

GAO Highlights

Highlights of [GAO-19-228](#), a report to the Chairwoman, Committee on Financial Services, House of Representatives

Why GAO Did This Study

HUD insures single-family mortgage loans and is authorized to sell defaulted loans under the National Housing Act. In fiscal years 2010–2016, FHA auctioned off approximately 111,000 loans to private purchasers under DASP. DASP helped reduce a backlog of federally insured defaulted loans stemming from the 2007–2011 financial crisis and was intended to protect the MMI Fund by paying insurance claims before the costly foreclosure process.

GAO was asked to evaluate DASP. This report examines, among other things, certain DASP procedures, including verifying loan eligibility criteria, and documentation; FHA’s evaluation of the identified outcomes of sold loans and how these compare with similar, unsold loans; and the potential effects that changes to DASP might have on the MMI Fund. GAO reviewed FHA policies, contracts, and reports, and interviewed FHA officials, selected servicers and purchasers based on sales participation, and other stakeholders. GAO also conducted a statistical analysis comparing outcome data for sold loans and similar loans that remained FHA-insured and analyzed the effect of loan pool characteristics on bidder participation.

What GAO Recommends

GAO is making nine recommendations to FHA, including establishing specific time frames to check loan eligibility, evaluating loan outcome data, and changing auction processes to help protect the MMI Fund. FHA generally agreed with seven recommendations, and neither agreed nor disagreed with two. GAO maintains that all the recommendations are valid.

View [GAO-19-228](#). For more information, contact Dan Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

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FEDERAL HOUSING ADMINISTRATION

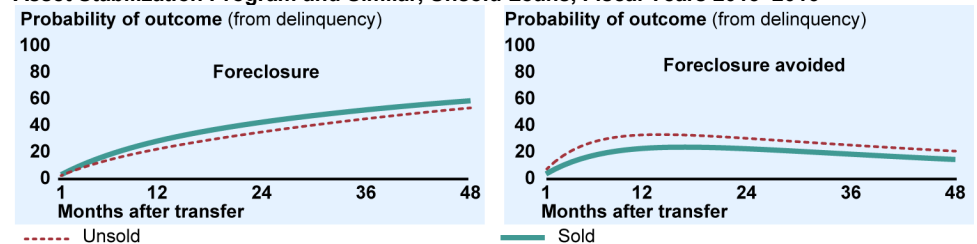
Opportunities Exist to Improve Defaulted Single-Family Loan Sales

What GAO Found

The Department of Housing and Urban Development’s (HUD) Federal Housing Administration (FHA) uses multiple entities to check loan eligibility for the Distressed Asset Stabilization Program (DASP)—in which FHA accepts assignment of eligible, defaulted single-family loans from servicers in exchange for claim payments and sells the loans in competitive auctions. After servicers submit loans for sale, FHA and its contractors concurrently check loan data for completeness, validity, and eligibility. FHA relies on servicers to check eligibility a few weeks before and again after the bid date. The status of delinquent loans can be fluid, and a change in eligibility status close to this date may not be detected. GAO’s analysis of fiscal year 2016 default data indicates about 2.67 percent of loans that FHA sold were ineligible based on length of delinquency or loss mitigation status. Without checking loan eligibility closer to bidding, FHA risks selling ineligible loans, and borrowers could lose access to benefits.

FHA does not evaluate outcomes for sold loans against similar unsold loans. GAO found that, in aggregate, sold defaulted loans were more likely to experience foreclosure than comparable unsold defaulted loans (see figure). However, GAO’s analysis identified varying outcomes by purchasers and sales. For example, some purchasers’ loans had higher probabilities of avoiding foreclosure, with borrowers making regular payments again by 24 months after the transfer of loans. Also, loans sold in 2016 sales were less likely to experience foreclosure compared to unsold loans. HUD policy states that the agency’s evaluations isolate program effects from other influences. Evaluating outcomes for sold loans against similar unsold loans could help FHA determine whether DASP is meeting its objective of maximizing recoveries to the Mutual Mortgage Insurance Fund (MMI Fund) and understand the extent to which DASP helps borrowers.

Foreclosure and Foreclosure Avoidance Outcomes for Loans Sold through the Distressed Asset Stabilization Program and Similar, Unsold Loans, Fiscal Years 2013–2016



Source: GAO analysis of Federal Housing Administration (FHA) data. | GAO-19-228

Note: Graphs do not include loans that were unresolved, paid-in-full, and in some other statuses.

Changing some of FHA’s auction processes may help the MMI Fund. FHA could increase participation and MMI Fund recoveries in its auctions by communicating upcoming sales earlier. One purchaser said that additional notice would allow it time to plan for the capital needed to bid. Also, FHA set reserve prices (minimum acceptable price) based on the amount it expected to recover after loans completed foreclosure—yet GAO estimates that some of these loans will avoid foreclosure (see figure). As a result, FHA risks recovering less for the MMI Fund in loan sales than if the loans had not been sold.