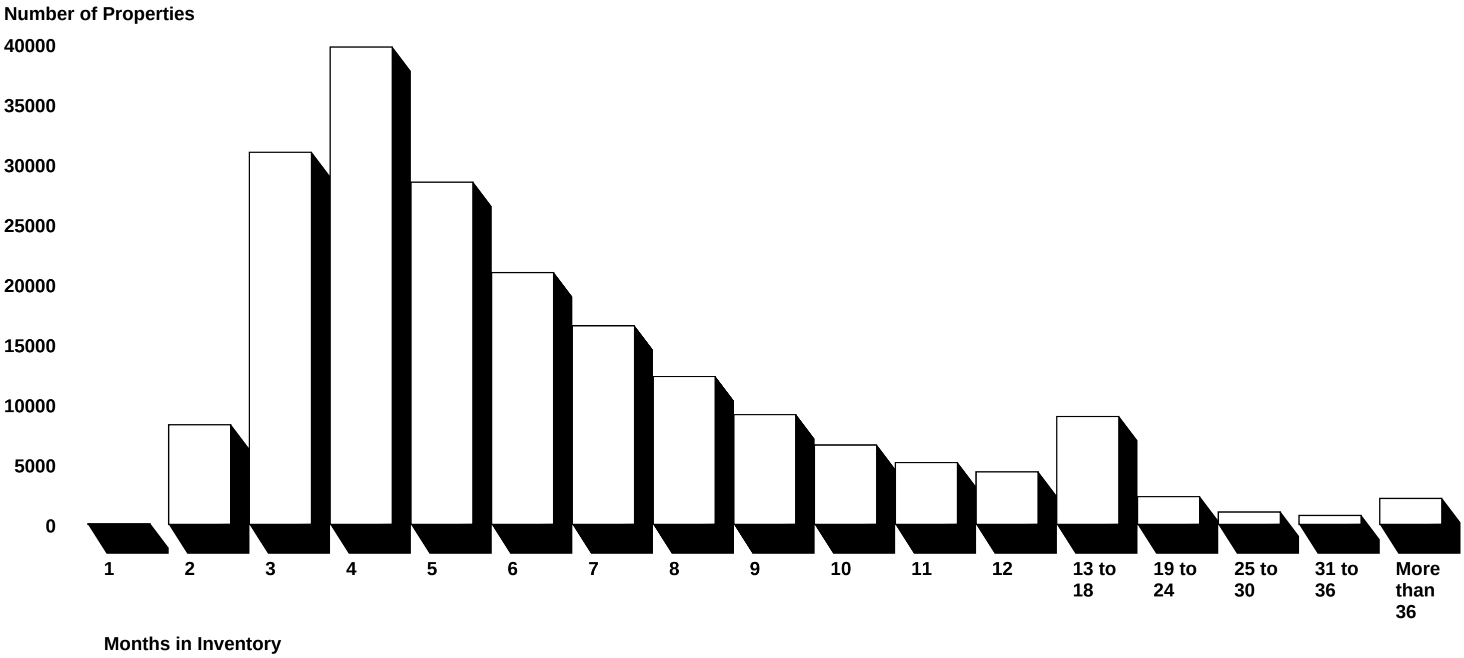
Length of Time That Single-Family Properties Sold by HUD Remained in Inventory

The properties sold in fiscal years 1992 through 1994 were in inventory a median of 4.7 months. However, the time required to sell any one property varied over a wide range, as shown in figure 3.1. About half of the approximately 198,000 properties sold during fiscal years 1992 through 1994 remained in inventory from 2 to 5 months. Only 8,350, or about 4 percent, of the properties sold during these years were sold in less than 2 months. About 75,000 properties, or 38 percent, were in inventory more than 5 months but no more than 12 months before being sold. The remaining 8 percent were in inventory more than 1 year before being sold. Among these properties, 2,166, or about 1 percent of all the properties sold, were in inventory more than 3 years before being sold.[2]

[1]To measure time in inventory, we used the number of days between the date that HUD acquired the property and the date that HUD reconciled the settlement statement with funds received by the U.S. Treasury. In contrast, according to HUD officials, industry measures the time in inventory from the date that the property is listed for sale to the date that a contract is accepted. HUD uses a measure similar to ours as well as a measure that uses the sales closing date. The reconciliation date should be within a few days of the closing date. (For more detailed discussion of this issue, see app. I.)

[2]While SAMS does indicate whether a property is currently being held off the market, it does not readily indicate whether a property has been held off the market in the past. According to HUD officials, for some properties included in our analysis, the time in inventory includes time during which the property was held off the market. Some of these properties may have been held off the market as part of a program for leasing properties to nonprofit organizations for housing homeless people or for other program purposes.

Figure 3.1: Time in Inventory for Single-Family Properties Sold During Fiscal Years 1992-94



Note: Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days in the year.

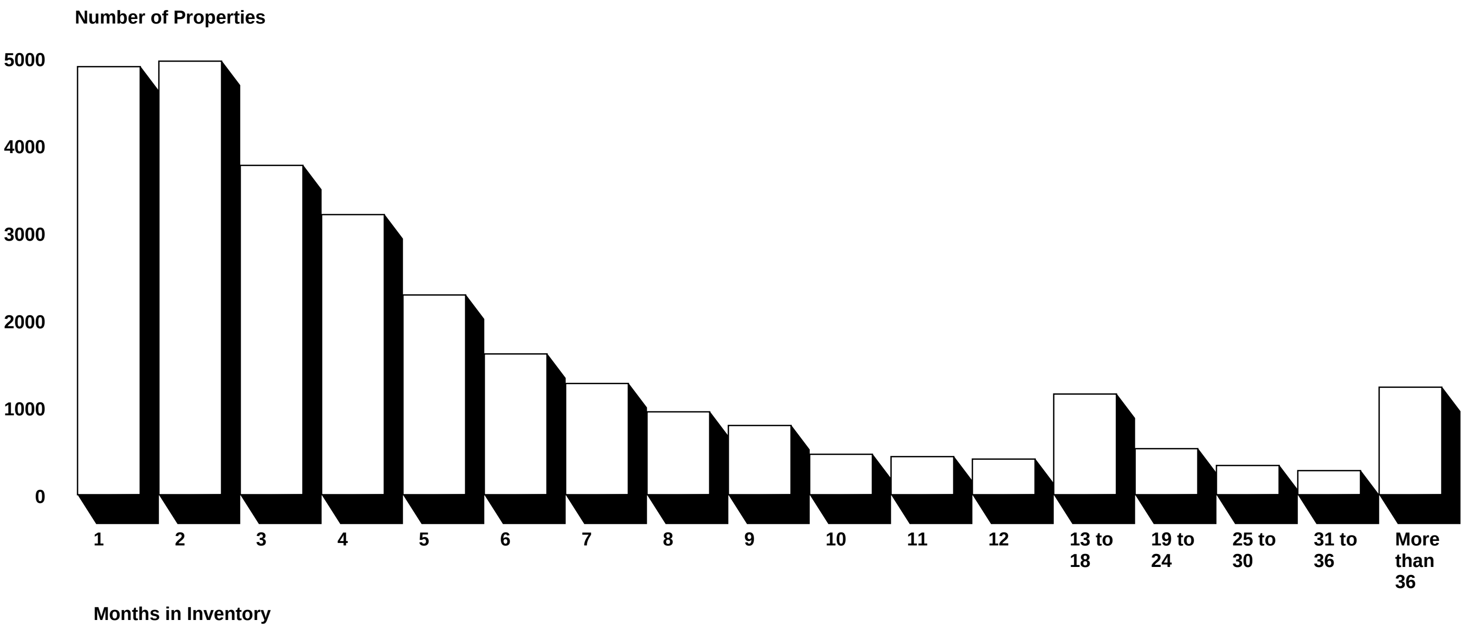
The data supporting this figure appear in app. III, table III.9.

Source: GAO's analysis of SAMS data.

Length of Time That Unsold Single-Family Properties Had Been in Inventory

As of September 30, 1994, HUD had 28,587 properties in inventory. Although HUD had owned these properties for a median of 3 months, the properties—like the properties that HUD sold—had been in inventory for widely varying periods of time, as shown in figure 3.2. Almost 60 percent of the properties that HUD held on September 30, 1994, had been acquired no more than 4 months earlier. In addition, about 29 percent had been acquired earlier in fiscal year 1994. The remaining 12 percent had been in inventory more than 1 year. Of these, 1,231, or 4.3 percent of all the unsold properties, had been in inventory more than 3 years.

Figure 3.2: Time in Inventory for Single-Family Properties That Remained Unsold as of September 30, 1994



Note: Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days in the year.

The data supporting this figure appear in app. III, table III.10.

Of the 28,587 properties in inventory as of September 30, 1994, 3,104, or about 11 percent, were being held off the market. HUD may hold properties off the market while carrying out certain administrative processes and assisting programs for the homeless and for other reasons. These properties made up an increasing portion of the properties in inventory for longer periods of time. In fact, over half of all the properties in inventory for longer than 18 months were being held off the market as of September 30, 1994.

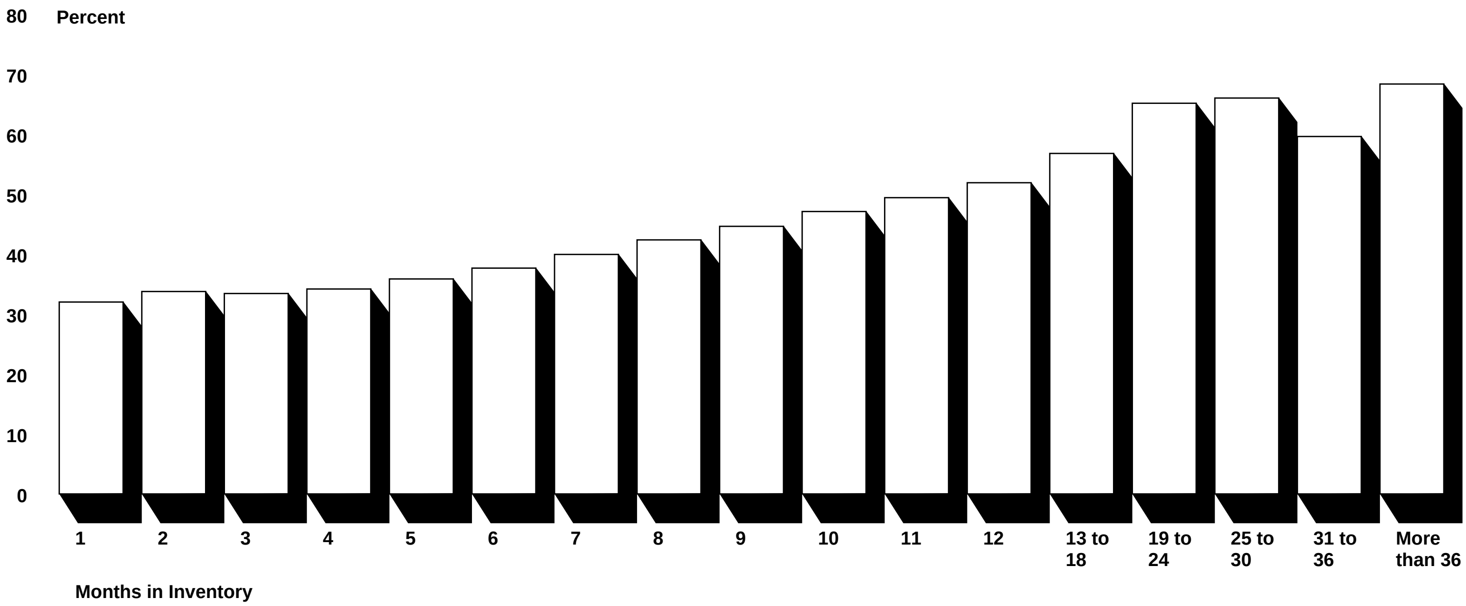
Source: GAO's analysis of SAMS data.

Relationship Between Losses and Time in Inventory

Properties that are in inventory for longer periods of time have proportionally higher losses than properties that are in inventory for shorter periods of time. In general, for every dollar spent to acquire a property, HUD incurred a higher loss for a property that was in inventory longer, as shown in figure 3.3. For example, losses represented 32 percent of the acquisition costs for properties that were sold within 1 month of being acquired. That is, for every dollar spent to acquire such properties, HUD ultimately lost 32 cents after the holding and selling expenses and the revenues received from the sale of the properties are taken into account.

For properties that were in inventory for about 12 months, HUD lost about 52 cents for every dollar spent to acquire the properties.

Figure 3.3: Distribution of Median Losses as a Percentage of Acquisition Costs, by Time in Inventory, for Single-Family Properties Sold During Fiscal Years 1992-94



Note: Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days in the year.

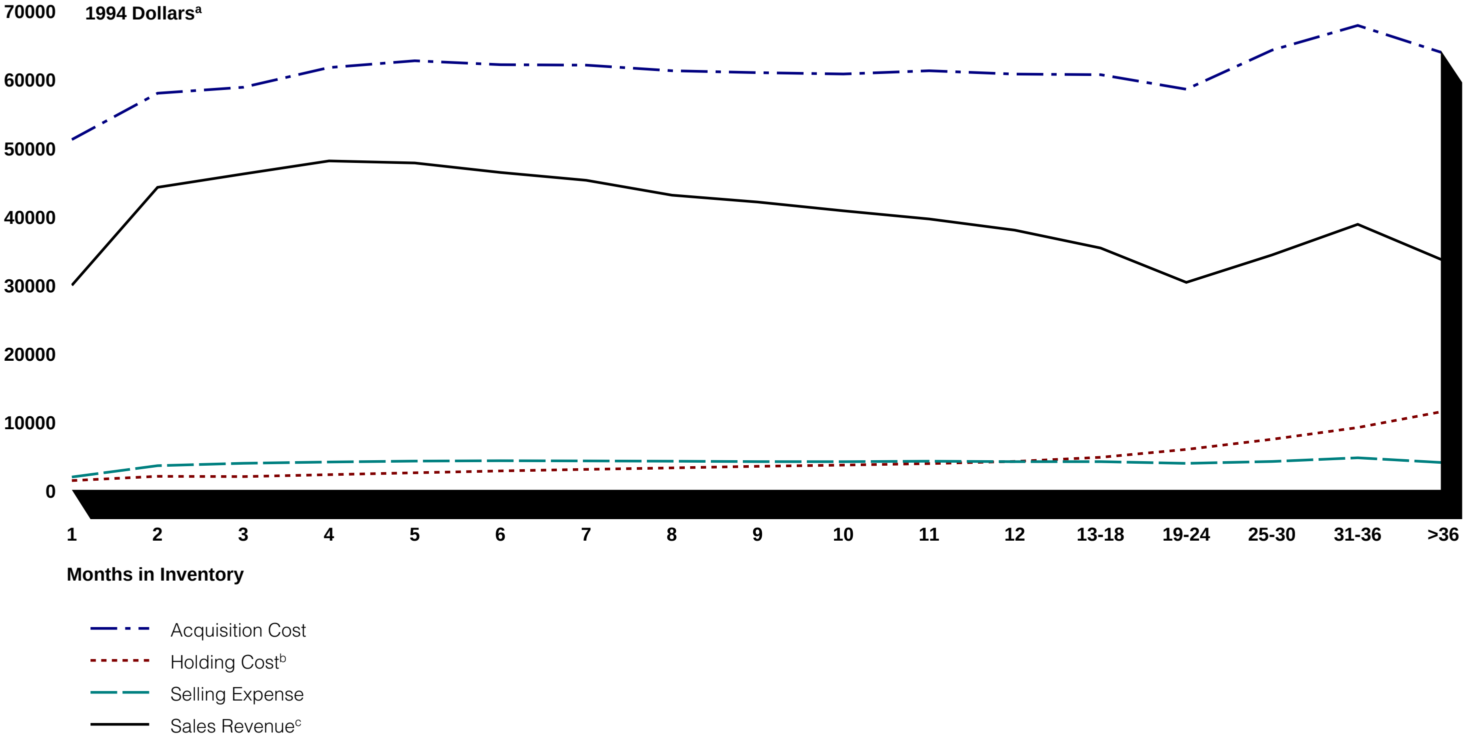
The data supporting this figure appear in app. III, table III.11.

Part of the higher losses for those properties that were in inventory for longer periods of time could be due to the effects of inflation. We could not control for this because not all costs for individual properties were incurred in the same year, and we could not identify the year(s) in which they were incurred.

Source: GAO's analysis of SAMS data.

As reported in section 1, the major costs that HUD incurs in disposing of single-family properties are the costs of acquiring, holding, and selling the properties. Of these three types of costs, the holding costs are most likely to increase with the length of time that a property remains in HUD's inventory. For example, the median holding costs for properties that were sold during the 12th month after being acquired were about twice as high (more than $4,100) as the median holding costs for properties that were sold during the 2nd month after being acquired (about $2,000). The median acquisition cost for properties sold during the 12th month was also somewhat higher (about $60,700) than the median acquisition cost for properties sold during the 2nd month (about $57,900). Similarly, the median selling expense was somewhat higher for properties sold during the 12th month (about $4,100) than for properties sold during the 2nd month (about $3,500). Conversely, the median sales revenue for properties sold during the 12th month (about $37,900) was lower than the median sales revenue for properties sold during the 2nd month (about $44,100). According to HUD officials, the price at which individual properties can be sold declines with time, while holding costs mount, and properties may take longer to sell in regions experiencing economic difficulty. (See fig. 3.4.)

Figure 3.4: Distribution of Median Costs and Revenue, by Time in Inventory, for Single-Family Properties Sold During Fiscal Years 1992-94



Note: Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days in the year.

The data supporting this figure appear in app. III, table III.12.

[a]Inflator is based on the fiscal year that the property was sold, not the date(s) that the cost(s) was incurred.

[b]Holding costs are costs associated with taxes, maintenance and operations, and repairs.

[c]Sales revenue is calculated as the sum of profit (loss), acquisition costs, holding costs, and selling expenses.

Source: GAO's analysis of SAMS data.

Objectives, Scope, and Methodology

Concerned about the costs that HUD incurs through its single-family property disposition program, the Chairman, Subcommittee on Housing and Community Opportunity, House Committee on Banking and Financial Services, asked us to obtain information on (1) the losses to FHA's insurance funds on single-family properties sold during the 3 fiscal years ending September 30, 1994, and the breakdown of the costs associated with these losses, (2) the number of properties that HUD acquired and sold over the 3-year period, and (3) the length of time that the properties remained in HUD's inventory before being sold.

To obtain information on the costs and revenues associated with HUD's single-family property disposition program, the number of properties that HUD acquired and sold, and the length of time that properties remain in inventory, we extracted data from HUD's automated SAMS. This system tracks the properties acquired and sold by HUD and contains extensive information on HUD's property disposition activities. Because SAMS did not become fully operational until fiscal year 1992 and no other source of comparable nationwide data was available for prior years, we limited our analysis to data from fiscal years 1992 through 1994.

We performed our analysis on properties acquired on or before September 30, 1994, excluding the following types:

- Several categories of single-family properties were HUD's responsibility to sell but were not a part of the FHA insurance programs; therefore, the costs of their acquisition and sale did not represent losses to the FHA funds. For example, HUD has managed and sold some properties acquired by the Department of Defense.
- For some properties, HUD's acquisition date was not recorded or was obviously incorrect (i.e., when the recorded date of acquisition was after the recorded date of sale).

We analyzed 197,922 properties that HUD sold in fiscal years 1992 through 1994 and 28,587 properties that remained in inventory as of September 30, 1994. We did not analyze profit and losses for 1,490 sold properties whose acquisition costs were reported as $0 as of September 30, 1994. These properties were likely to have been ones for which HUD had not yet paid an insurance claim. These cases would have distorted our estimates of loss per property and would have yielded a median loss amount that was lower than it should have been. As a result of these exclusions, our universe consisted of 196,432 properties.

To measure time in inventory, we used the date that HUD acquired the property and the date that HUD reconciled the sales closing settlement statement with funds received by the U.S. Treasury. HUD's Office of Insured Single-Family Housing believes that our estimates of the length of time the properties remain in HUD's inventory are slightly inflated because of the way in which we measured inventory time. They use a property's sales closing date as the ending date for time in inventory. We used the reconciliation date as our endpoint for time in inventory because it is consistent with that used by other key HUD organizational units, namely that of the accounting staff, which does not consider a property to have left inventory until the settlement statement has been reconciled. Likewise, a case in SAMS is considered "active" until the reconciliation has occurred. This definition of time in inventory was developed to help ensure that the reconciliation occurred in a timely manner, which had not always happened in the past. This lack of timely reconciliation contributed to the situation that resulted in the diversion of funds by sales closing agents in the 1989 Robin HUD scandal. Since HUD's policy is to reconcile the closing statement with the funds received by the U.S. Treasury within a very short time frame after the sales closing, our estimates of time in inventory should be at most only a few days longer than they would have been had we used the inventory measurement recommended by the Office of Single-Family Housing.

Also for analyses of time in inventory, we excluded four properties whose time in inventory was recorded as zero days (these were properties with invalid acquisition dates), in addition to the exclusions noted above, resulting in a universe of 197,918 properties sold during fiscal years 1992 through 1994. Thus, our inventory numbers may not match those published by HUD.

When we analyzed profit and loss together with time in inventory for sold properties, we excluded 1,493 properties whose acquisition costs and/or time in inventory were recorded as zero, thereby obtaining a universe of 196,429 sold properties.

Details on the components of acquisition costs are contained in HUD's single-family insurance claims system rather than in the SAMS system. We used data from the claims system to categorize the acquisition costs for all properties acquired during fiscal years 1992 through 1994. This analysis illustrates the relative magnitude of each type of cost associated with property acquisition. In regard to the analysis that we performed on the SAMS cost data, because our summary data did not show when the expenses were incurred, we adjusted the total cost figures to 1994 dollars, using the year of sale by HUD.

SAMS also does not allocate to individual properties the administrative expenses such as staff salaries that HUD incurs in acquiring, managing, and selling these properties. Therefore, we did not include HUD's administrative costs in our analysis of the program's losses and costs.

To illustrate the types of costs associated with property acquisition and disposition, we obtained several examples from HUD that they believe represent typical acquisition, holding, and sales expenses.

The data in this report are current as of September 30, 1994. We did not independently verify the accuracy of HUD's data, and we do not attest to its reliability. We worked closely with HUD officials and their SAMS database contractor to ensure a proper interpretation of the data. We then developed an appropriate methodology for using the data to estimate losses, costs, and revenues to the insurance funds for fiscal years 1992 through 1994. We performed our work from June 1994 through July 1995.

Acquisition Costs

Acquisition costs represent all of the expenses paid by or on behalf of a lender in connection with the foreclosure, acquisition, operation, protection and preservation, and conveyance of a property to HUD. Acquisition costs for properties are primarily paid on the basis of the initial insurance claims submitted by mortgagees to HUD. However, mortgagees may submit a supplemental claim within 6 months after the original claim is settled. According to HUD's contractor for the SAMS system, about 11.5 percent of the claims received are followed by a supplemental claim, and the average amount of a supplemental claim payment is $747.

Acquisition costs are specified in HUD Handbook 4330.4, REV-1, "FHA Single-Family Insurance Claims." The following list outlines the major categories of acquisition costs. In addition, other miscellaneous costs may be included in acquisition costs.

- Unpaid principal balance
- Disbursement for protection and preservation
  - Boarding
  - Debris removal
  - Doors
  - Lawn cutting
  - Locks
  - Photographs
  - Property inspections
  - Snow removal
  - Winterization
- Hazard insurance premiums
- Special assessments
- Taxes, ground rent, and water rates, which are liens prior to the mortgage
- Eviction
- Attorney/trustee fees
- Foreclosure and/or acquisition, conveyance (Note: Terminology for these costs may vary in different jurisdictions.)
  - Deed recording
  - Filing cost
  - Final abstracting
  - Process serving
  - Publication of foreclosure notice
  - Title order and review
- Interest on net claim amount
- Miscellaneous costs and deductions

Data for Figures Used in This Report

Table III.1: Total Costs, Revenues, and Losses From HUD's Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 1.1)

Dollars in billions

Item	Total
Cost	$13.97
Revenue[a]	9.21
Net loss	$4.76

Note: Dollar amounts are in 1994 dollars; inflator is based on the fiscal year in which the property was sold, not the date that the costs were incurred.

[a]Revenue is calculated as the sum of profit (loss) and cost.

Source: GAO's analysis of SAMS data.

Table III.2: Losses to FHA's Insurance Funds From the Sale of HUD's Single-Family Properties, Fiscal Years 1992-94 (Fig. 1.2)

Profit/loss	Number of properties
Profit or no loss	6,441
Loss less than/equal to $10,000	22,910
Loss greater than $10,000; less than/equal to $25,000	84,213
Loss greater than $25,000; less than/equal to $50,000	71,387
Loss greater than $50,000; less than/equal to $75,000	9,320
Loss greater than $75,000; less than/equal to $100,000	1,679
Loss greater than $100,000	482
Total number of properties sold	**196,432**

Note: Dollar amounts are in 1994 dollars; inflator is based on the fiscal year in which the property was sold, not the date that the costs were incurred.

Source: GAO's analysis of SAMS data.

Table III.3: Overall Costs of HUD's Single-Family Property Disposition Program for Properties Sold in Fiscal Years 1992-94 (Fig. 1.3)

Type of cost	Percent of total cost
Acquisition	88.8
Holding	4.9
Sales	6.2
Total[a]	**99.9**

[a]Does not equal 100 percent because of rounding.

Source: GAO's analysis of SAMS data.

Table III.4: Acquisition Costs for Single-Family Properties for Which Final Claims Were Paid During Fiscal Years 1992-94 (Fig. 1.4)

Type of acquisition cost	Percent of total acquisition cost
Unpaid principal balance	86.2
Interest expense	9.2
Taxes	2.6
Other[a]	2.1
Total[b]	**100.1**

Note: Data include partial and final claim payments, for conveyances only.

[a]Includes protection and preservation of the property, legal fees, and other miscellaneous costs and deductions associated with property acquisition. (For more detailed descriptions of acquisition costs, see app. II.)

[b]Does not equal 100 percent because of rounding.

Source: HUD's Single-Family Insurance Claims System.

Table III.5: Holding Costs for HUD's Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 1.5)

Type of holding cost	Percent of holding cost
Maintenance and operations	57.8
Repairs	25.1
Property taxes	17.1
Total	**100.0**

Source: GAO's analysis of SAMS data.

Table III.6: Change in Distribution of Holding Costs for Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 1.6)

Costs in percentages of total holding costs

	Type of holding cost			
Fiscal year	Maintenance and operation	Repairs	Property taxes	Total
1992	50.7	31.3	18.0	100.0
1993	58.5	24.5	16.9	99.9
1994	64.9	18.9	16.2	100.0

Note: Some percentages do not add to 100 percent because of rounding.

Source: GAO's analysis of SAMS data.

Table III.7: Acquisitions, Sales, and Ending Inventory of Single-Family Properties, Fiscal Years 1992-94 (Figs. 2.1, 2.2, 2.4, and 2.6)

Fiscal year	Number of properties acquired	Number of properties sold	Ending inventory
1992	67,149	70,421	33,136
1993	63,029	65,045	31,120
1994	59,923	62,456	28,587

Source: GAO's analysis of SAMS data.

Table III.8: Geographic Distribution of Single-Family Properties Acquired and Sold During Fiscal Years 1992-94 (Figs. 2.3 and 2.5)

State	Properties acquired	Properties sold
Alabama	2,389	2,610
Alaska	306	438
Arizona	11,881	12,965
Arkansas	2,434	2,628
California	17,652	12,732
Colorado	5,960	8,794
Connecticut	1,672	1,048
Delaware	136	122
District of Columbia	382	377
Florida	16,253	16,501
Georgia	8,076	8,547
Hawaii	30	15
Idaho	301	393
Illinois	6,210	6,600
Indiana	3,300	3,584
Iowa	682	739
Kansas	1,783	1,845
Kentucky	882	920
Louisiana	4,288	5,033
Maine	342	218
Maryland	3,308	2,999
Massachusetts	691	302
Michigan	5,969	6,095
Minnesota	6,571	6,691
Mississippi	2,378	2,685
Missouri	3,948	4,059
Montana	494	616
Nebraska	639	704

(continued)

State	Properties acquired	Properties sold
Nevada	1,582	1,485
New Hampshire	278	234
New Jersey	2,193	1,839
New Mexico	806	922
New York	4,602	4,130
North Carolina	3,582	3,696
North Dakota	665	823
Ohio	5,921	6,020
Oklahoma	5,907	6,988
Oregon	206	251
Pennsylvania	4,662	4,632
Puerto Rico	300	356
Rhode Island	240	186
South Carolina	2,496	3,493
South Dakota	205	281
Tennessee	6,759	7,355
Texas	29,521	32,561
Utah	1,559	1,935
Vermont	66	42
Virginia	7,561	7,700
Washington	598	702
West Virginia	211	231
Wisconsin	780	850
Wyoming	436	569
Missing[a]	8	381
Total	**190,101**	**197,922**

[a]We could not identify the location of these properties.

Source: GAO's analysis of SAMS data.

Table III.9: Time in Inventory for Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 3.1)

Months in inventory[a]	Number of properties
Less than/equal to 1	56
Greater than 1, less than/equal to 2	8,294
Greater than 2, less than/equal to 3	30,989
Greater than 3, less than/equal to 4	39,751
Greater than 4, less than/equal to 5	28,501
Greater than 5, less than/equal to 6	20,963
Greater than 6, less than/equal to 7	16,536
Greater than 7, less than/equal to 8	12,313
Greater than 8, less than/equal to 9	9,135
Greater than 9, less than/equal to 10	6,609
Greater than 10, less than/equal to 11	5,151
Greater than 11, less than/equal to 12	4,374
Greater than 12, less than/equal to 18	8,990
Greater than 18, less than/equal to 24	2,312
Greater than 24, less than/equal to 30	1,028
Greater than 30, less than/equal to 36	750
Greater than 36	2,166
Missing[b]	4
Total	**197,922**

[a]Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days of the year.

[b]We could not identify the time in inventory for these properties.

Source: GAO's analysis of SAMS data.

Table III.10: Time in Inventory for Single-Family Properties That Remained Unsold as of September 30, 1994 (Fig. 3.2)

Months in inventory[a]	Total number of properties	Number of properties held off market[b]	Percent of properties held off market
Less than/equal to 1	4,901	104	2.1
Greater than 1, less than/equal to 2	4,964	114	2.3
Greater than 2, less than/equal to 3	3,771	99	2.6
Greater than 3, less than/equal to 4	3,207	98	3.1
Greater than 4, less than/equal to 5	2,287	108	4.7
Greater than 5, less than/equal to 6	1,612	86	5.3
Greater than 6, less than/equal to 7	1,274	92	7.2
Greater than 7, less than/equal to 8	949	83	8.7
Greater than 8, less than/equal to 9	793	70	8.8
Greater than 9, less than/equal to 10	463	58	12.5
Greater than 10, less than/equal to 11	436	71	16.3
Greater than 11, less than/equal to 12	408	79	19.4
Greater than 12, less than/equal to 18	1,153	435	37.7
Greater than 18, less than/equal to 24	527	293	55.6
Greater than 24, less than/equal to 30	335	213	63.6
Greater than 30, less than/equal to 36	276	225	81.5
Greater than 36	1,231	876	71.2
Total	**28,587**	**3,104**	**10.9**

[a]Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days of the year.

[b]HUD may hold properties off the market while carrying out certain administrative processes and assisting programs for the homeless as well as for other reasons.

Source: GAO's analysis of SAMS data.

Table III.11: Distribution of Median Losses as a Percentage of Acquisition Cost, by Time in Inventory, for Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 3.3)

Months in inventory[a]	Median loss as a percent of acquisition cost[b]
Less than/equal to 1	32.0
Greater than 1, less than/equal to 2	33.8
Greater than 2, less than/equal to 3	33.4
Greater than 3, less than/equal to 4	34.2
Greater than 4, less than/equal to 5	35.9
Greater than 5, less than/equal to 6	37.7
Greater than 6, less than/equal to 7	39.9
Greater than 7, less than/equal to 8	42.4
Greater than 8, less than/equal to 9	44.6
Greater than 9, less than/equal to 10	47.1
Greater than 10, less than/equal to 11	49.4
Greater than 11, less than/equal to 12	51.9
Greater than 12, less than/equal to 18	56.8
Greater than 18, less than/equal to 24	65.2
Greater than 24, less than/equal to 30	66.0
Greater than 30, less than/equal to 36	59.6
Greater than 36	68.4

[a]Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days of the year.

[b]Part of the higher losses for properties that were in inventory for longer periods of time could be due to the effects of inflation. We could not control for this because not all costs for individual properties were incurred in the same year, and we could not identify the year(s) in which the costs were incurred.

Source: GAO's analysis of SAMS data.

Table III.12: Distribution of Median Acquisition, Holding, and Selling Costs and of Sales Revenue, by Time in Inventory, for Single-Family Properties Sold During Fiscal Years 1992-94 (Fig. 3.4)

Costs and revenues in 1994 dollars[a]

Months in inventory[b]	Median acquisition cost	Median holding cost[c]	Median selling expense	Median sales revenue[d]
Less than/equal to 1	51,116	1,351	1,872	29,847
Greater than 1, less than/equal to 2	57,879	1,973	3,525	44,147
Greater than 2, less than/equal to 3	58,747	1,932	3,875	46,097
Greater than 3, less than/equal to 4	61,625	2,215	4,061	47,998
Greater than 4, less than/equal to 5	62,613	2,489	4,195	47,698
Greater than 5, less than/equal to 6	62,043	2,760	4,247	46,313
Greater than 6, less than/equal to 7	61,974	2,986	4,219	45,172
Greater than 7, less than/equal to 8	61,159	3,202	4,179	42,999
Greater than 8, less than/equal to 9	60,880	3,435	4,118	41,998
Greater than 9, less than/equal to 10	60,683	3,613	4,108	40,717
Greater than 10, less than/equal to 11	61,158	3,831	4,179	39,527
Greater than 11, less than/equal to 12	60,670	4,147	4,111	37,893
Greater than 12, less than/equal to 18	60,582	4,747	4,113	35,286
Greater than 18, less than/equal to 24	58,457	5,896	3,862	30,273
Greater than 24, less than/equal to 30	64,165	7,377	4,137	34,276
Greater than 30, less than/equal to 36	67,767	9,088	4,675	38,745
Greater than 36	63,736	11,457	3,971	33,473

[a]Inflator is based on the fiscal year that the property was sold, not the date(s) the costs were incurred.

[b]Months 1 through 11 are set at 30 days each, and month 12 includes the remaining days of the year.

[c]Holding costs are costs associated with taxes, maintenance and operations, and repairs.

[d]Sales revenue is calculated as the sum of profit (loss), acquisition costs, holding costs, and selling expenses.

Source: GAO's analysis of SAMS data.

Major Contributors to This Report

Resources, Community, and Economic Development Division, Washington, D.C.

Robert S. Procaccini, Assistant Director
Mathew J. Scire, Senior Evaluator
Barbara A. Johnson, Senior Evaluator/Computer Specialist
Sara Ann W. Moessbauer, Senior Operations Research Analyst
Larry A. Goldsmith, Senior Evaluator

Chicago/Detroit Field Office

Susan E. Swearingen, Evaluator-in-Charge
Jimmie Gilbert, Senior Evaluator
John A. Wanska, Senior Evaluator
Frank Zbylski, Senior Operations Research Analyst

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