

Highlights of [GAO-13-439T](#), a testimony before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

HUD operates programs that provide mortgage insurance to homebuyers and subsidize the rents of low-income households. In recent years, HUD's FHA has experienced dramatic growth in its insurance portfolio. Expenditures for HUD's rental voucher program also have risen substantially. Through the MTW demonstration program, HUD has sought to reduce costs and achieve greater cost-effectiveness in federal expenditures for rental housing.

This testimony discusses (1) the financial condition of FHA's insurance fund and FHA's risk management, (2) the costs of the voucher program and options to increase its efficiency, and (3) HUD's efforts to evaluate and monitor the MTW program.

This testimony draws from GAO reports on FHA's insurance fund and oversight capacity ([GAO-10-827R](#) and [GAO-12-15](#)), HUD's voucher program ([GAO-12-300](#)), and HUD's MTW program ([GAO-12-490](#)). GAO also reviewed updated information on the insurance fund and voucher subsidy reserves as of the end of 2012.

What GAO Recommends

GAO has made a number of recommendations to improve FHA's risk management, and FHA has taken some actions. GAO also recommended that HUD consider proposing to Congress options for improving the efficiency of the voucher program. HUD neither agreed nor disagreed and has not yet proposed such options. In addition, GAO recommended that HUD improve MTW information and monitoring. HUD partially agreed with these recommendations and has taken initial steps to improve performance data.

View [GAO-13-439T](#). For more information, contact Mathew Scire` at (202) 512-8678 or Sciremj@gao.gov.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Opportunities to Improve Management of Mortgage Insurance and Rental Assistance Programs

What GAO Found

The Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) faces financial and risk-management challenges. For the fourth straight year, capital reserves for FHA's Mutual Mortgage Insurance Fund are below the statutory minimum. Also, declining balances in the fund's capital reserve account have heightened the possibility that FHA will require additional funds to have sufficient reserves for all future insurance claims on its existing portfolio. Further actions could help to restore FHA's financial soundness. For example, GAO previously concluded that Congress or HUD needs to determine the economic conditions the fund would be expected to withstand without drawing on Department of the Treasury funding. With regard to risk management, FHA has made or plans improvements. For example, FHA implemented an initiative in 2009 to strengthen internal controls and risk assessment for single-family housing and created a risk office in 2010. However, FHA has only recently begun to integrate these activities and conduct annual risk assessments in accordance with HUD guidance. Without integrated and updated risk assessments that identify emerging risks, as GAO recommended, FHA lacks assurance that it has identified all its risks.

Congress and HUD have taken steps to limit cost increases in the Housing Choice Voucher (voucher) program while maintaining assistance for existing program participants. Nonetheless, between 2003 and 2010, program expenditures grew about 9 percent (after adjusting for inflation), mainly due to rising rents, declining household incomes, and decisions to expand the number of assisted households. GAO identified options that, if implemented effectively, could reduce the need for new appropriations, cut expenditures, or increase the number of households assisted. These options include (1) reducing the subsidy reserves (unspent funds) of state and local housing agencies that administer the program, (2) streamlining administrative requirements, and (3) implementing rent reforms and consolidating voucher administration. These options would also involve trade-offs, such as higher rent burdens for low-income households.

Opportunities exist to improve how HUD evaluates and monitors the Moving to Work (MTW) program, which is intended to give state and local housing agencies flexibility to design and test innovative strategies for providing housing assistance. HUD's guidance does not specify that performance information collected from participating housing agencies be outcome-oriented, and HUD has not identified performance indicators for the program. In addition, HUD has not developed a systematic process for identifying lessons learned from the program, which limits HUD's ability to promote useful practices for broader implementation. HUD also has not taken key monitoring steps set out in internal control standards, such as issuing guidance that defines program terms or assessing compliance with all the program's statutory requirements. As a result, HUD lacks assurance that agencies are complying with statutory requirements. Also, without more complete information on program effectiveness and compliance, it will be difficult for Congress to know whether an expanded MTW program would benefit additional agencies and the residents they serve. Consistent with GAO recommendations, HUD has begun to revise guidance on MTW performance reporting.