UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CLAIMS DIVISION
IN REPLY PLEASE QUOTE

JAN 21 1972

B-117604(13)

Dear Mr. Gulledge:

During fiscal year 1971 we reviewed debt collection operations and regulations pertaining to title I debts at the central office of the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), Washington, D.C., and at the Insuring Office in Hempstead, New York, which was then included in Region I. These debts were generated under title I, section 2, of the National Housing Act, as amended (12 U.S.C. 1703).

Our purpose was to determine whether FHA collection procedures were in compliance with the Federal Claims Collection Act of 1966 (31 U.S.C. 952) and the implementing Joint Standards (4 CFR 101-105) promulgated by the Comptroller General and the Attorney General of the United States pursuant to section 3 of the act.

We were informed by FHA officials that administrative policies and procedures relating to the processing of these defaulted loans were contained in FHA Manual, volume IX, Title I Collection Handbook. In discussing these regulations, we were also informed that the revision of the handbook, which had not been revised after passage of the Federal Claims Collection Act of 1966, was in draft form. Implementing codified regulations to the act were not issued by HUD until July 24, 1971. (See Federal Register, vol. 36, No. 143, page 13781.)

Although there are some points on which the Joint Standards and the present handbook are not in agreement, the differences are not of major significance. Since the handbook is being revised, we shall not comment upon the differences at this time. We have discussed the draft copy of the revision of the handbook with FHA officials and have suggested several appropriate changes.

PROPERTY IMPROVEMENT LOAN INSURANCE

If an insured title I loan becomes uncollectible, a lender may file a claim with FHA for 90 percent of the outstanding balance. Upon payment to the lending institution, the United States becomes subrogated to the rights of the lender. Defaulted loans are assigned by the FHA central office to FHA insuring offices located in the geographic areas in which debtors reside. Collection action is then undertaken by a title I representative (TIR).

REVIEW OF DEBT CASES IN THE CENTRAL OFFICE

The title I Liquidation Section, Office of the Assistant Commissioner for Property Improvement, is responsible for recovering title I defaulted loan accounts, for transmitting accounts to field offices, for giving advice and assistance when requested by TIRs, for making final reviews and determining actions to be taken on accounts closed by field offices, and for maintaining a perpetual inventory of accounts on hand in each of the field offices. The section also evaluates all compromise cases and makes recommendations.

Sixty-six cases were selected at random from claims which had been returned to the Liquidation Section by the insuring offices in the regions. In 54 of the cases, TIRs returned the claims because the debtors were in ill health or in nursing homes; because they were bankrupt, deceased, or unemployed; or because they had made an offer in compromise. In the 12 remaining claims (approximately 18 percent), TIRs ceased collection action because the debtors could not be located. We suggested that the assistance of the Internal Revenue Service could be of value in attempting to locate a debtor if his social security number could be furnished. It appears that FHA does not request an applicant to furnish this information. We believe that this information should be requested by FHA on its applications and other forms.

INDEBTEDNESS OF FEDERAL EMPLOYEES

If the debtor is a Federal employee, it is the practice of FHA to request the personnel director of the employing department to assist in collecting the debt and to take setoff action, if necessary, against final salary and accrued leave payments. At this point no attempt is made to establish a claim against the debtor's Civil Service Retirement account. In the collection of debts of military personnel, assistance is requested from the debtors' commanding officers, and, if unsuccessful, the matters are reported to the personnel directors of the services concerned for setoff against final pay.

In the absence of payment by a debtor who is employed by the Government, it is the practice of GAO to refer the matter to the head of the agency (or his delegated representative) in which the debtor is employed to request collection assistance. At that time GAO also requests that, if the debt has not been liquidated at date of separation, unpaid amounts due the debtor be applied and a stoppage be placed against his Civil Service Retirement account. Military retired pay is not available for setoff without the consent of the debtor.

STATUTE OF LIMITATIONS

In the past collection letters have been issued by the central office once or twice a year on so-called uncollectible claims in an attempt to place the account in an active repayment status. With the passage of the act of July 18, 1966 (28 U.S.C. 2415), suits for money damages, founded on a contract in which the right of action arose prior to enactment, must be filed by July 18, 1972. In the event of partial payment by the debtor or written acknowledgment of the debt, the right of action is deemed to accrue again at the time of each payment or acknowledgment.

In view of this statute, FHA has been screening its old files on each debt amounting to $400 or more, and to date over 6,000 claims have been returned to an active status. At the time of our review, reports had not been received from all of the regions on this reactivated program, but, from those which had responded, indications were that the amounts collected would be substantial.

We found the collection operations in the central office to be timely and generally in compliance with the Federal Claims Collection Act and the Joint Standards.

HEMPSTEAD INSURING OFFICE

In fiscal year 1970 the three TIRs in Hempstead were handling a monthly average of 1,100 cases compared with the national monthly average of 616 cases. The FHA central office prepares information quarterly on the field collection activities and relative standings of its 54 TIRs. The three TIRs in Hempstead ranked sixth, second, and first nationally in the amounts which they recovered, and their costs were among the lowest of all the 54 TIRs.

In fiscal year 1971, four more regions were added to the original six and the area of the Hempstead Insuring Office was redesignated as Region II. While the national average number of cases per month increased to 628 during the first three quarters of fiscal year 1971, the average monthly case load for the three Hempstead TIRs increased to 1,177.

The delays which we encountered in the review of claims under active consideration in the Hempstead Insuring Office were not serious and appeared to be attributable to the heavy case loads which the TIRs carried. Of the 111 claims which we selected at random, 39 were handled in an adequate manner, but the remaining 72 claims had delays in excess of 30 days between collection letters, and the last action taken in these cases exceeded 1 month.

DEFAULTS

Preliminary data developed in the sample of FHA claims handled by the Hempstead Insuring Office indicate that more than 41 percent of the defaults occur within the first year after issuance of the loan. We contacted, and obtained information from, several commercial lending institutions to determine if this percentage was unusual when compared with their experience figures. We found that the experience of FHA compared favorably with that of commercial lending institutions. An official at one of the commercial banks informed us that it was general knowledge in the trade that, if a loan was going to go into default, it would probably do so during the first year. From information available in the central office, this appears to be true in all regions.

Default experience accumulated by a savings and loan association illustrates this point.

Association's Own Loans

Default period	Percent
1 to 6 months	22
6 to 12 months	19
	41

FHA-Insured Loans

Default period	Percent
1 to 6 months	15
6 to 12 months	21
	36

We also found that the overall default rate (percentage of the number of loans defaulted to the number of loans issued) experienced on FHA-insured loans was generally lower than those of commercial institutions on similar types of loans shown below.

Commercial institutions and FHA	Default rate
Savings and loan company	2.19
City bank	1.29
Credit corporation	1.90
Federal Housing Administration	1.56

RECOMMENDATIONS

We recommend that FHA:

1. Take the necessary steps to obtain social security numbers for all liable parties and, when this information is available, seek the assistance of the Internal Revenue Service in attempting to locate debtors.

2. Establish a claim against the debtor's Civil Service Retirement account at the time collection assistance is requested.

We shall appreciate being informed of the actions taken or planned on the matters discussed in this report.

The splendid cooperation received from your staff members both in Washington and Hempstead is also appreciated. If at any time we may be of assistance, please let us know.

Sincerely yours,

James M. Campbell

Director, Claims Division

The Honorable Eugene A. Gulledge
Assistant Secretary for Housing
Production and Mortgage Credit 750
and Federal Housing Commissioner 227
Department of Housing and Urban
Development