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GAO
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Highlights

Highlights of GAO-12-592, a report to congressional requesters

RECOVERY ACT

Tax Debtors Have Received FHA Mortgage Insurance and First-Time Homebuyer Credits

Why GAO Did This Study

Under a Recovery Act provision that increased mortgage insurance loan limits, FHA insured $20 billion in mortgages for 87,000 homeowners. The Recovery Act also provided for the awarding of an estimated $12 billion of FTHBCs to 1.7 million individuals. GAO was asked to determine the (1) extent to which tax debtors benefited from the Recovery Act's provisions for increased FHA loan limits and the FTHBC, and (2) challenges, if any, FHA faces in preventing ineligible tax debtors from receiving mortgage insurance. Using IRS and FHA data, GAO identified Recovery Act recipients and compared them to federal tax debtors as of June 30, 2010. GAO reviewed relevant policies and interviewed agency officials and lenders. GAO also reviewed detailed IRS and FHA documents for a nonrepresentative selection of 18 individuals who received FHA mortgage insurance. These were selected based on a combination of factors, such as amount of taxes owed and number of delinquent tax periods. Due to data availability and other factors, GAO was able to completely evaluate only 8 of 18 individuals on their eligibility for FHA mortgage insurance. These cases cannot be generalized beyond those presented.

What GAO Recommends

HUD should (1) consult with IRS to require lenders to collect more reliable tax debt information from applicants and (2) provide lenders with revised policies or guidance, including the consideration of tax liens, for approving FHA mortgage insurance. HUD agreed with the recommendations.

View GAO-12-592. For more information, contact Greg Kutz at (202) 512-6722 or kutzg@gao.gov.

What GAO Found

The Federal Housing Administration (FHA) insured over $1.44 billion in mortgages for 6,327 borrowers with $77.6 million in federal tax debt who benefited from the 2009 American Recovery and Reinvestment Act. Of these borrowers, 3,815 individuals claimed and received $27.4 million in Recovery Act First-Time Homebuyer Credits (FTHBC). This analysis includes tax debtors who (1) benefited from FHA's increased loan limits, or (2) claimed the FTHBCs and received FHA mortgage insurance of any value. Federal policy makes delinquent tax debtors ineligible for FHA mortgage insurance unless they repay their debt or are in a valid repayment agreement with the Internal Revenue Service (IRS), but the FTHBC, like all tax credits, was available to those who qualified, regardless of their tax debt. GAO could not determine the proportion of borrowers who were ineligible for FHA insurance because GAO could not systematically identify which of the 6,327 borrowers were in valid repayment agreements using the data GAO received from IRS. However, GAO did find that 5 of the 8 borrowers completely evaluated were ineligible because they were not in valid repayment agreements at the time they obtained FHA mortgage insurance. In addition, GAO found that Recovery Act borrowers with unpaid taxes had foreclosure rates two to three times greater than borrowers without unpaid taxes, which potentially represents an increased risk to FHA.

Some ineligible tax debtors received FHA mortgage insurance, in part, due to shortcomings in the capacity of FHA-required documentation to identify tax debts, and shortcomings in other policies that lenders may misinterpret. Lenders must perform steps to identify an applicant's federal debt status, but sources commonly used, such as the loan application and credit report, do not reliably indicate an applicant's tax debt. Statutory restrictions generally prohibit the disclosure of taxpayer information, such as tax debt, without the taxpayer's consent. Lenders are already required to obtain such consent through an IRS form they use to validate the income of some applicants. This same form could also be used to obtain permission from applicants to obtain reliable tax-debt information directly from IRS, but doing so is not addressed in FHA policies. Requiring lenders to collect more reliable information on tax debts could better prevent ineligible tax debtors from obtaining FHA mortgage insurance. Further, FHA's policies requiring lenders to investigate whether tax liens indicate unresolved tax debt are unclear and may be misinterpreted. The lenders GAO spoke with believed they were in compliance with FHA's policies when they provided FHA-insured loans to applicants with tax liens and no repayment agreements, but FHA officials indicated otherwise. As a result of these shortcomings, lenders may approve federally insured mortgages for ineligible applicants with delinquent tax debt in violation of federal policies.