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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-201669

FEBRUARY 9, 1981

The Honorable Samuel R. Pierce, Jr.
Secretary of Housing and
Urban Development



Dear Mr. Secretary:

Subject: HUD's Payment of Distributive Shares from the
Mutual Mortgage Insurance Fund (CED-81-44)

This report reviews the manner in which the Department of Housing and Urban Development (HUD) administers certain aspects of the Mutual Mortgage Insurance (MMI) Fund.

Title II of the National Housing Act of 1934 authorized a national mutual mortgage insurance program and established the Mutual Mortgage Insurance Fund. This program allows single-family homes to be purchased with small downpayments and long-term mortgages and insures lenders against loss from defaulted mortgage loans. HUD charges insured lenders annual premiums which are passed on to mortgagors as a part of their installment payments. The mutual aspect of the insurance program requires HUD to pay a dividend to eligible mortgagors when their mortgages are paid in full. The dividends, referred to as distributive shares, represent program income not needed to pay operating costs and insurance losses.

Our review showed that HUD's efforts to pay distributive shares have not been effective and that as of March 1980, 198,000 homeowners who were due a total of \$52 million in such shares had not received payment. The major problem is HUD's inability to locate mortgagors after the mortgages have been paid in full. Following our discussions of this matter with various HUD officials, some procedural changes were undertaken to inform mortgagors of potential distributive shares due them and to obtain forwarding addresses of mortgagors who move away from insured properties. We believe, however, that additional actions are needed for HUD to adequately discharge its responsibility to properly pay these distributive shares.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Our past audits of the financial statements of HUD's insurance funds disclosed a substantial increase in the balances of distributive shares payable from the MMI Fund. We undertook this review to determine the problems causing this increase and how they could be corrected.

To determine the problems causing the increase in unpaid shares and whether they could be corrected, we

- analyzed HUD's system and procedures for computing and paying distributive shares,
- evaluated the reliability of the data generated by the system,
- discussed means for locating persons with officials of the Internal Revenue Service (IRS) and the Social Security Administration,
- asked selected eligible mortgagors whether they had been informed about distributive shares, and
- discussed our findings and our proposals with HUD insurance officials and officials of mortgagee companies to determine that they were valid.

We did not select statistical samples of mortgagees and mortgagors for discussing these matters. These discussions were held to corroborate our findings, with which HUD insurance accounting officials had agreed.

We limited our audit work to the Washington, D.C., area and to HUD headquarters where distributive shares are computed and paid through a centralized operation.

HUD'S PROCEDURE FOR PAYING
DISTRIBUTIVE SHARES IS NOT EFFECTIVE

Through 1968, HUD paid most of the distributive shares declared. Unpaid shares ranged from less than 1 to about 3 percent each year. Since 1968, however, the portion of unpaid shares has substantially increased until in 1980, unpaid shares were about 20 percent of the shares declared. Overall, as of March 31, 1980, there were 198,000 unpaid shares totaling \$52

million--a substantial increase from the 20,000 unpaid shares totaling \$1.2 million at June 30, 1968.

HUD insurance officials told us that the increase in unpaid shares is due largely to an inability to locate mortgagors after their mortgages are paid off. We found that this problem is caused by the following conditions:

- HUD does not have an effective procedure for informing mortgagors about possible premium refunds, and, therefore, thousands of mortgagors are unaware that they may be due such payments.
- HUD depends on mortgagees to provide mortgagors' mailing addresses; however, forwarding addresses often are not provided. HUD's procedures do not specifically require providing forwarding addresses.
- HUD does not have an effective alternate procedure for locating mortgagors when its routine tracer procedures fail. As a result, unpaid shares accumulate until claimed or written off.

While HUD insurance program officials have been aware of the increases in the number of unpaid shares, we believe little had been done to correct the problem. As a result of our findings, however, HUD is developing a handbook change in an effort to correct the first two of the above conditions.

Mortgagors not informed of possible refunds

In the process of insuring mortgages under the MMI program, HUD has no routine contact with mortgagors until paying the distributive shares. Mortgagors apply for insurance, pay insurance premiums, and terminate insurance through mortgagees. HUD relies on mortgagees for this contact, and instructions for carrying out this responsibility are found in HUD handbooks.

We found that the current handbooks do not instruct mortgagees to inform mortgagors about distributive shares from the MMI Fund and that, consequently, mortgagees have not routinely informed mortgagors about distributive shares.

We talked to 25 mortgagors in the Washington, D.C., area who were recently paid shares that had been outstanding for

1 year or more. Most of them told us they had been unaware of any refund until they received the HUD notification of a distributive share due. Six of them told us that they had learned about the refunds from other sources and then inquired at HUD. They all told us that if they had known about the refunds at the time they paid off their mortgages, they would have inquired about them. We also talked to another 25 mortgagors whose mortgages were about to mature. All were unaware that they may be entitled to a distributive share.

In an effort to correct this condition, HUD's handbook change being developed instructs mortgagees to inform mortgagors at insurance termination that they may be due distributive shares. While, in our opinion, this is an important step in reducing the problem of unpaid shares, we believe that the instructions should be expanded to assure that information provided to mortgagors is adequate to inform them that they may be due distributive shares and that all mortgagees provide the same information.

HUD insurance officials agreed that providing such specific information would help them inform mortgagors about distributive shares. Also, officials of several mortgage companies told us that they could comply with revised procedures for disseminating this information to mortgagors.

Mortgagors' forwarding addresses needed

Mortgagors' mailing addresses are furnished to HUD when mortgagees submit insurance termination requests. The information from the termination requests becomes part of an automated data processing system which computes the share amounts and prepares notices informing mortgagors that they are due shares and requesting certain confirming information. Many notices are returned as undeliverable because mortgagors have moved away from insured properties. Since HUD has no forwarding addresses for these mortgagors, it is often unable to inform them of distributive shares due.

We found that mortgagees were generally unaware of HUD's need for forwarding addresses and that HUD's current handbooks do not establish the necessity of providing this information.

To correct this condition, the handbook change that HUD is developing will require mortgagees to provide HUD with mailing addresses where mortgagors can be reached subsequent to

insurance termination. We believe that this change will enable HUD to substantially decrease the number of share notices that are returned as undeliverable.

Officials of several mortgage companies with whom we talked told us that they could comply with new procedures to obtain forwarding addresses on insurance termination requests. Also, mortgagors we talked to told us that they would have provided HUD with correct addresses if they had been aware of the need.

Alternate procedure needed
for locating mortgagors

When undeliverable share notices are returned to HUD and when correct addresses are not obtained from mortgagees, HUD solicits forwarding addresses from local post offices and information from current occupants of the property; however, these tracer procedures have not been very successful. HUD does not do anything else to locate the mortgagors, and the shares remain in a payable account until claimed or written off.

We believe that HUD needs an effective alternative for locating mortgagors when routine procedures fail. The Internal Revenue Service provides a mail forwarding service, available to Federal agencies for a nominal charge, that HUD could use to locate mortgagors. To provide this service, however, IRS must have mortgagors' social security numbers, which HUD does not obtain under its existing procedures. HUD insurance officials agreed that social security numbers should be requested and that the IRS forwarding service could be used as a last resort for locating mortgagors.

RECOMMENDATIONS

The procedural changes currently being developed by HUD should improve the effectiveness of paying future distributive shares to mortgagors. To further strengthen that effort and to provide for an alternate method of locating mortgagors, we recommend that you instruct the Director of Mortgage Insurance Accounting to

- develop a fact sheet explaining premium refunds for mortgagees to give mortgagors both at the time of loan origination and at insurance termination and

--request mortgagors' social security numbers on termination requests and use the IRS mail forwarding service as an alternate means of locating mortgagors when routine procedures fail.

HUD insurance accounting officials agreed to implement these recommendations.

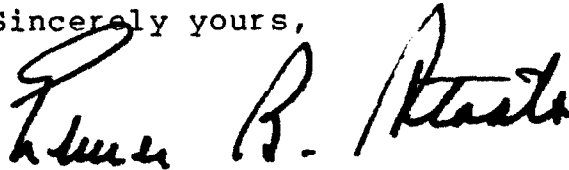
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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and the Commissioner, Internal Revenue Service.

We appreciate the courtesies extended to our representatives during our review. We would appreciate receiving your comments on any actions you take or plan to take on the matters discussed in the report.

Sincerely yours,



Comptroller General
of the United States