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GAO

Report to Congressional Requesters

August 2012

HOUSING ASSISTANCE

Opportunities Exist to Increase Collaboration and Consider Consolidation

GAO-12-554

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-554, a report to congressional requesters

August 2012

HOUSING ASSISTANCE

Opportunities Exist to Increase Collaboration and Consider Consolidation

Why GAO Did This Study

The federal government plays a major role in providing housing assistance to homebuyers, renters, and state and local governments. It incurred about $170 billion in obligations for federal assistance and estimated forgone tax revenue in fiscal year 2010. However, fiscal realities raise questions about the efficiency of multiple housing programs and activities across federal agencies with similar goals, products, and sometimes parallel delivery systems. This report assesses the (1) extent to which there is overlap or fragmentation in selected housing programs, (2) federal collaborative efforts, and (3) implications of consolidating selected housing programs.

For this report, GAO updated and expanded prior work and collected and analyzed new data, focusing on the largest programs in terms of funding. In addition to addressing these objectives, GAO developed a catalog of federal programs and activities that support rental housing and homeownership and identified what is known about the purpose, cost, eligibility, and populations served. The catalog (GAO-12-555SP) is an electronic supplement to this report.

What GAO Recommends

To enhance evaluation of coordination or consolidation of single-family programs, HUD, the Office of Management and Budget (OMB), USDA, and VA should adopt a more rigorous approach for their task force that incorporates collaborative practices. To further improve initiatives to consolidate and align requirements in multifamily programs, HUD, USDA, and Treasury should document their efforts in annual and strategic plans. As part of these collaborative efforts, these agencies also should identify specific programs for consolidation, including those requiring statutory changes. HUD, USDA, and VA generally agreed with the recommendations; however, HUD and OMB stated that actions should wait until after the housing markets stabilize. GAO noted that achieving efficiencies and cost savings also were important.

View GAO-12-554. For more information, contact Mathew Scirè at (202) 512-8678 or sciremj@gao.gov, or James White at (202) 512-9110 or whitej@gao.gov.

What GAO Found

Housing assistance is fragmented across 160 programs and activities. Overlap exists for some products offered, service delivery, and geographic areas served by selected programs—particularly in the Department of Agriculture's (USDA) Rural Housing Service (RHS) and Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA). For instance, RHS, FHA, and the Department of Veterans Affairs (VA) all guarantee mortgage loans for homeowners. According to fiscal year 2009 data (the most recent available), FHA served a larger number of households than RHS in all areas, including a larger number of low- and moderate-income households in rural areas. Although selected HUD, USDA, and Department of the Treasury (Treasury) multifamily programs had overlapping purposes, the products, areas served, and delivery methods differed. For example, HUD, RHS, and Treasury provide financing for development and rehabilitation of multifamily housing for low- and moderate-income households, but RHS-financed properties were more concentrated in rural areas and HUD's and Treasury's tax credit properties were more concentrated in urban and suburban areas.

Opportunities exist to increase collaboration among the agencies and potentially realize efficiencies. In February 2011, the Administration announced a task force to evaluate the potential for coordinating or consolidating homeownership loan programs at HUD, USDA, and VA. But the task force's efforts have not yet incorporated key collaborative practices GAO identified. Practices such as identifying goals and resources and defining strategies and outcomes will be important as the task force moves forward. HUD, USDA, and Treasury also have been working to consolidate and align requirements in rental housing programs through the Rental Policy Working Group. Although its efforts have been consistent with many key collaborative practices, the group has not taken full advantage of opportunities to reinforce agency accountability for collaborative efforts through the agencies' annual and strategic plans, or expanded its guiding principles to evaluate areas requiring statutory action to generate savings and efficiencies. Also, in 2005 and in 2011, GAO recommended coordinating reviews of tax expenditures and related spending programs. Such reviews could help reduce overlap and inconsistencies and direct scarce resources to the most effective or efficient methods to deliver federal support.

Consolidating programs carries certain implications for users, existing programs, personnel, portfolios, and associated information systems. Nevertheless, GAO suggested in 2000 that Congress consider requiring USDA and HUD to examine the benefits and costs of merging programs serving similar markets and providing similar products. Since then, certain aspects of the RHS and FHA homeownership programs have shown evidence of growing similarity, such as RHS' shift toward loan guarantees. However, the current statutory framework imposes additional challenges on the agencies' ability to further consolidate similar programs. Thus, any evaluations of which programs, products, systems, and processes to retain, revise, consolidate, or eliminate would involve complex analyses, trade-offs, and difficult policy decisions. The task force offers opportunities for these agencies to identify potential areas for consolidation or greater coordination and which actions would require statutory change.

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Abbreviations

AGI	adjusted gross income
AMT	Alternative Minimum Tax
AMI	area median income
CBO	Congressional Budget Office
CFPB	Consumer Financial Protection Bureau
CRA	Community Reinvestment Act
FHA	Federal Housing Administration
Ginnie Mae	Government National Mortgage Association
GPRAMA	Government Performance and Results Act Modernization Act of 2010
HFA	housing finance agency
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
JCT	Joint Committee on Taxation
LIHTC	Low-income Housing Tax Credit
MOU	memorandum of understanding
OMB	Office of Management and Budget
REO	real estate-owned
RHS	Rural Housing Service
VA	Department of Veterans Affairs
USDA	U.S. Department of Agriculture

View GAO-12-555SP Key Components

Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation (GAO-12-555SP), an e-supplement to GAO-12-554

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

August 16, 2012

The Honorable Judy Biggert
Chairman
Subcommittee on Insurance, Housing,
and Community Opportunity
Committee on Financial Services
House of Representatives

The Honorable Shelley Moore Capito
Chairwoman
Subcommittee on Financial Institutions
and Consumer Credit
Committee on Financial Services
House of Representatives

The federal government has played a major role in supporting housing since the 1930s. It administers programs that assist homebuyers, renters, and state and local governments. The goals of these efforts include encouraging homeownership and providing affordable rental housing for low-income families. Millions of Americans have benefited, whether by taking out a federally guaranteed mortgage, deducting mortgage interest or real estate taxes on federal tax returns, or receiving a rental subsidy. In fiscal year 2010, the federal government incurred about $170 billion in obligations for housing-related programs and estimated revenue forgone through tax expenditures.[1] Tax expenditures may be viewed as spending programs channeled through the tax system, because they are federal revenue forgone due to exclusions, exemptions, deductions, credits, deferrals, and preferential rates. They represented $132 billion (about 78 percent) of the federal government's fiscal year 2010 support for housing assistance. Obligations for spending and loan programs that support homeownership and rental housing accounted for the other $38 billion (about 22 percent).

[1]For loan programs, these obligations represent the expected credit subsidy costs for loan commitments made in fiscal year 2010. These estimates are revised in subsequent years, and the ultimate cost will not be known until the loans mature. Obligations we reported for fiscal year 2010 may include funds appropriated in the American Recovery and Reinvestment Act of 2009 but do not include other types of emergency or extraordinary assistance.

In the current housing crisis, support for homeownership has expanded dramatically, and nearly all mortgage originations have had direct or indirect federal support through guarantee programs, support for the housing enterprises Fannie Mae and Freddie Mac, or direct loans and grants. In addition, the federal role now includes a range of programs designed to help homeowners avoid foreclosure or to lower mortgage payments by such means as modifying and refinancing loans.

This report is one of a series of reports that responds to your request to examine a variety of issues relating to federal support for housing—particularly through programs or activities administered by the Departments of Housing and Urban Development (HUD), Agriculture (USDA), Veterans Affairs (VA), and the Treasury—and identify options to reduce costs or increase program efficiency.[2] This report assesses (1) programs and activities the federal government uses to support rental housing and homeownership; (2) the extent to which overlap or fragmentation exists in the goals, products, geographic coverage, service delivery mechanisms, and recipient income levels of selected housing programs and activities of HUD, USDA, VA, and Treasury; and (3) the extent to which federal efforts have increased coordination for selected housing programs and activities, and the implications of further coordinating or consolidating selected housing programs or activities.

To address the first objective, we developed a catalog of spending and loan programs, tax expenditures, and other activities federal agencies and financial regulators use to support homeownership and rental housing and identified what was known about the purpose and obligations of these programs and expenditures in 2010. To address the second objective, we updated and expanded the work from our 2000 report on opportunities for and barriers to reducing overlap in certain homeownership and rental housing programs.[3] Specifically, we used findings from our prior work that examined programs offering similar

[2]See GAO, *Housing Choice Vouchers: Options Exist to Increase Program Efficiencies*, GAO-12-300 (Washington, D.C.: Mar. 19, 2012); *Moving to Work Demonstration: Opportunities Exist to Improve Information and Monitoring*, GAO-12-490 (Washington, D.C.: Apr. 19, 2012); and *Rural Housing Service: Efforts to Identify and Reduce Improper Rental Assistance Payments Could Be Enhanced*, GAO-12-624 (Washington, D.C.: May 31, 2012).

[3]See GAO, *Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development*, GAO/RCED-00-241 (Washington, D.C.: Sept. 15, 2000).

housing services to similar beneficiaries as well as Treasury's largest tax expenditures in terms of overall funding.[4] We collected and analyzed data on the goals, terms, eligibility, product delivery structures, geographic locations, and populations benefiting from selected agency housing programs. We analyzed the locations of properties or units assisted using USDA-developed characterizations of rural and urban areas. We identified those housing programs that could have similar or overlapping objectives or provide similar services or that were fragmented across missions. To address the third objective, we collected and analyzed available information on efforts that USDA, HUD, Treasury, and VA had undertaken to increase coordination of or collaboration on selected housing programs. We also reviewed prior GAO and other reports and collected and analyzed information from the housing industry and officials at USDA, HUD, and the Office of Management and Budget (OMB) on the implications of options for further coordination or consolidation. Appendix I contains a detailed description of our scope and methodology.

We conducted this performance audit from July 2011 through August 2012, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Federal Housing Assistance

The federal government funds multiple programs that subsidize housing construction and rehabilitation, assist homebuyers and renters, and provide assistance to state and local governments through a variety of spending and loan programs, tax expenditures, regulatory requirements, and other activities aimed at promoting housing.

Federal housing assistance generally was created in response to the Great Depression. However, the largest current activity (in terms of

[4] We excluded HUD's public housing and housing choice voucher programs because there are no equivalent programs administered by other federal agencies.

forgone revenue) associated with homeownership—the mortgage interest deduction—was introduced in 1913, when the federal income tax was enacted. Further assistance was created in the 1930s, when most rural residents worked on farms and rural areas generally were poorer than urban areas. Accordingly, Congress authorized separate housing assistance for rural areas and made USDA responsible for administering it. Specifically, in 1937 the Bankhead-Jones Farm Tenant Act authorized USDA to provide long-term, low-interest loans to farm tenants and sharecroppers so that they could purchase and repair farms, including homes on farms. The Housing Act of 1949 authorized new rural lending programs through USDA and made farm owners eligible for assistance for dwellings and other farm buildings if the farm was located on land capable of producing at least $400 worth of agricultural commodities annually.[5] Amendments added in 1961 made nonfarm properties eligible for single-family loans and created the farm labor housing program. A 1962 amendment created the rural rental housing program.[6] The Federal Housing Administration (FHA) began providing mortgage insurance in 1934, and the first public housing program was authorized in 1937. FHA became part of HUD when HUD was created in 1965.

In 2012, HUD and Treasury administer some of the largest programs, with USDA and VA providing specific assistance to rural communities and veterans. In addition, the government-sponsored enterprises—Fannie Mae and Freddie Mac—have supported the mortgage market by helping to create a secondary market for mortgage loans. Financial regulators are responsible for ensuring that regulated institutions comply with consumer financial protections or otherwise serve the communities in which they operate.

Federal housing assistance generally can be categorized as follows:

- Homeownership programs, often called single-family housing programs, provide mortgage insurance, loan guarantees, direct loans

[5] P.L. 81-171, July 15, 1949.

[6] Sections 803 and 804, P.L. 87-70 (June 30, 1961); P.L. 87-723, Section 4(b) Sept. 28, 1962).

for homeowners, and grants or loans for home repairs or modifications.[7]

- Rental housing programs, often called multifamily programs, provide loans, interest rate subsidies, loan guarantees, tax incentives, or a combination of these to promote the development and rehabilitation of privately owned rental properties.[8]

- Rental assistance programs, which make rents affordable to eligible households by paying the difference between the unit's rent and 30 percent of a household's adjusted income. These programs include (1) tenant-based rental assistance that provides vouchers for eligible tenants to rent privately owned apartments or single-family homes and can be applied to different properties if tenants move; and (2) project-based rental assistance that is attached to specific properties and available to tenants only when they are living in units at these properties.

- Public housing offers units for eligible tenants in properties owned and administered by public housing authorities.

- Tax expenditures, such as exclusions, exemptions, deductions (including the mortgage interest deduction), credits, deferrals, and preferential rates, can promote homeownership or the development of privately owned rental housing through the federal tax code.

The federal government uses varying income thresholds for different housing programs to identify target populations or set eligibility requirements. Although some federal housing programs do not have specific income eligibility requirements, such as VA's Home Loan Guaranty program for veterans, many of HUD's and USDA's multifamily programs and Treasury's Low-Income Housing Tax Credit (LIHTC) program have specific income eligibility requirements. The most common income thresholds used for the programs are:

[7]Single-family housing generally refers to properties with four or less units. We use single-family programs and homeownership programs interchangeably throughout this report.

[8]Multifamily housing generally refers to properties with five or more units. We use multifamily programs and rental housing programs interchangeably throughout this report.

- very low-income—no more than 50 percent of the area's median income (AMI);
- low-income—no more than 80 percent of AMI; and
- moderate-income—no more than 115 percent of AMI.

Defining Fragmentation, Overlap, and Duplication

Fragmentation refers to those circumstances in which more than one federal agency (or more than one organization in an agency) is involved in the same broad area of national interest. Overlap occurs when programs have similar goals, devise similar strategies and activities to achieve those goals, or target similar users. Duplication occurs when two or more agencies or programs engage in the same activities or provide the same services to the same beneficiaries. In some instances, it may be appropriate for multiple agencies or entities to be involved in the same programmatic or policy area due to the nature or magnitude of the federal effort.

Multiple Agencies Provide Housing Assistance

Twenty different entities administered 160 programs, tax expenditures, and other tools that supported homeownership and rental housing in fiscal year 2010, reflecting the fragmentation in federal housing delivery. See e-supplement (GAO-12-555SP) for the list of programs, tax expenditures, other tools, and their related budgetary information. We identified 11 primary purposes for the activities (see fig. 1). Of the 11 purposes (categories) identified, 3 generally relate to support for homeownership (including purchasing a home), 4 to support for rental housing and tenants, and 4 to both. Within each category, multiple agencies administer programs that serve the same purpose, illustrating the fragmentation of homeownership and rental housing programs.

Figure 1: Housing Activities and Programs, by Purpose and Agency, Fiscal Year 2010

Primary purpose of activity[a]	Number of activities/programs	HUD	Treas/IRS	USDA	FHLB	VA	Regulators	NRC	FFIEC	CFPB	FCS	Fannie	Freddie	FarmerM	Interior	Labor	FHFA	FCA
Assistance for buying, selling, or financing a home	39	●	●	●		●												
Supports housing and other activities	30	●	●	●	●			●										
Assistance for financing rental housing	25	●	●	●	●													
Emergency assistance to housing market or current homeowner	16	●	●				●[b]											
Regulatory requirements	10	●					●		●	●								
Increase availability of mortgage loans	9	●	●		●						●	●	●	●				
Assistance for homeowners	9		●	●		●									●			
Assistance for rental property owners	8	●	●	●														
Rental assistance for tenants	6	●		●												●		
Operation/management of rental housing	6	●		●														
Regulator of government-sponsored enterprises	2																●	●

CFPB = Consumer Financial Protection Bureau
Fannie = Fannie Mae
FarmerM = Federal Agricultural Mortgage Corporation (Farmer Mac)
FCA = Farm Credit Administration
FCS = Farm Credit System
FFIEC = Federal Financial Institutions Examination Council
FHFA = Federal Housing Finance Agency
FHLB = Federal Home Loan Banks
Freddie = Freddie Mac
HUD = Department of Housing and Urban Development
Interior = Department of Interior/Bureau of Indian Affairs
Labor = Department of Labor
NRC = Neighborhood Reinvestment Corporation
Regulators = Financial federal regulators include the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and National Credit Union Administration
Treas/IRS = Treasury/ Internal Revenue Service
USDA = Department of Agriculture
VA = Department of Veterans Affairs

Source: GAO analysis of agency documentation.

Note: Some of these programs/activities incurred no obligations in fiscal year 2010 because, among other reasons, they were not part of the federal budget or were inactive during the year.

[a]Some activities may have multiple purposes.

[b]The Federal Open Market Committee, a nonregulatory component of the Federal Reserve System, undertook the activities. In November 2008, the Committee announced the purchase of up to $500 billion (later raised to $1.25 trillion) of mortgage-backed securities issued by Fannie Mae and Freddie Mac, or guaranteed by the Government National Mortgage Association (Ginnie Mae) to support mortgage and housing markets and the broader economy. Its authorization did not require a determination that emergency conditions existed. Therefore, the Federal Reserve does not consider this assistance “emergency,” but we have labeled it as such for purposes of this report because it was an outgrowth of the current housing crisis.

The most commonly identified purpose was assistance for buying, selling, or financing a home. This category includes single-family mortgage programs that provide mortgage insurance or guarantees administered through HUD, USDA, and VA.[9] As we have noted, the mortgage interest deduction represented the single largest activity—in terms of annual forgone revenue—associated with homeownership. In fiscal year 2010, the estimated revenue loss for the mortgage interest deduction was almost $80 billion.[10] The most widely used housing tax expenditure, in terms of number of participants, was the deduction for state and local property taxes.[11] According to Internal Revenue Service (IRS) estimates, nearly 40 million taxpayers claimed this deduction on their 2009 returns.

As well as supporting homeowners directly, the federal government supports homeownership indirectly through the secondary mortgage market that helps increase the availability of mortgage loans.[12] Fannie Mae and Freddie Mac facilitate the flow of mortgage credit by purchasing mortgages from primary mortgage lenders such as banks or thrifts.[13] The Government National Mortgage Association (Ginnie Mae), an agency within HUD, also facilitates the flow of mortgage credit by guaranteeing the timely payment of principle and interest on securities backed by

[9]Mortgage insurance or guarantees are available to eligible homebuyers. They protect the lender or other mortgage holder, because the federal government commits to pay part or all of a loan's outstanding principal and interest to a lender or other mortgage holder if the borrower defaults. FHA offers mortgage insurance and USDA's Rural Housing Service (RHS) and VA have loan guarantees. Because "insurance" and "guarantee" have the same meaning in the context of our review, we use guarantee throughout this report.

[10]A revenue loss is the amount of revenue that the government forgoes as the result of each special provision in the tax code. Revenue loss is estimated for each tax expenditure separately by comparing the revenue raised under current law with the revenue that would have been raised if the provision did not exist (assuming that taxpayer behavior and all other tax and spending provisions remain constant). A revenue loss estimate does not represent the amount of revenue that would be gained if a particular tax expenditure were repealed, because repeal of the expenditure probably would change taxpayer behavior in some way that would affect revenue.

[11]The mortgage interest and property tax deduction tax expenditures accounted for about half of all housing assistance in fiscal year 2010. Summing tax expenditure estimates does not take into account interactions among individual provisions.

[12]In the secondary market, originators of mortgage loans package them into securities and sell the securities to investors.

[13]Fannie Mae and Freddie Mac must meet affordable housing goals for both single- and multifamily housing.

federally guaranteed mortgages issued by certain mortgage lenders. In turn, these lenders—generally banks and thrifts—use the proceeds to originate additional mortgages.

The federal government increased its support for homeownership in response to the current housing crisis, providing emergency assistance or other extraordinary support to the housing market and homeowners through a number of initiatives. Most of the activities we identified as emergency assistance were intended to support homeownership. For example, Treasury and the Federal Reserve System purchased mortgage-backed securities issued by Fannie Mae and Freddie Mac to help support the availability of mortgage credit for prospective homebuyers or homeowners wishing to refinance.[14] And, HUD and Treasury administer programs that provide financing assistance to struggling homeowners—such as the Making Home Affordable program, which reduces borrowers' monthly mortgage payments.

Regulatory requirements also support homeownership by establishing standards for residential mortgage lending, among other things. For example, the Real Estate Settlement Procedures Act of 1974 requires lenders to disclose mortgage closing documents to homebuyers and sellers.[15] The Bureau of Consumer Financial Protection (Consumer Financial Protection Bureau, or CFPB), the federal financial regulators, and HUD are involved in the examination and enforcement of this and other regulatory requirements. The Federal Financial Institutions Examination Council, a formal interagency body, also plays a role by prescribing uniform principles, standards, and report forms for the federal examination of financial institutions.

The federal government also provides support for the creation of rental housing and for tenants. The single largest activity in terms of annual forgone revenue associated with the production of affordable rental housing is the LIHTC program, which is administered by IRS and state housing finance agencies (HFA). In fiscal year 2010, forgone revenue from the LIHTC program was estimated at approximately $5.65 billion. HUD and USDA also administer multiple multifamily loan programs to

[14]Mortgage-backed securities represent claims to the cash flows from pools of mortgage loans, such as mortgages on residential property.

[15]Real Estate Settlement Procedures Act of 1974, 12 U.S.C. §§ 2601-2617.

produce and preserve affordable rental housing. Some of HUD's multifamily loan guarantee programs are estimated to produce more revenue than expenditures. These estimates are reviewed annually, and because the underlying loans may have terms of up to 40 years, their ultimate cost is uncertain. Further, HUD and USDA have multiple programs that support low-income households by providing assistance to rental property owners to cover all or a portion of the tenant's rent.

Finally, many activities support homeownership and rental housing both directly and indirectly. For example, HUD administers multiple block grant programs that provide state and local governments with flexible funding to address community development needs, including support of homeownership or rental housing. And one regulatory requirement—the Community Reinvestment Act (CRA)—supports the financing of homeownership and the creation of affordable rental housing, among other things.[16] Another regulatory requirement, the Fair Housing Act, protects homebuyers and renters from discrimination.[17]

Overlap Exists in Both Single- and Multifamily Housing Programs

To identify housing programs that had a potential for overlap, we used findings from our prior work that examined programs that offer similar housing services to similar beneficiaries. These programs included selected HUD and USDA single- and multifamily programs, VA's single-family housing loan guarantee program, and Treasury's LIHTC. We also included Treasury's mortgage interest and property tax deductions because they are the largest programs in terms of overall funding. We compared agency goals, products offered, geographic areas served, service delivery, and, for single-family programs, recipients' income levels. Evidence of overlap existed across many of these dimensions for the single-family products offered by HUD, USDA, VA, and Treasury, but important differences also existed. Although selected HUD, USDA, and Treasury multifamily housing programs had overlapping purposes, the products, areas served, and delivery methods differed to varying degrees.

[16]CRA requires regulators to evaluate periodically each insured depository institution's record in helping meet the credit needs of its entire community. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions. Investing in certain community development projects can help banks earn positive consideration toward their CRA regulatory ratings. 12 U.S.C. §§ 2901 – 2908.

[17]Fair Housing Act, 42 U.S.C. §§ 3601–3619.

Some Single-Family Programs Overlap

Agency Goals

Seven single-family programs administered by HUD, USDA, VA, and Treasury overlap in their broad purpose of supporting homeownership, but only HUD has an explicit housing priority and strategic goal (see table 1). Federal agencies outline long-term goals and objectives in their strategic plans and annual goals in their performance plans. In addition, in the fiscal year 2013 President's Budget, agencies identified a limited number of 2-year agency priority goals that align with the long-term goals and objectives in their strategic plans. Agency priority goals target areas in which agencies want to achieve near-term performance through focused attention of senior leadership. HUD included the prevention of foreclosures as a priority goal. As of April 2012, USDA, VA, and Treasury had not highlighted homeownership among their agency priority goals. Under its strategic goal to strengthen the nation's housing market, HUD uses its single-family guaranteed loan program to meet its subgoal of creating financially sustainable homeownership opportunities. Under its broad strategic goal of assisting rural communities, USDA uses its single-family loan and grant programs to increase the number of homeownership opportunities available in rural areas. VA's guarantee for home mortgages is one among many entitlements that veterans earn.[18] The program falls under VA's broad strategic goal of improving the quality and accessibility of health care, benefits, and memorial services while optimizing value. Finally, although the mortgage interest and property tax deductions are the two tax expenditures most widely used by homeowners, Treasury does not have stated goals for these, or most other, tax expenditures.[19] However, these tax expenditures are generally

[18]In addition to veterans, certain currently serving members of the National Guard or Reservists and spouses of certain veterans also may be eligible for a VA-guaranteed mortgage.

[19]Over the years, Congress has eliminated the deductions for certain nonbusiness taxes and types of interest, but exceptions for home mortgage interest and home property taxes remain. See GAO, *Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance*, GAO-09-769 (Washington, D.C.: Jul. 29, 2009) and Congressional Research Service, *Tax Expenditures: Compendium of Background Material on Individual Provisions,* S. Prt. 111-58, (Washington, D.C.: Dec. 30, 2010).

recognized as reducing the after-tax costs of financing and maintaining a home.[20]

Table 1: Selected HUD, USDA, VA, and Treasury Single-Family Products and Related Agency Goals, as of 2012

Agency	Program	Related strategic goal
Selected programs that provide assistance for buying, selling, or financing a home		
HUD/FHA	One- to -Four-Family Home Mortgage Insurance (Section 203(b))	Strengthen the nation's housing market to bolster the economy and protect consumers.
USDA/RHS	Rural Housing Single Family Loans - Guaranteed (Section 502 guaranteed)	Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.
	Rural Housing Single Family Loans -Direct (Section 502 direct)	
VA	VA Home Loan Guaranty	Improve the quality and accessibility of health care, benefits, and memorial services while optimizing value.
Selected programs that provide assistance to homeowners		
USDA/RHS	Very Low-Income Direct Repair Loans and Grants (Section 504)	Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.
Treasury	Mortgage interest deduction	None.
	Property tax deduction	

Source: GAO analysis of agency strategic and performance plans.

Agency Products

The selected single-family guaranteed loan programs of HUD (FHA), USDA's Rural Housing Service (RHS), and VA overlap, but differences exist among the products, and only USDA offers certain direct loans to finance the purchase of homes for low- and very low-income families (see table 2).[21] FHA, VA, and RHS guarantee 30-year fixed-rate mortgages requiring little or no down payment from borrowers and charge up-front fees that generally vary from 1.75 to 2.15 percent. The government guarantee makes all of these loans eligible for inclusion in Ginnie Mae-guaranteed mortgage-backed securities. All the products require that the

[20]Joint Committee on Taxation, "Present Law, Data, and Analysis Relating to Tax Incentives for Homeownership," JCX-50-11 (Washington, D.C.: Sep. 30, 2011).

[21]Although they do not offer direct loan programs, both FHA and VA may offer direct loans in limited situations as part of disposition programs for real estate-owned properties (such as foreclosed homes).

borrowers occupy the home and permit borrowers to use loan proceeds to purchase a home or refinance an existing loan.[22]

The products also have some important distinctions. For example,

- VA loan guarantees are an entitlement available only to veterans who have served in a branch of the armed services and received an honorable discharge, certain currently serving members of the Reserves or National Guard, and spouses of veterans under certain circumstances.
- RHS loan guarantees are limited by income and geography.
- FHA requires at least a 3.5-percent down payment, while RHS and VA require none.

Additionally, loan guarantee programs vary in the extent to which the agencies cover potential losses of the lender or other mortgage holder. FHA provides 100-percent coverage of eligible losses when borrowers default. This guarantee covers the unpaid principal balance, interest costs, and certain costs of foreclosure and conveyance.[23] USDA's guarantee provides coverage for eligible losses of up to 90 percent of the original principal, including unpaid principal and interest; principal and interest on USDA-approved advances for protection and preservation of the property; and the costs associated with selling the foreclosed property. One of the most significant differences among these products is the loss coverage offered by VA, which covers from 25 to 50 percent of the original principal.

[22] FHA, VA, and RHS permit seller concessions and the financing of up-front insurance premiums, which effectively reduce the home buyer's out-of-pocket costs for a guaranteed mortgage. Seller concessions are costs a seller pays on behalf of the borrower when purchasing a home. FHA permits seller concessions of up to 6 percent, VA permits up to 4 percent, and RHS does not limit the amount of seller concessions.

[23] We previously reported that if FHA's guarantee were reduced, lenders likely would make fewer FHA loans and charge higher interest rates. Any such change would be more likely to disproportionately affect higher-risk borrowers. See GAO, *Homeownership: Potential Effects of Reducing FHA's Insurance Coverage for Home Mortgages*, GAO/RCED-97-93 (Washington, D.C.: May 1, 1997).

Table 2: Comparison of Selected FHA, VA, and RHS Single-Family Housing Programs[a]

	Loan guarantees			Direct loans or grants	
Agency	**FHA**	**VA**	**RHS**	**RHS**	**RHS**
Program	One- to Four-Family Home Mortgage Insurance (Section 203(b))	VA Home Loan Guaranty	Rural Housing Single-Family Loans - Guaranteed (Section 502 guaranteed)	Rural Housing Single-Family Loans - Direct (Section 502 direct)	Very Low-Income Direct Repair Loans and Grants (Section 504)
Maximum term	30 years	30 years and 32 days	30 years	33 years, 38 years for borrowers with income below 60% of AMI 30 years for manufactured homes	20 years (loans)
Required down payment	3.5%	0%	0%	0%[b]	0%[b]
Up-front guarantee fee (mortgage insurance)	1.75%	2.15%[c]	2.0%	N/A	N/A
Annual guarantee fee (mortgage insurance)	1.25% for $625,500 or less 1.5% for more than $625,500	0%	0.3%	N/A	N/A
Guarantee or other terms	100%	Varies by loan amount, ranging from 25 to 50%	Up to 90% of original loan amount	Payment assistance, which may reduce the interest paid on the mortgage to as low as 1%, is available based on the borrower's income as a percent of AMI	Direct loan or grant Fixed rate of 1% for loans
Limits on loan or grant size	Vary by locality, ranging from $271,050 to $729,750 for single-unit properties[d]	No VA-imposed limits, but lenders may limit loans to what they can sell to secondary markets[e]	Housing must be modest in size, design, and cost[f]	Housing must be modest in size, design, and cost[g]	Total loan amount(s) may not exceed $20,000 Grants are limited to lifetime assistance of $7,500

	Loan guarantees			Direct loans or grants	
Agency	**FHA**	**VA**	**RHS**	**RHS**	**RHS**
Eligible uses	Funds can be used to buy, build, or refinance	Funds can be used to buy, build, improve, or refinance	Funds can be used to buy, build, or refinance	Funds can be used to build, repair, renovate, or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities	Funds can be used to repair, improve, or remodel to address accessibility for individuals with disabilities
Eligibility and restrictions	House must be owner-occupied	House must be owner-occupied Borrower must qualify for veteran benefit	House must be owner-occupied Property must be in an eligible rural area Borrower income may not exceed 115% of AMI	House must be owner-occupied Property must be in an eligible rural area Borrower income may not exceed 80% of AMI Borrowers must be unable to qualify for other financing 40% of funding must go to borrowers with incomes at or below 50% of AMI	House must be owner-occupied Property must be in an eligible rural area For grants, property must have health or safety issues or be inaccessible for household members with disabilities Borrower or grantee income may not exceed 50% of AMI Grantees must be 62 or older
Households assisted in fiscal year 2010, to the nearest thousand	1,547,000	314,000	133,000	18,000	4,000 loans and 6,000 grants

Source: GAO analysis of agency documentation.

[a]The mortgage product terms do not apply to loans used for refinancing.

[b]RHS direct loan borrowers with assets above program limits must use excess assets toward their down payment.

[c]Veterans using the benefit for the first time and with no down payment pay 2.15 percent in up-front fees. However, up-front fees range from 0 to 3.3 percent depending on the type of veteran and the size of the down payment.

[d]The maximum FHA loan limit for single-unit properties in high-cost exception areas is $1,094,625.

[e]VA does not impose a maximum amount that an eligible veteran may borrow using a VA-guaranteed loan. However, VA uses loan limits to establish the maximum possible guarantee on a loan. For 2012, the maximum guarantee amount available for loans over $144,000 was 25 percent of the VA loan limit. For counties in the contiguous United States, the limits range from $417,000 to $625,500, depending on the median county home price. The limits may be higher in Alaska, Guam, Hawaii, and the U.S. Virgin Islands. Lenders can make loans in excess of these VA loan limits if they choose, but they will not receive a 25-percent guarantee.

[f]RHS limits vary based on local home prices. Generally, the limit is 115 percent of the median price for single-family homes in the area, as determined by HUD. The maximum loan for any area may not be less than $271,050 and may not exceed $625,500.

[g]RHS determines the direct loan limit for eligible rural areas based on local home prices. The maximum loan can range from under $100,000 in low-cost areas to more than $400,000 in high-cost areas.

Of the agencies, only USDA (RHS) offers single-family housing programs specifically for low- and very low-income families. RHS offers two unique products: a subsidized direct loan for the purchase of single-family housing, with interest rates as low as 1 percent, to low-income borrowers unable to qualify for credit elsewhere, and a home repair program that offers grants or loans (with interest rates of 1 percent) to very low-income rural residents. RHS may subsidize the interest on single-family direct loans, depending on the borrower's income.

As shown in table 1, two of the largest tax expenditures that provide assistance to homeowners are the mortgage interest and property tax deductions, with about half of all homeowners receiving housing assistance through them.[24] Taxpayers who itemize their deductions may deduct mortgage interest and property taxes on their principal residence and a second residence. Deductions are adjustments from adjusted gross income (AGI).[25] Whether or not a taxpayer itemizes deductions depends on whether the sum of these deductions plus any other itemized

[24]GAO analysis of homeownership data from the Bureau of the Census and Statistics of Income data from IRS; and Congressional Research Service, *The Mortgage Interest and Property Tax Deductions: Analysis and Options,* R41596 (Washington, D.C.: Jan. 18, 2011).

[25]AGI is equal to gross income less qualifying adjustments to income, including some deductions. According to estimates from IRS (Statistics of Income), generally about one-third of taxpayers itemize deductions.

deductions exceeds the limits on the standard deduction.[26] Taxpayers are subject to certain limits on the total amount of mortgage interest that can be claimed. The total amount of mortgage debt for which interest may be claimed cannot exceed $1 million. In addition, taxpayers may deduct interest payments on up to $100,000 of home equity debt. There are no dollar limits on the amounts of property taxes that can be deducted. Taxpayers with higher incomes are subject to additional limitations on use of these two deductions.[27]

Income Levels and Geography

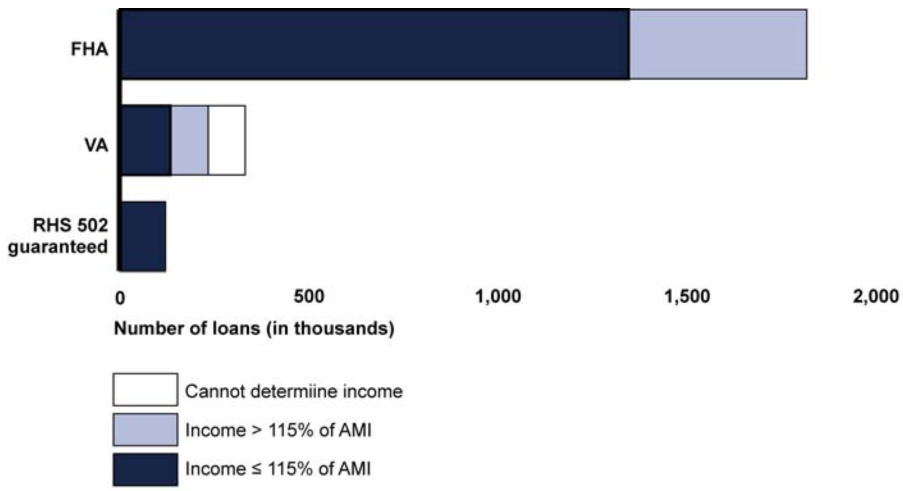
Data from selected single-family programs show some overlap in the income and location of households served. Among the single-family loan guarantee programs, all served moderate- and low-income populations, although only USDA's program restricts eligibility on the basis of income. USDA limits borrower income to 115 percent of AMI. Although FHA and VA do not have this restriction, 1,291,000 or 74 percent of FHA borrowers and at least 130,000 VA borrowers also fell into this income category in fiscal year 2009 (see fig. 2).[28] In part because of the number of borrowers it serves, FHA guaranteed more loans to borrowers with incomes at or below 115 percent of AMI than RHS and VA combined.

[26]Taxpayers can itemize personal deductions or take a standard deduction. For tax year 2008, the standard deduction amounts generally were as follows: for single or married filing separately, $5,450; married filing jointly or qualifying widow(er), $10,900; and head of household, $8,000. For tax years 2008 and 2009, an additional deduction for property taxes permitted nonitemizers to increase their standard deduction by up to $500 ($1,000 if married filing jointly).

[27]For tax year 2008, certain itemized deductions (including mortgage interest and property taxes) were limited if a taxpayer's AGI exceeded $159,950 ($79,975 if married filing separately). Higher-income taxpayers also may be subject to the Alternative Minimum Tax (AMT), which can limit the dollar value of certain itemized deductions, including the property tax deduction. Both the AGI limit and AMT affect whether the amounts claimed result in a tax reduction and federal revenue losses. The President's fiscal year 2013 budget request proposes to limit the tax rate at which higher-income taxpayers can itemize deductions to a maximum of 28 percent. The proposal would affect married taxpayers filing jointly with incomes over $250,000 (or over $200,000 for single filers), and it is estimated to raise $27 billion in fiscal year 2013.

[28]For FHA and VA, we obtained borrowers' incomes from loan data and compared the income data with the AMI for the area. For RHS loans, the adjusted income (with adjustments for family size) of borrowers must not exceed 115 percent of AMI. Income information was not available in fiscal year 2009 data for about 97,600 VA borrowers.

Figure 2: Borrower Income Relative to AMI for Active Federal Single-Family Loan Guarantees, Fiscal Year 2009



Source: GAO analysis of agency data.

Further, although RHS may serve only borrowers with incomes at or below 80 percent of AMI in its direct single-family loan program, FHA also serves this group of borrowers. Specifically, 50 percent of FHA borrowers in fiscal year 2009 had incomes at or below 80 percent of AMI.[29] However, RHS single-family direct loans may be combined with other resources to help reach very low-income families that may not have the income or down payment often needed to qualify for other financing. For example, these loans may be used in self-help housing projects in which future owners help build their own houses. The "sweat equity" reduces the cost of construction and the overall loan amount.[30]

The loan guarantee programs overlapped in rural areas. USDA characterizes locations as rural or urban using different measures. Our analysis showed overlap in areas served using three different USDA

[29]Further, 25 percent of FHA borrowers had incomes at or below 50 percent of AMI.

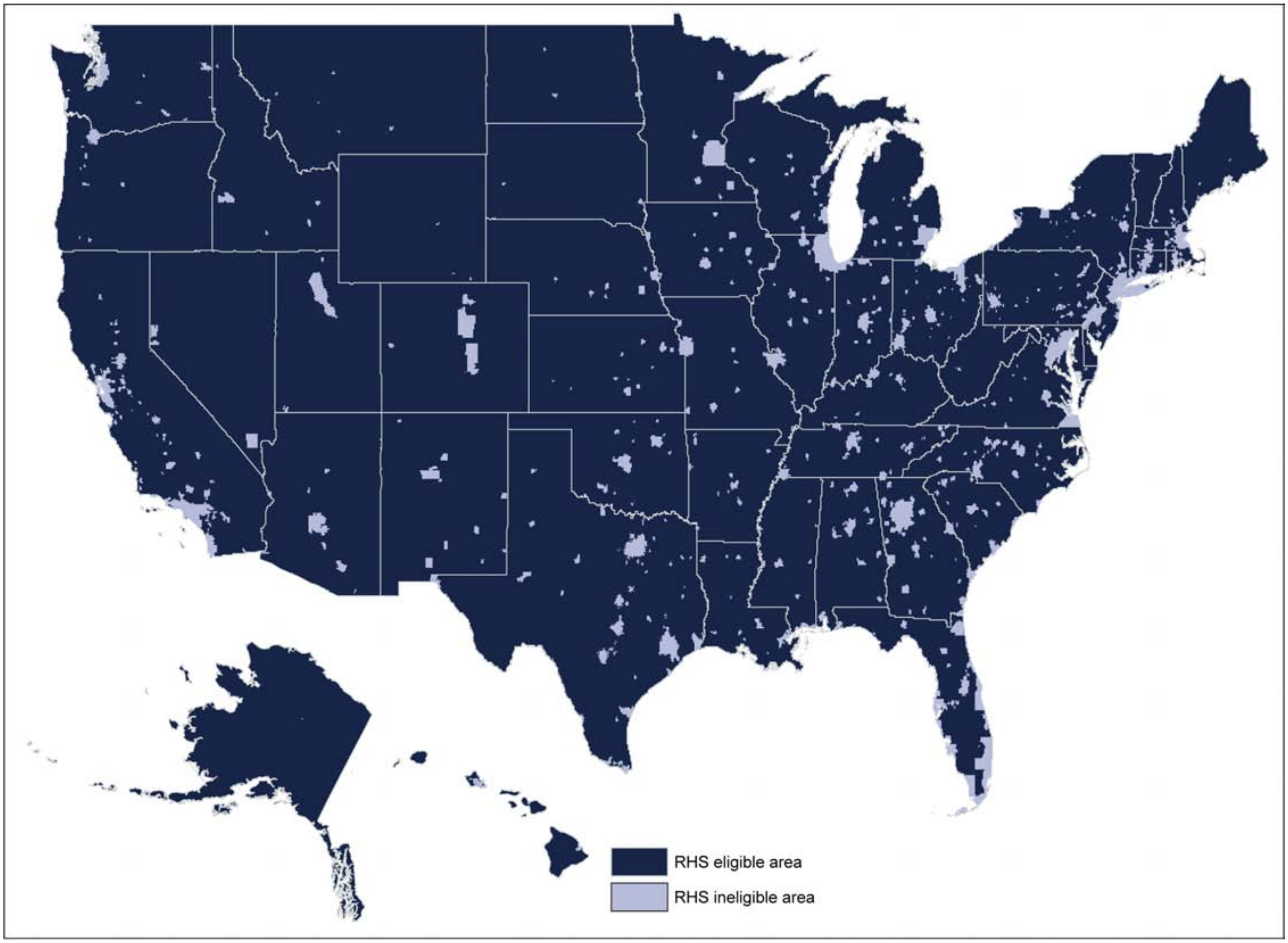
[30]OMB performance and accountability reports have cited RHS's single-family direct loan program and two self-help programs (one in HUD and one in RHS) that offer preconstruction financing as an effective way to leverage limited single-family resources. OMB has cited the combination as effective at promoting affordability and minimizing loan costs by using a unique construction method that promotes strong communities by building close bonds among future neighbors.

characterizations for geographic areas. Section 520 of the Housing Act of 1949, as amended, defines the terms “rural” and “rural area” for the rural housing programs that are the focus of this report. The definition is largely based on population, but also considers other factors, such as proximity to metropolitan areas and access to mortgage credit.[31] As of 2011, 97 percent of the land area of the United States and 37 percent of the population were eligible for rural housing programs (see fig. 3). Eligible areas will be adjusted based on the results of the 2010 Census. As we reported in 2004, the definition can lead to inconsistent eligibility determinations.[32]

[31]Any open country or any place, town, village, or city that is not (except in the cases of Pajaro, California, and Guadalupe, Arizona) part of or associated with an urban area and that (1) has a population not in excess of 2,500 inhabitants, or (2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character, or (3) has a population in excess of 10,000 but not in excess of 20,000, and (A) is not contained within a standard metropolitan statistical area, and (B) has a serious lack of mortgage credit for lower- and moderate-income families, as determined by the Secretaries of USDA and HUD. Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990 or 2000 decennial census shall continue to be so classified until receipt of data from the 2010 decennial census, if such area has a population in excess of 10,000 but not in excess of 25,000, is rural in character, and has a serious lack of mortgage credit for lower- and moderate-income families.

[32]See GAO, *Rural Housing: Changing the Definition of Rural Could Improve Eligibility Determinations*, GAO-05-110 (Washington, D.C.: Dec. 3, 2004).

Figure 3: RHS Eligible and Ineligible Areas, as of 2011



Source: GAO analysis of RHS data; MapInfo (map).

Although RHS offers its single-family products only in eligible rural areas, and FHA and VA programs are not restricted to any geographic location, FHA and VA also guaranteed a substantial number of loans in RHS-eligible areas. While a larger percentage of RHS borrowers with guaranteed loans were located in more remote rural areas compared with FHA and VA borrowers, FHA served a larger number of borrowers in these areas. Table 3 characterizes the location of single-family guaranteed loans relative to their distance from the boundaries separating

RHS-eligible and -ineligible areas. For example, 50 percent of the RHS single-family guaranteed loans were located inside or within 10 miles of ineligible areas and 23 percent were located more than 25 miles from ineligible areas. FHA and VA loans were concentrated in or close to RHS-ineligible areas; 89 percent of both FHA and VA loans were for properties inside or within 10 miles of RHS-ineligible areas, and 4 percent were for properties located more than 25 miles from RHS-ineligible areas. FHA guaranteed more loans than RHS in all location categories, including more than twice as many loans as RHS in areas more than 50 miles from RHS-ineligible areas.

Table 3: Number and Percentage of Single-Family Loan Guarantees, by Distance from RHS Ineligible Areas (Fiscal Year 2009)

Single-family loan guarantee programs	Located in an RHS-ineligible area	Located within 10 miles of an RHS-ineligible area	Located from 10 to 25 miles from an RHS-ineligible area	Located from 25 to 50 miles from an RHS-ineligible area	Located more than 50 miles from an RHS-ineligible area
FHA Section 203(b)	1,323,066 (72%)	319,010 (17%)	118,408 (6%)	49,818 (3%)	21,391 (1%)
VA Home Loan Guaranty	219,457 (65%)	80,560 (24%)	23,922 (7%)	9,887 (3%)	3,867 (1%)
RHS Section 502 - guaranteed	3,010[a] (2%)	57,731 (48%)	33,155 (27%)	18,921 (16%)	8,059 (7%)

Source: GAO analysis of agency data.

[a]Boundaries for ineligible areas change periodically, and these loans were likely in eligible areas in 2009, when the loans were made.

USDA's Economic Research Service categorizes zip codes by degree of rurality into four types—urban, suburban, small-town rural, and isolated rural.[33] While 89 percent of FHA's and 86 percent of VA's single-family loan guarantees were in urban or suburban zip codes, both agencies also guaranteed a substantial number of single-family loans in rural zip codes (see table 4). FHA guaranteed more loans than RHS in all zip code types. Further, FHA guaranteed more than 210,000 loans in rural zip codes, while RHS guaranteed 59,000 loans, or about half of its loans, in rural zip codes. Although a greater percentage of the RHS-guaranteed loans were in rural zip codes compared with FHA and VA loans, more than half the RHS-guaranteed loans were in urban and suburban zip codes.

[33]USDA's Economic Research Service categorizes zip codes by degree of rurality using measures of population density, urbanization, and daily commuting. A zip code may include both RHS-eligible and -ineligible areas.

Table 4: Number and Percentage of Single-Family Loan Guarantees by Zip Code Type (Fiscal Year 2009) and 2010 U.S. Population

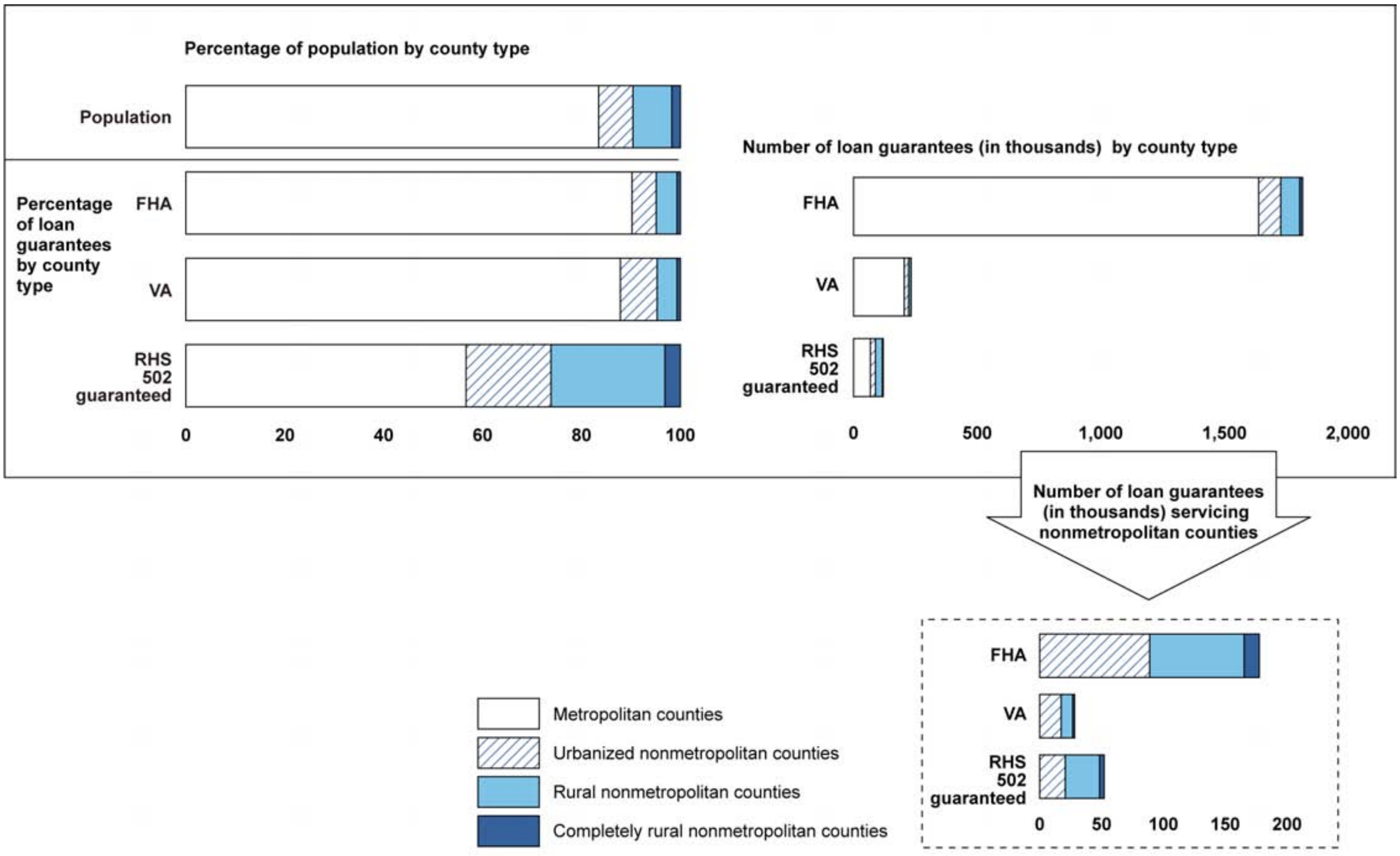
Single-family loan guarantee programs	Urban	Suburban	Small Town Rural	Isolated Rural
FHA Section 203(b)	1,407,987 (77%)	212,783 (12%)	128,769 (7%)	82,128 (4%)
RHS Section 502 - guaranteed	27,777 (23%)	34,090 (28%)	32,829 (27%)	26,177 (22%)
VA Home Loan Guaranty	243,141 (72%)	48,838 (14%)	31,644 (9%)	14,051 (4%)
U.S. Population	151,206,774 (49%)	102,575,782 (33%)	33,445,439 (11%)	21,511,936 (7%)

Source: GAO analysis of agency data.

The Economic Research Service also has developed a rural-urban continuum that categorizes U.S. counties by degree of rurality.[34] Using, this continuum, we distinguished four types of counties—metropolitan, urbanized nonmetropolitan, rural nonmetropolitan, and completely rural nonmetropolitan. FHA and VA also guaranteed a substantial number of loans in nonmetropolitan or what could be considered more rural counties (see fig. 4.) Additionally, FHA guaranteed more loans than RHS in both metropolitan and completely rural nonmetropolitan counties. Specifically, FHA guaranteed a greater number of loans than RHS in all the nonmetropolitan categories. And although a greater percentage of RHS-guaranteed loans were in nonmetropolitan counties compared with FHA and VA loans, more than half of its loans were in metropolitan counties.

[34]Rural-urban continuum codes form a classification scheme that distinguishes metropolitan counties by the population of their metropolitan area, and nonmetropolitan counties by degree of urbanization and adjacency to a metropolitan area or areas. A county may include both RHS eligible and ineligible areas.

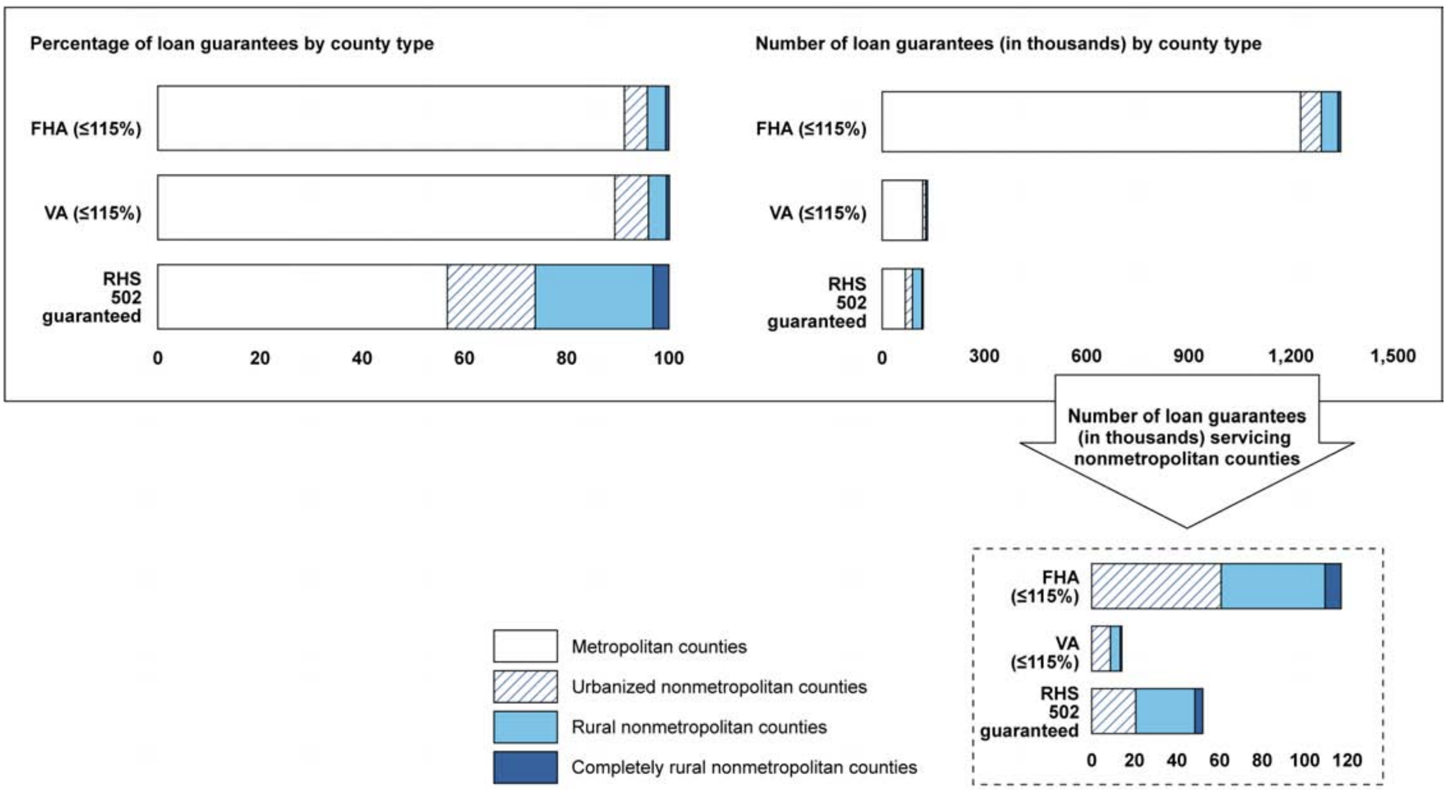
Figure 4: Percent, Number, and Location of Single-Family Loan Guarantees for Selected Programs, Fiscal Year 2009



Source: GAO analysis of agency data.

RHS limits eligibility for its single-family guaranteed loan program by geography and borrower income. When considering both these factors together using the rural-urban continuum, FHA guaranteed more loans to borrowers with incomes at or below 115 percent of AMI in all areas, including in completely rural nonmetropolitan areas, than RHS and VA combined (see fig. 5). Further, when considering only FHA borrowers with incomes at or below 80 percent of AMI (the eligibility constraint in RHS's direct loan program), in 2009 FHA guaranteed more loans in all areas than RHS, including in rural nonmetropolitan and completely rural nonmetropolitan areas.

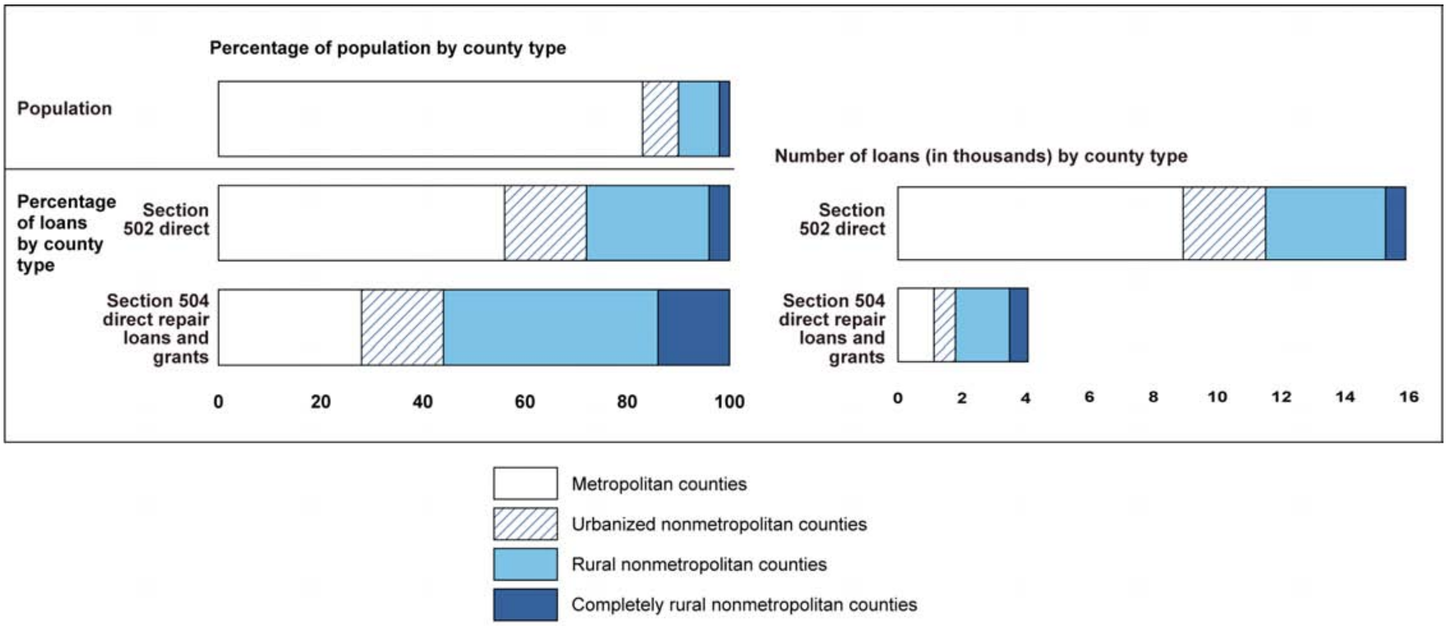
Figure 5: Percent, Number, and Location of Single-Family Loan Guarantees for Borrowers with Incomes at or below 115 Percent of AMI, Fiscal Year 2009



Source: GAO analysis of agency data.

For RHS's Section 504 program, the loans and grants were far more concentrated in rural areas. More than half of Section 504 Direct Repair Loans and Grants were made in nonmetropolitan counties in fiscal year 2009, with 14 percent made in completely rural counties (see fig.6). In contrast, the geographic distribution of loans made by RHS in the Section 502 single-family direct loan program was comparable with the distribution of loans in its Section 502 single-family guaranteed loan program. More than half of the loans were made in metropolitan counties, 16 percent in urbanized nonmetropolitan counties, 24 percent in rural nonmetropolitan counties, and less than 5 percent in completely rural nonmetropolitan counties.

Figure 6: Percent, Number, and Location of RHS Direct Loans and Grants, Fiscal Year 2009



Source: GAO analysis of RHS data.

While data from single-family programs show some overlap in income levels and geographic areas served, higher-income households were more likely to benefit from the mortgage interest and property tax deductions. Higher-income households are generally more likely to itemize and claim the mortgage interest and property tax deductions, because they have larger amounts to claim. Moreover, they also have received greater tax savings from the two deductions. For tax year 2008 (the most recent data available), taxpayers with an AGI of $100,000 or more accounted for 13 percent of all returns but claimed nearly half (47 percent) of all mortgage interest and property tax deductions.[35] In contrast, taxpayers with an AGI of less than $100,000 represented approximately 87 percent of all tax returns in 2008 but accounted for 53 percent of mortgage interest and property tax deductions.[36] As taxpayer

[35]To perform our analysis of the relationship between income level and geographic area and mortgage interest and property tax deductions, we reviewed zip code data from IRS (Statistics of Income) for tax year 2008. See appendix I for more details.

[36]The average AGI reported on 2008 individual tax returns was approximately $58,000.

income increases, the value of the tax deductions generally increases because higher-income taxpayers have higher marginal tax rates. For example, a taxpayer in the 35-percent tax bracket claiming $10,000 in mortgage interest would realize a tax savings of $3,500, compared with $2,500 for a taxpayer in the 25-percent bracket.

While both deductions are available nationwide, the share of deductions claimed was higher for urban areas. For tax year 2008, returns from urban zip codes represented 82 percent of all returns but accounted for 91 percent of total mortgage interest and property tax deductions claimed, whereas returns from rural zip codes represented 18 percent of all returns but 9 percent of total mortgage interest and property tax deductions claimed.[37] For tax year 2008, tax returns from 10 states—California, Colorado, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Virginia, and Washington—accounted for approximately half (51 percent) of all mortgage interest and property tax deduction dollars claimed but represented 37 percent of all returns. Other researchers also have estimated that tax expenditures for homeowners, such as the mortgage interest and property tax deductions, were more likely to be claimed, and in larger amounts, by taxpayers in major metropolitan areas, including along the Northeast and the West coasts.[38]

Delivery Structures

Delivery structures for single-family loans and loan guarantee programs vary somewhat for FHA, RHS, and VA. For guaranteed single-family loan programs, FHA, RHS, and VA use lenders and servicers to originate and service loans, but the roles and responsibilities of these entities differ

[37]IRS tax return data reported by zip code are based upon the mailing address the taxpayer reported, which can differ from the taxpayer's place of residence and any second residence claimed.

[38]Peter Brady, Julie-Anne Cronin, and Scott Houser, "Regional Differences in the Utilization of the Mortgage Interest Deduction," *Public Finance Review,* 31, no. 4 (July 2003): 327-366; Adam J. Cole, Geoffrey Gee, and Nicholas Turner, "The Distributional and Revenue Consequences of Reforming the Mortgage Interest Deduction," *National Tax Journal,* 64, no. 4 (December 2011): 977-1,000; Joseph Gyourko and Todd Sinai, "The Spatial Distribution of Housing-Related Ordinary Income Tax Benefits," *Real Estate Economics,* 31, no. 4 (2003): 527-575; and Todd Sinai, and Joseph Gyourko, "The (Un)Changing Geographical Distribution of Housing Tax Benefits: 1980 to 2000," *Tax Policy and the Economy*, 18 (2004): 175-208.

across agencies.[39] FHA approves lenders to participate in its mortgage insurance programs for single-family homes. As of September 2011, almost 3,700 lending institutions had been approved, virtually all of them as direct endorsement lenders (lenders that can determine eligibility for FHA mortgage insurance and underwrite loans without FHA's prior review).[40] VA determines lenders' eligibility and grants certain lenders automatic authority.[41] RHS also has a process for approving lenders, although the lenders cannot independently determine eligibility for a guarantee. RHS reviews and pre-approves every guaranteed loan application. FHA and RHS also allow lenders to select the property appraiser, but VA has a panel of approved appraisers and assigns them on a rotating basis.[42]

The agencies also assign servicers different roles in foreclosure processing. FHA, RHS, and VA assign foreclosure mitigation to the servicers; however, VA takes extra measures to avoid foreclosure, including reinstating loans and servicing them in-house. While all three agencies pay the associated costs for protecting the asset during the foreclosure process, FHA and VA take ownership of the property and use contractors to market and manage real estate-owned (REO) portfolios.[43] Servicers are responsible for liquidating the REO properties for RHS-guaranteed loans. RHS does not take ownership of properties but pays servicers for certain associated costs and plays a role in approving servicers' plans for selling individual properties. For its direct loans, RHS performs all functions in-house, including the origination and servicing of loans and managing and marketing of REO properties. RHS performs

[39]The lender or other mortgage holder may service its own loans or pay a fee for another organization to service its loans. Mortgage servicing involves administrative activities such as collecting monthly mortgage payments and maintaining escrow accounts for property taxes and hazard insurance. Mortgage servicers also are generally responsible for loss mitigation and conducting foreclosure proceedings.

[40]Underwriting refers to a risk analysis that uses information collected during the origination process to decide whether to approve a loan.

[41]Lenders with automatic authority can determine eligibility for VA mortgage insurance and underwrite loans without VA's prior review.

[42]RHS allows the lender to select any licensed or certified appraiser, while FHA maintains a roster of approved appraisers from which a lender selects an appraiser.

[43]Servicers do not convey properties to FHA immediately following a foreclosure sale. Servicers maintain the properties until any redemption periods have expired. In contrast, servicers convey properties to VA shortly after a foreclosure sale.

nearly all of this work at its field offices and centralized servicing center in St. Louis, Missouri.

The agencies also use different information systems to perform similar tasks and to allow lenders and servicers access to internal systems. FHA, VA, and RHS electronically verify borrowers' creditworthiness using automated underwriting systems. FHA and RHS systems interface with FHA's Technology Open to Approved Lenders mortgage scorecard, which assists lenders in the underwriting process for single-family guaranteed loans. FHA's mortgage scorecard works in conjunction with various automated underwriting systems and evaluates the overall creditworthiness of applicants and the associated risk level of loans. Agencies determine which automated systems lenders may use in the underwriting process. FHA reviews automated underwriting systems developed by third parties to interface with its mortgage scorecard.[44] VA has approved five automated underwriting systems developed by third parties. RHS has developed its own system in-house and customized it to also verify program eligibility. The agencies also use different data systems to track loan information. Through FHA's system, lenders and servicers can access internal FHA systems for loan origination and servicing, as well as for lender approval and monitoring. VA uses its application for loan servicing, loss mitigation, and claims processing. RHS uses its system for loan origination and servicing, as well as servicer claims and disposition of property.

FHA, RHS, and VA deliver, administer, and oversee programs and products through organizational structures consisting of headquarters and field locations, but the number of offices each agency devotes to its single-family program vary significantly. For example, to perform functions related to guaranteeing single-family loans, FHA uses a more centralized structure with about 800 field staff in 4 homeownership centers, while RHS employs a decentralized structure with more than 400 field staff spread across 278 state and local field offices and its centralized servicing center (see table 5). FHA, RHS, and VA perform similar functions in the field offices, but differences exist. All three agencies monitor lenders from the field offices, but FHA approves lenders in headquarters, while RHS and VA approve lenders to originate loans in

[44]FHA established a protocol for third parties to use in developing automated systems to interface with its mortgage scorecard. FHA relies on third-party interfaces in the loan endorsement process.

the field. FHA and VA both use contractors for certain functions, such as the management and marketing of foreclosed properties, and oversee the contracts. RHS reviews servicer-prepared plans for selling foreclosed properties, while the servicers manage and market them. RHS reviews these plans both at field offices and its centralized serving center in St. Louis, Missouri, although it has been moving toward performing this function centrally.

Table 5: Comparison of Field Office and Staff Numbers and Functions for Selected Single-Family Guarantee Programs at FHA, RHS, and VA, as of April 2012

Single-family guarantee programs	Number of field offices	Field/headquarters full-time equivalents	Functions performed at field offices
RHS 502 - guaranteed[a]	279	429/11	• Reviews and pre-approves requests for RHS mortgage guarantees • Approves and monitors lenders • Provides guidance to servicers for loss mitigation • Reviews servicer plans for loss mitigation and property disposition • Processes and pays loss claims
FHA Section 203(b)	4	799/212[b]	• Processes requests for FHA mortgage guarantees • Oversees and monitors lenders • Oversees appraisers • Oversees the management and marketing of homes acquired through foreclosure • Provides technical services, including training • Provides customer service to lenders and borrowers
VA Home Loan Guaranty	8	767[c]	• Determines eligibility and underwrites loans • Approves, oversees, and monitors lenders, appraisers, and servicers • Reviews appraisals and establishes the value of properties • Oversees the management and marketing of homes acquired through foreclosure • Provides assistance to borrowers and servicers during the foreclosure process • Provides customer service to lenders, servicers, and borrowers

Source: GAO analysis of agency documentation.

[a]For the purpose of this table, all nonheadquarters offices are considered field offices, including RHS's centralized service center in St. Louis.

[b]Full-time equivalent staff work on all FHA single-family programs.

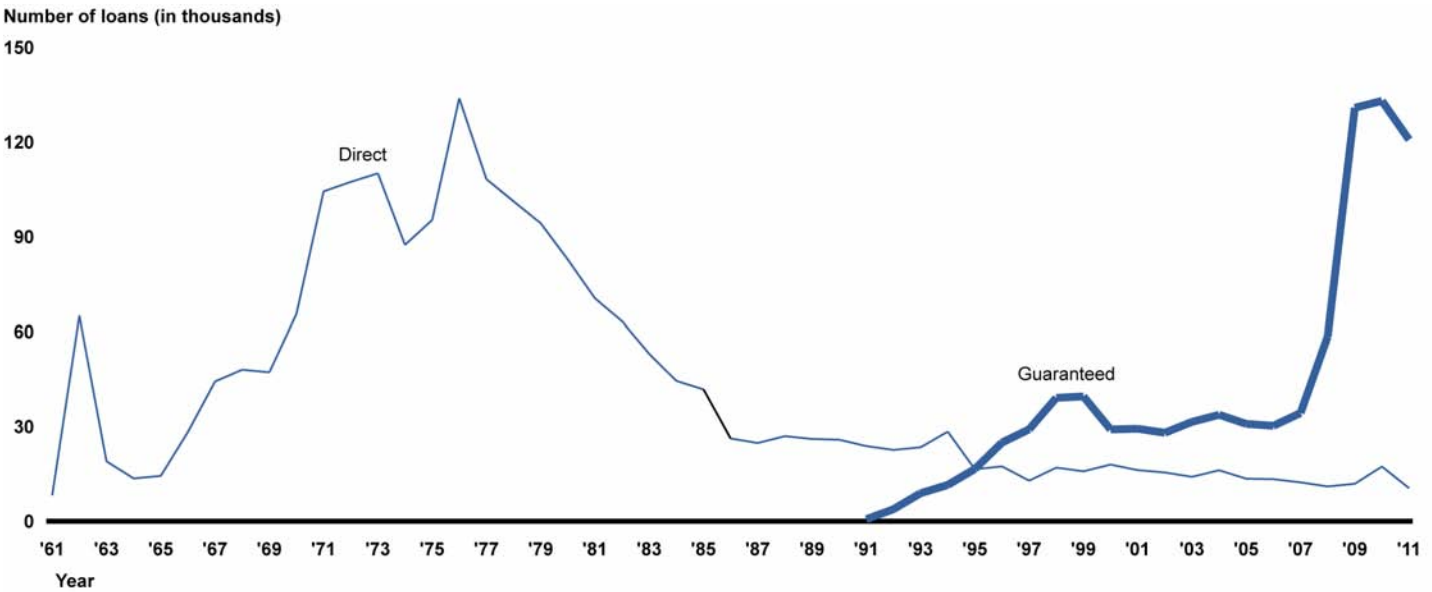
[c]Full-time equivalent staff at VA represent the total staff for all housing benefits programs in both headquarters and field offices.

The largely decentralized field structure at RHS has not kept pace with its shift towards guaranteed lending. RHS administration of direct loans is labor-intensive, requiring one-on-one interactions with rural residents. The direct program's lending peaked in the mid-1970s, but as we reported in 2000, its budget levels declined and the use of guaranteed loans over direct loans increased.[45] Since then, the move away from labor-intensive direct loans to guaranteed loans has accelerated (see fig. 7). In 1999, RHS made about 15,800 Section 502 direct loans, down from the 1976 peak of more than 133,000 loans. With the exception of increases in fiscal years 2009 and 2010 due to increased funding from the American Recovery and Investment Act of 2009, the trend has continued.[46] In contrast, RHS single-family guaranteed loans grew more than 200 percent from fiscal years 1999 to 2011.

[45]GAO/RCED-00-241.

[46]Pub. L. No. 111-5, 123 Stat.115.

Figure 7: Number of New RHS Direct and Guaranteed Single-Family Loans, 1961-2011



Source: GAO analysis of RHS data.

Partly due to the decrease in direct loans, RHS substantially has reduced the size of its field structure in terms of offices and staff. In 2000, we reported that about 6,500 employees administered rural development programs (which include RHS) through USDA headquarters offices, 47 state headquarters offices, 815 area and local offices, and the centralized servicing center in St. Louis. The number of area and local field offices dropped to about 480 in 2011, a 41 percent reduction from 2000. The Administration has proposed cutting an additional 43 field offices in fiscal year 2012. In 2012, following the implementation of early-out and buy-out authority, the number of rural development staff had dropped to about 5,350, an 18 percent reduction from 2000.

For tax expenditures, the deductions for mortgage interest and property taxes resemble entitlement programs in that they typically make funds available to all qualified claimants (through reduced taxes), regardless of how many claim the deductions, how much they claim collectively, or how much these claims reduce federal revenue. Because these are tax expenditures, IRS is responsible for enforcing the deduction rules and providing guidance to aid taxpayer compliance. Specifically, IRS matches mortgage interest information from lenders with taxpayer-reported amounts, conducts routine examinations by correspondence, undertakes special compliance projects for limited segments of taxpayers, and conducts ongoing compliance studies based on random samples of returns.[47] IRS examinations of the property tax deduction usually take place as part of a broader examination of inconsistent claims across an individual tax return. Whereas IRS receives mortgage interest information from lenders through statements known as information returns (Form 1098), local governments are not required to provide information on property taxes paid.[48]

Multifamily Housing Programs Have Similar Purposes but Many Differences

Agency Goals

We reviewed nine fragmented multifamily programs administered by HUD, USDA, and Treasury (see table 6). Although they have overlapping broad purposes to fund multifamily housing, only HUD has a priority goal and strategic goal specific to multifamily housing. That is, HUD has a priority goal to preserve affordable rental housing and a strategic goal to meet the need for quality affordable rental homes. USDA does not have a specific priority goal related to multifamily housing but under its broad strategic goal of assisting rural communities has a performance measure to track the number of affordable rental opportunities. Treasury does not have any priority or strategic goals or performance measures that identify or track tax expenditures related to multifamily housing. Nonetheless, seven of the selected HUD, USDA, and Treasury programs have the shared purpose of financing the development of new rental units or preserving existing units through refinancing or rehabilitation.[49]

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[47] GAO-09-769.

[48] See GAO, *Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance,* GAO-09-521 (Washington, D.C.: May 13, 2009).

[49] HUD and USDA have additional tools specifically for preserving multifamily housing. HUD's mark-to-market program is its principal tool for keeping low-income housing projects that were financed through HUD's multifamily programs affordable by restructuring the loans while reducing the long-term costs of federal rental assistance and monthly mortgage payments. USDA's Multifamily Housing Revitalization Demonstration Program allows restructuring of RHS Section 514, 515, and 516 loans and provides grants to extend the affordable use of the projects without displacing tenants due to increased rent costs. Additionally, HUD and USDA (RHS) offer rental assistance vouchers to households living in properties whose owners have opted out of the multifamily programs.

Additionally, HUD and USDA administer project-based rental assistance programs, which provide rental subsidies to property owners that provide housing for low-income households.[50]

Table 6: Selected HUD, USDA, and Treasury Multifamily Programs and Related Goals, as of Fiscal Year 2012

Agency	Program	Related strategic goal
Selected programs that finance multifamily housing		
HUD	Supportive Housing for the Elderly (Section 202)	Meet the need for quality affordable rental homes[a]
	Supportive Housing for Persons with Disabilities (Section 811)	
	Mortgage Insurance for Rental and Cooperative Housing (Sections 221(d)(3) and (d)(4))	
USDA	Multifamily Direct Rural Rental Housing Loans (Section 515)	Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving
	Farm Labor Housing Loans and Grants (Sections 514 and 516)	
	Rural Rental Housing Guaranteed Loans (Section 538)	
Treasury	Low-Income Housing Tax Credit (LIHTC)	None
Selected programs that provide rental assistance		
USDA	Rural Rental Assistance Payments (Section 521)	Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving
HUD	Project-based rental assistance	Meet the need for quality affordable rental homes[a]

Source: GAO analysis of agency strategic and performance plans.

[a]A related agency priority goal is to preserve affordable rental housing, as identified in HUD's fiscal year 2012-2013 Annual Performance Plan.

Agency Products

The seven selected financing programs administered by HUD, USDA, and Treasury provide financial incentives to private entities to develop or rehabilitate multifamily housing for lower-income households. These programs offer various types of assistance to housing developers,

[50]HUD operates a variety of project-based rental assistance programs through which it pays subsidies to private owners of multifamily housing. These subsidies are generally paid through contracts under Sections 202 and 811, project-based Section 8, Section 236 Rental Assistance Payment, and the Rent Supplement programs. For the purposes of this report, the "project-based rental assistance" program encompasses all these contracts.

including direct loans, capital advances, tax credits, and guaranteed loans.

The five programs described in table 7 differ in terms of tenant and geographic eligibility. For example, tenant income limits are at the very low-income threshold for HUD capital advances, $5,500 above the low-income threshold for USDA direct loans, and range from 50 to 60 percent of AMI for Treasury's LIHTC program. Furthermore, three of the five programs target specific populations. HUD has a program open only to tenants age 62 or older and a program open only to tenants with disabilities. USDA's Farm Labor Housing program is limited to tenants with a certain amount of income from farming or processing industries. In terms of geographic eligibility, the USDA Multifamily Direct Rural Rental Housing Loan program is limited to eligible rural areas. The HUD programs, the LIHTC program, and USDA's Farm Labor Housing programs are available nationwide. For the LIHTC program, each state receives its tax credit allocation based on population. The state HFA, which is responsible for administering the program, may set geographic and other preferences in its allocation plan for competitively awarding tax credits to developers. However, all five financing programs require that properties remain limited to specified income populations for an extended period (generally 30 years or more).

Table 7: Comparison of Selected HUD, USDA, and Treasury Programs That Finance Multifamily Housing

Agency	Program name	Type of assistance	Income eligibility	Targeted population	Location requirement	Terms and restrictions
HUD	Supportive Housing for the Elderly (Section 202)	Capital advance[a]	Very low-income	62 years or older	At least 15 percent of funds must be used in nonmetropolitan areas	Interest-free advance Housing must remain available to eligible population for at least 40 years or advance must be repaid
	Supportive Housing for Persons with Disabilities (Section 811)	Capital advance[a]	Very low-income	Persons with disability only	No	Interest-free advance Housing must remain available to eligible population for at least 40 years or advance must be repaid
USDA	Multifamily Direct Rural Rental Housing Loans (Section 515)	Direct loan	Capped at $5,500 above the low-income level	None	Eligible rural area	Interest as low as 1 percent Term up to 30 years Amortized up to 50 years Housing must remain available to eligible population for the term of the loan, unless prepayment of loan is allowed, which may remove requirements on tenants' income eligibility[b]
	Farm Labor Housing Loans and Grants (Sections 514 and 516)	Direct loan or grant[c]	Capped at $5,500 above the low-income level	Persons employed in farm labor or processing industries, and farm labor retirees	Section 514 and 516 assistance may be used for off-farm housing On-farm housing may receive only Section 514 assistance	Interest as low as 1 percent For farm labor housing loans, term and amortization up to 33 years For Section 514 loans, housing must remain available to eligible population for the term of the loan; for Section 516 grants, for 50 years

Agency	Program name	Type of assistance	Income eligibility	Targeted population	Location requirement	Terms and restrictions
Treasury	Low-Income Housing Tax Credit	Tax credit	Properties must set aside either 20 percent or more of units for households with incomes at or below 50 percent of AMI or 40 percent or more of units for households at or below 60 percent of AMI Annual tenant rents are limited to a maximum of 30 percent of either the 50 or 60 percent of AMI limits selected for the property	None	No	Housing must remain available to eligible population for at least 30 years

Source: GAO analysis of agency documentation.

[a]Section 202 and 811 programs also provide rental assistance payments for all or some of the units in a property.

[b]In those instances in which prepayment is allowed (generally, older projects), the period for which housing must remain available for targeted populations depends on several factors, including the owner's acceptance or rejection of USDA incentive offers to preserve the property for the targeted populations.

[c]Assistance under Section 514 constitutes direct loans and under Section 516, grants.

The selected HUD and USDA guaranteed loans, which also can be used to develop or rehabilitate multifamily housing, exhibit some overlap in general terms and conditions (see table 8). Both programs guarantee 40-year, fixed-rate loans; limit the dollar amount that can be borrowed for each unit; and designate maximum property values that can be financed. Both RHS and FHA charge an annual fee for loans, and RHS also charges an up-front fee. The insurance coverage is the same or nearly the same, with both FHA's 221(d)(4) and RHS's 538 loan guarantee programs covering 90 percent of lender or other mortgage holder losses. However, these guarantee programs differ in property and tenant eligibility requirements. FHA-guaranteed loans can be used for any property nationwide and have no tenant income limits, while RHS loan guarantees are limited to rental properties in eligible rural areas that serve moderate-income tenants. Nonetheless, more than half of the properties financed under the FHA-guaranteed loan program also receive payments through HUD's rental assistance programs and therefore are subject to certain rental assistance affordability rules.

Table 8: Comparison of Selected HUD and USDA Multifamily Guaranteed Loan Programs

Agency and program	Eligibility, terms, and restrictions	
HUD – Mortgage Insurance for Rental and Cooperative Housing (Sections 221(d)(3) and (d)(4))	Eligibility (tenant income, location)	• No limit on tenant income, but more than half of the properties are subject to income limitations because they also receive HUD project-based rental assistance • No limit on location
	Loan terms	• Maximum 40 years • Amortization up to 40 years • Must be fixed-interest • Requires compliance with wage standards under the Davis-Bacon Act[a]
	Guarantee	• Nonprofit sponsors or cooperatives using 221 (d)(3) - up to 100 percent of losses • Profit-motivated and all other sponsors using 221 (d)(4) - up to 90 percent of losses
	Up-front fee	• 0 percent
	Annual fee	• 0.45 percent for 221 (d)(3) loans in conjunction with LIHTC • 0.8 percent for all other 221 (d)(3) loans • 0.45 percent for all 221 (d)(4) loans
	Loan limits per unit[b]	• Nonprofit sponsors or cooperatives using 221 (d)(3) - $60,632 • Profit-motivated and all other sponsors using 221 (d)(4) - $53,720
	Loan-to-value limit	• From 83.3 to 95 percent
USDA - Rural Rental Housing Guaranteed Loans (Section 538)	Eligibility (tenant income, location)	• Tenant income at move-in may not exceed 115 percent of AMI, no further verification of income required • Average rents, including tenant-paid utilities, cannot exceed 30 percent of 100 percent of AMI, and no single unit can exceed 30 percent of 115 percent of AMI. • Property must be in an eligible rural area
	Loan terms	• Minimum - 25 years, maximum - 40 years • Amortization up to 40 years • Must be fixed-interest • Does not require compliance with wage standards under the Davis-Bacon Act[a]
	Guarantee	• Up to 90 percent of losses[c]
	Up-front fee	• 1.0 percent[d]
	Annual fee	• 0.5 percent
	Loan limits per unit[b]	• $52,676
	Loan-to-value limit	• For-profit borrowers - 90 percent of the lesser of the total development cost or property value • For nonprofit or public borrowers - 97 percent of the lesser of total development cost or appraised value

Source: GAO analysis of agency documentation.

[a]The Davis-Bacon Act requires that all laborers and mechanics employed by contractors and subcontractors must be paid at least the prevailing wage rate, including fringe benefits, in the local area in which they are employed, as determined by the Secretary of Labor. In addition, contractors are required to pay these workers weekly and submit weekly certified payroll records to the contracting or administering agency. 40 U.S.C. 3141-3144, 3146-3148.

[b]Loan limits vary by size of the unit, the type of structure, and the location of the project. Values listed are for one-bedroom units in nonelevator buildings.

[c]The guarantee amount, up to 90 percent of the loan amount, is negotiated between the lender and USDA.

[d]One percent of total loan amount multiplied by the percent of the guarantee.

Most of these seven programs share a common purpose—to finance the development or rehabilitation of multifamily housing—and may be combined with other federal sources of funding, state and local government funding, and private financing.[51] HUD, USDA, and industry experts have noted that combining funds from multiple multifamily housing programs generally has been useful in making sufficient financing available to develop rental housing. As a result, agencies encourage developers to obtain financing from multiple programs. For example, USDA direct and guaranteed multifamily loan programs give priority in project selection to applicants that demonstrate the intention to also use other funding sources, such as LIHTCs or housing and economic development programs administered by HUD. Similarly, the LIHTC program is often combined with other funding sources for multifamily housing development. For example, the California Tax Credit Allocation Commission gives priority to LIHTC project applications that have a funding commitment of at least $1 million from either USDA's Farm Labor Housing loan (Section 514) or grant (Section 516) program. According to the National Council for State Housing Agencies, nearly all state HFAs reported combining LIHTCs with other federal subsidies in 2009.[52]

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[51]While leveraging can be broadly defined as combining multiple sources of funds (such as federal, state, local, or private funds), it is also defined as using one source of funds to attract additional sources of funds. For example, a low-income housing development in which the federal government's initial investment attracted, or was the impetus for, additional private or other investment could be seen as a project that involved leveraging. See GAO, *Leveraging Federal Funds for Housing, Community, and Economic Development*, GAO-07-768R (Washington, D.C.: May 25, 2007).

[52]National Council of State Housing Agencies, *State HFA Factbook: 2009 NCSHA Annual Survey Results* (Washington, D.C.: 2011).

To guard against the potential for duplication or oversubsidization, projects financed through multiple federal programs are subject to certain requirements. For example, under LIHTC, projects receiving other federal subsidies receive less in tax credits than projects not otherwise subsidized by the federal government. Additionally, developers of affordable housing awarded multiple sources of public funding often must undergo multiple subsidy layering reviews, which are a statutory requirement to assure that federal resources are neither duplicative or wasteful when applied to affordable rental housing. However, combining financing from fragmented programs has created some inconsistencies and overlapping administrative requirements that can cause unnecessary complexity and cost. For instance, the multiple subsidy layering reviews can cause delays and add costs to projects that are preparing to start construction. As discussed in the next section of this report, the White House's Domestic Policy Council established the Rental Policy Working Group in early 2010 to respond to the need for better coordination and alignment of the various rental housing programs to reduce burden on program participants.

The final two multifamily programs we compared are project-based rental assistance programs at HUD and USDA (see table 6). Both rental assistance programs pay rental subsidies to property owners through contracts, limiting tenants' rent payments to 30 percent of adjusted income, and limiting eligibility to tenants with incomes not exceeding 80 percent of AMI.[53] USDA's Section 521 rental assistance contracts are only with owners of properties financed with USDA's Section 515 direct loans or off-farm labor housing properties financed with Sections 514 or 516. HUD's current project-based rental assistance contracts are only with owners of properties developed and rehabilitated through various HUD multifamily programs, USDA's Section 515 program, state financing programs, and the LIHTC program. Expansion of HUD's project-based rental assistance program is currently limited to properties receiving financing through Section 202 and 811 programs; however, property owners can continue to receive rental assistance as long as they fulfill program requirements and renew their contracts.

[53]As we have seen, some contracts may limit eligibility to tenants with incomes not exceeding 50 percent of AMI, such as those associated with properties financed with Sections 202 and 811.

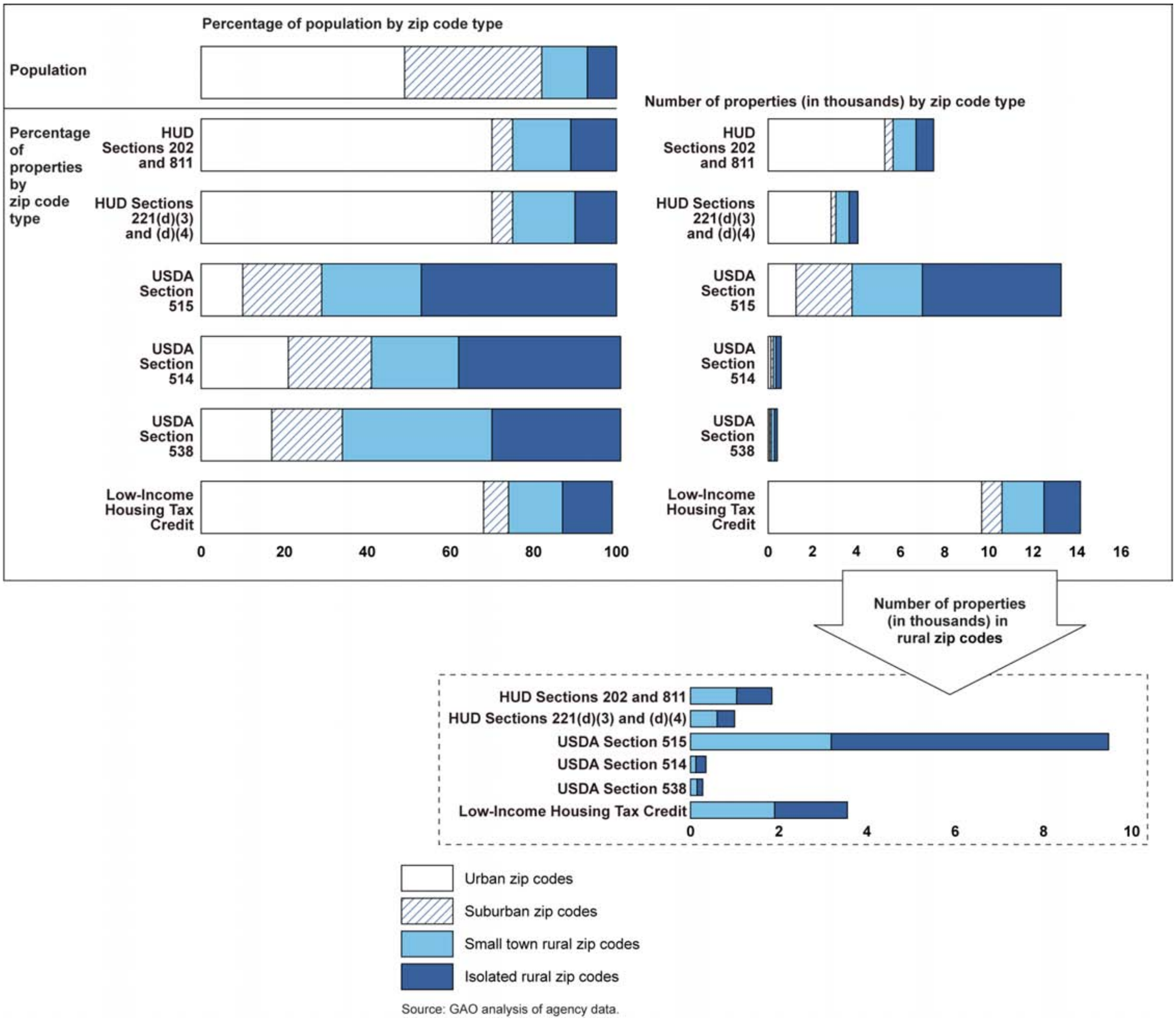
Geographic Areas Served

Multifamily properties financed with the selected USDA direct and guaranteed loan programs were more concentrated in rural areas, while properties financed with capital advances and guaranteed loans through the selected HUD programs and tax credits under the LIHTC program were concentrated primarily in urban and suburban areas. We compared the locations of all properties financed through the selected HUD, USDA, and Treasury programs using the USDA (Economic Research Service) categorization of zip codes—urban, suburban, small town rural, and isolated rural (see fig. 8). Seventy-one percent of the properties financed with the selected USDA financing programs were located in rural zip code types, which include small town rural and isolated rural.[54] Meanwhile, 25 percent of properties financed with the selected HUD programs and the LIHTC program were in rural zip codes. In examining the number of properties in rural areas that were financed with these programs, we found that USDA financed a greater number with its Section 515 direct loans, than the selected HUD programs or the LIHTC program. As described earlier, these financing programs can be combined, so properties financed with any of these programs also may have received financing through other programs. Therefore, the number of properties and units in figures 8 and 9 should not be summed. Additionally, this analysis represents only selected HUD programs that finance the development or rehabilitation of multifamily properties; HUD administers a number of other financing programs that support multifamily housing.[55]

[54]USDA did not provide unit-level data on grants made under Section 516; therefore, none of the properties or units financed by these grants are included in the geographic analysis.

[55]Other HUD financing programs also support multifamily housing, such as Risk Sharing Programs, Qualified Participating Entities (Section 542(b)), and Housing Finance Authority Risk Sharing (Section 542(c)). See e-supplement (GAO-12-555SP) for descriptions of programs.

Figure 8: Percent, Number, and Location of Selected Multifamily Properties



Source: GAO analysis of agency data.

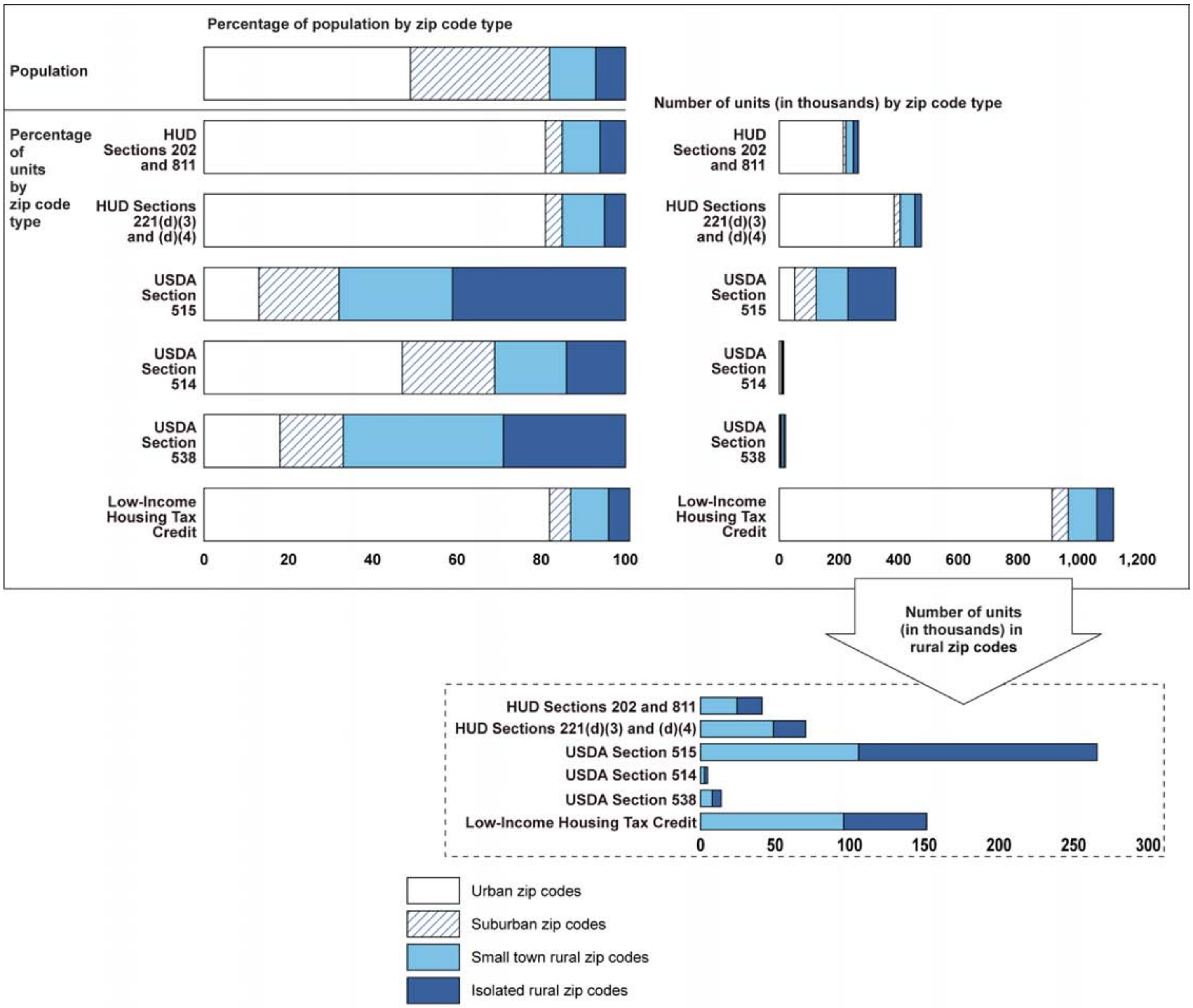
Note: Data on HUD programs are as of February 2012. Data on USDA programs are as of May 2012. Data on LIHTC projects are for projects placed in service from 1998 to 2007.

The average size of the properties varied, depending on the program and the location of the property. Properties in more rural areas contained a smaller number of units. For example, in urban zip codes, properties financed with HUD's Section 221(d)(3) and (d)(4) guaranteed loans contained an average of 135 units. However, HUD properties in the isolated rural zip codes were significantly smaller, with an average of 55 units. Similarly, for LIHTC projects, the average number of units per project was 94 in urban zip codes and 34 in the isolated rural zip codes. Meanwhile, properties financed with USDA's programs generally were smaller, regardless of location, than those financed with the selected HUD programs or the LIHTC program. Properties financed with USDA's Section 515 direct loans contained an average of 41 units in urban zip codes and an average of 25 units in isolated rural zip codes.

Although the average number of units in properties varied, with USDA properties having the smallest number of units, data show that USDA's support was stronger in rural areas (see fig. 9). About 70 percent of all the units financed with the selected USDA properties were in rural zip codes, while 15 and 14 percent of units financed by the selected HUD programs and the LIHTC program, respectively, were in these areas.[56]

[56]We also conducted a geographic analysis of HUD, USDA, and LIHTC data and distinguished four types of counties—metropolitan, urbanized nonmetropolitan, rural nonmetropolitan, and completely rural nonmetropolitan—using another classification scheme from the Economic Research Service (rural-urban continuum codes). Similarly, our analysis found that USDA funded more properties and units with the selected USDA programs in the three nonmetropolitan county types than the selected HUD programs and the LIHTC program.

Figure 9: Percent, Number, and Location of Units in Selected Multifamily Properties

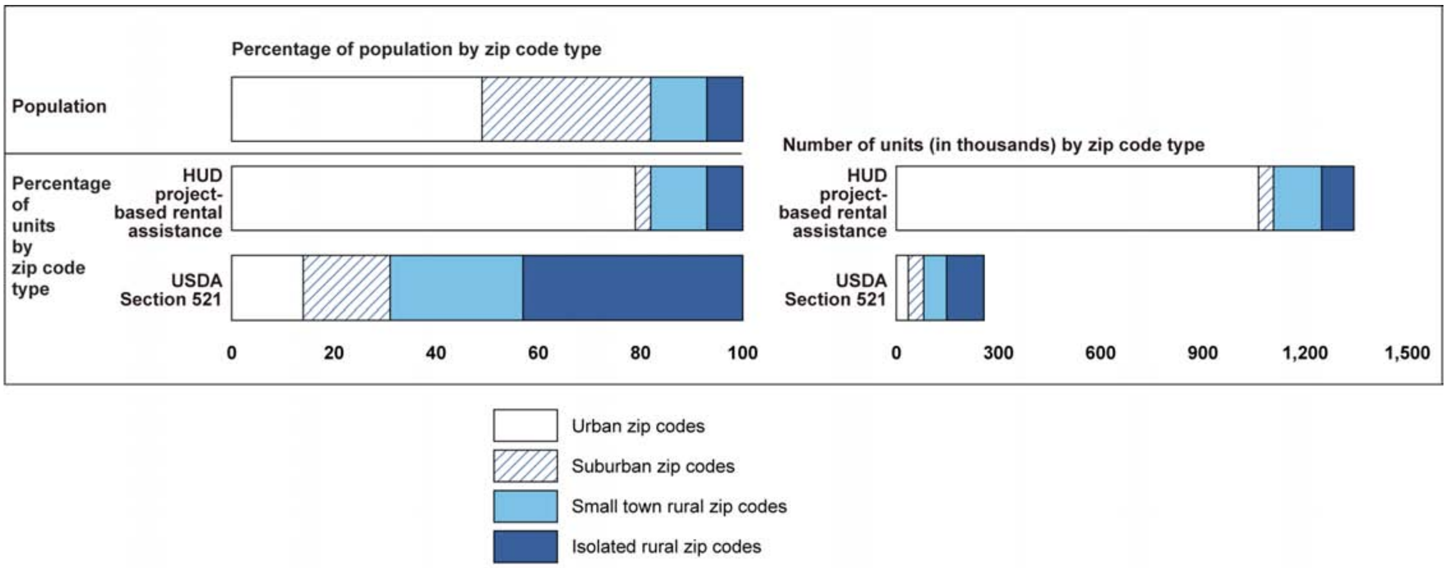


Source: GAO analysis of agency data.

Note: Data on HUD programs are as of February 2012. Data on USDA programs are as of May 2012. Data on LIHTC projects are for projects placed in service from 1998 to 2007.

Figure 10 shows that a large share—69 percent—of units receiving rental assistance through USDA's Section 521 were also in rural zip code types (small town rural and isolated rural), while a smaller share—18 percent—of units receiving HUD project-based rental assistance were in rural zip codes. [57] However, HUD-assisted units were more prevalent in rural zip codes than USDA-assisted units. While USDA provided rental assistance to 176,957 units in rural zip codes, HUD provided assistance to 235,828 units in rural zip codes.[58]

Figure 10: Percent, Number, and Location of Selected Rental Assistance Units



Source: GAO analysis of agency data.

Note: Data on HUD programs are as of February 2012. Data on USDA programs are as of May 2012.

[57]According to USDA officials, properties would not receive rental assistance through both USDA's and HUD's project-based rental assistance programs. However, properties financed with USDA's multifamily mortgage direct loans may receive rental assistance through HUD.

[58]We also conducted a geographic analysis of data on project-based rental assistance at HUD and USDA and distinguished four types of counties—metropolitan, urbanized nonmetropolitan, rural nonmetropolitan, and completely rural nonmetropolitan—using another classification scheme (rural-urban continuum codes) from the Economic Research Service. Similarly, our analysis found a larger share of units assisted with USDA's Section 521 in the three nonmetropolitan county types than units assisted with HUD's project-based rental assistance. However, HUD assisted a larger number of units in these county types than USDA.

Delivery Structures

The extent of overlap in delivery structures also varied, depending in part on what products or tools the programs used to support or finance multifamily housing. The six HUD and USDA multifamily financing programs we reviewed had broadly similar delivery structures. For HUD's capital advances (Sections 202 and 811) and USDA's direct loans and grants (Section 515 and Sections 514 and 516), nonprofit and certain for-profit organizations submit funding requests in response to a notice of funding availability.[59] HUD's and USDA's national, regional, and field offices share responsibility for the processing, reviewing, and approval of funding applications. Additionally, field office staff generally oversee and monitor the properties. For HUD- and USDA-guaranteed loans, developers of rental housing obtain loans through approved lenders; however, the lender approval and loan application processes differ. FHA has a process to approve lenders for the Sections 221(d)(3) and (d)(4) multifamily loan guarantees. As of June 2012, FHA had approved 88 lenders to participate in its Multifamily Accelerated Processing program for several of its multifamily loan programs, including Section 221(d)(3) and (d)(4). Through the accelerated program, lenders submit applications for FHA-guaranteed loans to HUD's multifamily field offices, which make eligibility determinations for the borrowers and the properties being financed. If eligibility requirements are met, the lender underwrites the loan and submits an agreement to the field office for approval and loan closing. In contrast, RHS allows lenders approved by FHA and other government entities to participate in its Section 538 guaranteed loan program (Rural Rental Housing). Lenders submit applications for RHS-guaranteed loans to USDA field offices in response to the notice of funding availability, and staff select proposals based on eligibility requirements and scoring criteria. USDA field offices then process applications and review the lenders' underwriting, and lenders finalize approved loans.

Treasury's LIHTC program is jointly administered by IRS and the state HFAs. The credit is an indirect federal financing source and resembles a grant program in that state HFAs are responsible for allocating the credit on a competitive basis to owners of qualified low-income rental projects. Owners, typically partnerships, obtain equity to fund the project through capital contributions. In exchange for the capital contributions, investors receive a partnership interest entitling them to claim the tax credits and

[59]For-profit organizations must have a limited profit partnership.

other tax benefits associated with ownership in the project to offset federal income taxes. Once the project is placed in service, the partners can claim the annual credit for 10 years. HFAs monitor the projects for compliance with federal LIHTC requirements for household income, rents, and project habitability. IRS is responsible for issuing regulations on HFA compliance with monitoring requirements and taking steps to ensure that HFAs allocate no more credit than they were authorized and that taxpayers claim no more in LIHTCs than they are eligible to claim.[60] Noncompliance with federal LIHTC requirements in the first 15 years may result in IRS denying claims for the credit in the current year or recapturing funds for the credit claimed in prior years. HFAs are also responsible for overseeing compliance over the entire LIHTC extended use period, which is at least 30 years. Noncompliance after the 15-year LIHTC compliance period is not reported to IRS, but may result in action under state or local law.

The selected project-based rental assistance programs at HUD and USDA are similar in that they provide direct payments to rental property owners on behalf of tenants for a designated number of units. At HUD and USDA, the payments are subject to contracts with property owners, generally for 1 year. Under both programs, rental property owners have certain responsibilities for ensuring that households meet program eligibility requirements and for calculating households' payments. However, the programs differ in contract administration. Most of HUD's contracts with rental property owners are managed through performance-based contract administrators—typically, public housing authorities or state HFAs—that are responsible for overseeing, monitoring, and processing rental assistance payments.

In contrast, USDA's national, state, and local offices share responsibility for monitoring contracts and processing rental assistance payments. Further, both HUD and USDA's rental assistance programs must review their programs annually to identify and reduce significant improper payments; however, their methods differ. For example, HUD uses an automated system that matches income and wage data from the Department of Health and Human Services and the Social Security Administration with information reported by the tenants to help verify that

[60]Although not an administering agency, HUD collects data from state HFAs and maintains a database of LIHTC property-level data.

tenants are accurately disclosing all income sources and amounts to property owners and housing agencies. However, USDA does not use such a system. According to USDA officials, they do not have the authority to access such information from the other agencies. We previously suggested that Congress grant RHS authority to access data from the Department of Health and Human Services. Recently, we restated that suggestion and recommended that RHS develop proposed legislation that, if enacted, would give RHS access to Social Security Administration data.[61] RHS has proposed similar legislation as part of the fiscal year 2013 budget.

As we have seen, HUD and USDA administer their multifamily financing and rental assistance programs through staff located in their headquarters and field offices. The HUD multifamily programs we reviewed are administered mostly through staff located in HUD's 51 field offices. According to USDA, it administers the selected multifamily direct loan programs through staff in 362 state and local field offices and the multifamily guaranteed loan program through staff in 83 state and local field offices.

In addition to the staff needed to administer its multifamily housing financing and rental assistance programs, HUD and USDA must utilize information technology in administering these programs. For example, HUD and USDA maintain separate databases that track similar information on compliance status for all their subsidized properties. Specifically, HUD and USDA track financial, physical, and management compliance information for properties that are financed through their programs. Also, HUD and USDA maintain databases that track payment information for agency-guaranteed loans and rental assistance under project-based rental assistance contracts.

[61]See GAO, *Rural Housing Service: Updated Guidance and Additional Monitoring Needed for Rental Assistance Distribution Process*, GAO-04-937 (Washington, D.C.: Sept. 13, 2004); and GAO-12-624.

Opportunities Exist to Improve Collaboration and Effectiveness but Would Involve Trade-offs

HUD, USDA, VA, and Treasury have collaborated on efforts in their housing programs, but opportunities exist to improve collaboration and effectiveness. Specifically, the Single Family Housing Task Force has not yet developed a formal approach to help guide its collaboration efforts. And, although the Rental Policy Working Group has followed best practices and increased collaboration on selected multifamily rental housing programs, its efforts have not been as effective as possible. Consolidation or increased coordination of some programs and activities could be beneficial, but also entails significant challenges and implications that we discuss below.

No Formal Approach to Guide Single-Family Collaboration Efforts

As of April 2012, a number of federal efforts to coordinate housing programs were at various stages of implementation, including a task force established to evaluate the potential for coordinating or consolidating single-family loan programs.[62] Overall, the task force's efforts have not incorporated key principles on effective collaboration. In February 2011, the Administration reported to Congress that it would establish a task force to evaluate the potential for coordinating or consolidating the single-family loan programs at HUD, USDA, and VA.[63] The members of the task force include senior-level officials from each of the three agencies and OMB officials. According to the officials, besides naming members, no dedicated funding or other resources had been devoted to the task force as of April 2012.

We have reported that federal agencies often face a range of barriers when they attempt to collaborate with other agencies, including missions

[62]In another example, the President signed an Executive Order on June 9, 2011, establishing the White House Rural Council. The council was established in part to coordinate the Administration's efforts in rural America to (1) streamline and improve the effectiveness of programs serving rural America; (2) engage stakeholders on issues and solutions in rural communities; and (3) promote and coordinate private-sector partnerships. The council consists of department and agency heads from 25 federal entities, including the Secretary of Agriculture who serves as chairman. Since the council's establishment, members hosted nearly 200 roundtable discussions in rural communities. The council also issued a report, "White House Rural Council Feedback from Rural America," which provides an overview of what was learned during visits to rural parts of the country. According to the Rural Council's chairman, the council is expected to ultimately address the issues identified in its report.

[63]The task force stems from the Administration's plan for reforming the government's role in housing finance, and is discussed in a report to Congress, "Reforming America's Housing Finance Market," released in February 2011.

and goals that are not mutually reinforcing, concerns about controlling jurisdiction over missions and resources, and incompatible procedures, processes, data, and computer systems. In an October 2005 report, we identified eight key practices that can help enhance and sustain collaboration among federal agencies. The key practices are (1) define and articulate a common outcome; (2) establish mutually reinforcing or joint strategies; (3) identify and address needs by leveraging resources; (4) agree on agency roles and responsibilities; (5) establish compatible policies; (6) develop mechanisms to monitor, evaluate, and report on results; (7) reinforce agency accountability for collaborative efforts through agency plans and reports; and (8) reinforce individual accountability for collaborative efforts through performance management systems.[64] While these practices can facilitate greater collaboration, we recognize that other practices also may do so. Furthermore, the specific ways in which agencies implement these practices may differ in the context of the specific collaboration challenges agencies face. For example, joint activities can range from occasional meetings between employees in which the roles and responsibilities of the respective agencies are reaffirmed, to more structured task teams operating over a period of time. But absent effective collaboration, routine interagency meetings could result in limited information being communicated and few joint agreements reached or implemented.

In comparing the single-family task force's efforts with key collaboration practices, we found that the agencies have not taken steps that are consistent with the practices. For example, other than the announcement of the task force, member agencies said that they had yet to identify goals or expected outcomes, and could not provide strategies each agency might utilize. The task force can benefit from identifying and agreeing on goals, and evaluating the goals against realistic expectations of how to achieve them. The task force also has not yet identified resources needed to accomplish its goals; agreed on roles or responsibilities; taken steps to establish compatible policies, procedures or other means to operate; or made clear how they would be made accountable for collaborative efforts and report on results. In addition to our key practices, the Government Performance and Results Act Modernization Act of 2010 (GPRAMA), establishes a new framework for agencies to improve government

[64]See GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

performance by taking a more crosscutting and integrated approach to key issues.[65] GPRAMA requirements could lead to improved coordination and collaboration among agencies. For instance, GPRAMA requires each agency to identify the organizations and program activities—both internal and external to the agency—that contribute to each agency's goals. However, according to HUD and USDA officials, much of the single-family task force's efforts to date have been informal. For instance, the officials noted that senior agency officials met biweekly in teleconferences to share information and best practices on housing policy and programs and discussed current economic issues affecting the housing market and ways to streamline the housing programs in a coordinated manner.

According to HUD and OMB officials, aside from the biweekly meetings, a benchmarking effort associated with the single-family task force recently was established. Specifically, OMB will collect and analyze data on direct and guaranteed housing loan programs as a way to develop greater insight into best practices, potential overlap, and synergies among the housing programs. According to HUD, as of April 2012, no milestones or resource estimates were available for the task force and no results were expected until a more formal approach for the task force was established. Additionally, agency officials stated that no further collaborative efforts among single-family housing programs were planned. OMB and HUD officials stated that over the past few years, agency attention has been focused on trying to improve the overall condition of the housing market, making it difficult to turn attention to interagency efforts for program coordination or consolidation. HUD officials also noted that the ongoing housing crisis has been a complicating factor in addressing the broader issue of housing finance reform, and mostly has overshadowed the issue.

Nonetheless, in addition to focusing on the ongoing housing crisis and the level of government support for the housing market, it is also important to focus some attention on the way that government support for housing is delivered and strike the appropriate balance between these issues. The task force was established to explore ways in which programs can be better coordinated or consolidated to serve homeowners more effectively. Part of that analysis is the assessment of coordination and consolidation of HUD, USDA, and VA programs. By incorporating key practices on

[65]Pub. L. No. 111-352, 124 Stat. 3866 (2011). GPRAMA amends the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (1993).

collaboration and developing a more formal approach for the single-family task force, HUD, USDA, VA, and OMB can evaluate the potential for coordinating or consolidating single-family loan programs, and possibly generate savings and efficiencies while better serving homeowners. They also may be able to help drive further collaboration, establish complementary goals and strategies for achieving results, and increase transparency (by reporting on their collaborative efforts). As the task force moves forward, developing a formal approach for the task force's collaborative efforts could help the agencies establish the guidance and direction needed to systematically bring about a productive working relationship and further help improve single-family loan programs.

Opportunities Exist to Increase Effectiveness of Multifamily Collaboration Efforts

HUD, USDA, and Treasury officials have been working to align the requirements of some multifamily housing programs through the Rental Policy Working Group. Although the efforts of the working group have been consistent with a majority of our key practices, the group has yet to take additional steps to reinforce agency accountability for collaborative efforts.

In response to the need for better-coordinated multifamily housing policy, in July 2010 the White House's Domestic Policy Council established the interagency Rental Policy Working Group. The working group consists of the White House Domestic Policy Council, National Economic Council, OMB, HUD, USDA, and Treasury. The purpose of the working group is to better align rental requirements across programs, and thereby increase the effectiveness of federal rental policy and improve participant outcomes. According to working group documents, the group established guiding principles, which centered on administrative changes that could help respond to the concerns of external stakeholders (rental housing owners, developers, and managers, and state and local housing agency officials); required minimal statutory action; were realizable at little or no cost or through education, outreach, or the issuance of new guidance or rules; and helped create cost and time savings for all parties.

The working group solicited recommendations for improved rental policy coordination from external stakeholders. Within the working group, interagency teams considered the recommendations, reviewed current policies, and identified opportunities for greater federal alignment, increased overall programmatic efficiency, and reduced costs and regulatory burdens. Stakeholders have noted that inefficiencies can arise when a multifamily housing project has multiple layers of assistance (such as subsidies, tax expenditures, or mortgage insurance) from one or more federal agencies. To help address those inefficiencies, the working group identified 10 key areas or initiatives for alignment and further study, based on recommendations from rental housing owners, developers, and managers, and state and local officials (see table 9). Overall, the initiatives are aimed at reducing unnecessary program regulations, lessening administrative barriers so that developers and property owners more easily can participate in programs, reducing duplicative administrative actions to reduce costs for agencies and program participants, and increasing coordination to allow better targeting of agency resources.

Table 9: Rental Policy Working Group's Alignment Initiatives, as of December 2011

Key initiative	Issue	Lead agency	Proposed alignment
Physical inspections	A property that has multiple federal funding sources may be subject to multiple physical inspections using multiple standards.[a]	USDA	One periodic and regularly occurring federal physical inspection acceptable to all federal funding sources and the local and state agencies to which appropriate authority has been delegated.
Income reporting and definitions	Various federal programs to support affordable housing have slightly differing requirements for income certifications and require property managers and owners to submit information on different forms or through different processes, which may lead to inconsistencies in determinations of income and rents or administrative burden.	Treasury-IRS	Increased education and outreach, development of a common form for tenant income certification, and promotion of a single (annual) recertification that would allow owners to coordinate recertifications to satisfy the requirements of all programs at once.
Financial reporting	Properties with funding from different federal programs may have to submit duplicative financial statements and have multiple audits prepared according to different audit standards.	USDA (short-term alignment), HUD (long-term alignment)	Modify existing requirements or exempt USDA and HUD jointly subsidized properties from certain requirements, and standardize financial reporting requirements.
Common energy-efficiency requirements	Federal programs that help produce and preserve rental housing vary widely in terms of their energy-efficiency requirements.	HUD	Adapt a new framework for addressing the complexity of energy-efficiency requirements that includes a common baseline or minimum standard that does not preclude programs from implementing more rigorous standards. The framework would be based on (1) new construction or gut rehabilitation with grants, (2) other new construction or gut rehabilitation, (3) substantial rehabilitation, (4) moderate or other rehabilitation, and (5) energy retrofits.
Appraisal primer	Federal law indirectly requires the use of the Uniform Standards of Professional Appraisal Practice as the basis for real estate appraisal work; however, federal and state housing agencies' capabilities and methods for enforcement vary.	HUD	Develop and publish a primer intended to be freely available (in print and on the web) and widely distributed, and promote this learning tool among agencies and industry participants.

Key initiative	Issue	Lead agency	Proposed alignment
Market study standards	There is no national standard of practice for market studies and no broadly acknowledged "keeper" of such standards.	HUD	Coordinate USDA and HUD guidance on market studies. In addition, provide ongoing support and assistance to the National Council of Affordable Housing Market Analysts and other industry advocates, and promote market study literacy among housing and community development practitioners.
Subsidy layering review	The Housing and Economic Recovery Act of 2008 encouraged the federal government to standardize its subsidy layering review processes, but consistency is still lacking.	USDA	Agree on a standard set of subsidy layering data and collect the data in a standard format. Additionally, establish a process and timeline to immediately share data and findings among all state and federal entities.
Capital needs assessment	Federal agencies and programs currently have different requirements for what constitutes a valid capital needs assessment.	HUD	The participating federal agencies will direct and procure the development and implementation of a new, single template tool for federal and state agencies that administer rental housing program funds that require capital need assessments.
Data sharing on owner defaults	New participants to most HUD and USDA multifamily program must disclose information on any instances of prior noncompliance with agency requirements, including defaults, debarments, and results of physical inspections and management reviews. While an automated system is used to track this information, only HUD staff have direct access to the system.	HUD	Grant USDA access to HUD's database and include USDA's compliance information in the database.
Fair housing compliance enforcement	In 1997, HUD and USDA signed a memorandum of understanding (MOU) to cooperate formally in the processing of USDA civil rights cases, joint investigations of civil rights issues, sharing of documents, the conciliation or informal resolution of cases, and the development of sanctions. In 2000, Treasury, HUD, and the Attorney General of the United States signed a Fair Housing Act MOU to improve Fair Housing Act enforcement, educational outreach, and IRS agency guidance addressing significant civil rights concerns in the LIHTC program.	HUD	Renew and follow more closely the existing Fair Housing MOUs from 1997 and 2000 that largely have not been followed and remain dormant.

Source: White House Rental Policy Working Group December 2011 Report.

[a]This refers to all multifamily rental properties that receive a combination of federal assistance (such as low-interest loans, loan guarantees, grants, or tax credits) and state and local assistance.

For two initiatives, HUD, USDA, and other federal and state housing agencies have pilot programs under way in several states to test the alignment activities before national implementation.[66] Specifically, two pilots will assess the feasibility of the proposed changes to physical inspections and subsidy layering reviews and identify steps for better coordination and information-sharing for potential replication on a national scale. As of April 2012, the participating state HFAs and federal agencies had signed memorandums of understanding (MOU) detailing roles and responsibilities. The working group plans to develop recommendations from the pilot findings.

In comparing the Rental Working Group's efforts against the key practices that we previously identified to help agencies effectively collaborate, we found that HUD, USDA, and Treasury have taken steps that are consistent with a majority of the practices. In particular, the agencies, through the Rental Policy Working Group,

- defined and articulated a common outcome;
- established mutually reinforcing or joint strategies in soliciting suggestions from federal, state, local, and private officials;
- allocated resources and identified key initiatives, including estimating the resources and time frames necessary for implementation;
- agreed on roles and responsibilities, including designating a responsible lead office and participating offices to help implement the alignment activities;
- established compatible policies and procedures and collected and analyzed information that led to the prioritization and development of the recommendations for rental policy alignment;

[66]States participating in the pilot assessing physical inspection alignment are Michigan, Minnesota, Ohio, Oregon, Washington and Wisconsin. States participating in the pilot assessing alignment of subsidy layering reviews are Michigan, Nevada, North Carolina, Ohio, Pennsylvania, South Carolina, and Wisconsin.

- developed mechanisms to monitor, evaluate, and report on their efforts, established milestones for alignment activities, and launched pilots to test some alignment activities; and

- used performance-management systems to strengthen individual accountability for results for some senior agency executives.

Finally, in some cases, the agencies used a more formal approach to collaboration, such as an MOU, to specify the roles and responsibilities of those involved in the alignment effort.

Although the efforts of the Rental Policy Working Group are consistent with the majority of our key practices, the working group has not yet taken additional steps to reinforce agency accountability for collaborative efforts. Methods to build accountability for collaborative efforts include documenting those efforts (and associated goals, strategies, roles and responsibilities, actions or measures to be taken, and timelines) in the agencies' annual and strategic plans. Our review of the agencies' recent annual and strategic plans found that none of the agencies in the working group had included their collaborative efforts. By not including their collaborative efforts in the plans, the agencies have not taken full advantage of opportunities to further build accountability for actions already taken, or underway. For example, they have missed opportunities to underscore the importance of their collaborative efforts agencywide.

Furthermore, the Rental Policy Working Group efforts did not include any plans to deal with statutory changes that could help increase overall programmatic efficiency and reduce costs and regulatory burdens once the administrative changes were implemented. To achieve more immediate results, the Working Group started with those actions that required no statutory action. However, the working group's long-term collaborative efforts could be enhanced if it were to include areas beyond administrative changes. According to USDA and Treasury, the Working Group's efforts helped inform proposals in the President's fiscal year 2013 budget (for legislative changes to the LIHTC program). By not expanding its guiding principles to include statutory changes, the agencies may miss additional opportunities to highlight those areas in which statutory action could help respond to additional stakeholder concerns and generate savings and efficiencies in housing programs. Such information about statutory changes also could help to provide relevant and useful information to policy makers as they consider overall improvements to HUD, USDA, and Treasury housing programs.

Coordinated Reviews of Housing Tax Expenditures and Related Programs Would Be Beneficial

As we recommended in September 2005 and reiterated in March 2011, coordinated reviews of tax expenditures and related housing spending programs with similar goals could help assess the relative effectiveness of tax expenditures in terms of their benefits and costs, and help policymakers reduce overlap and inconsistencies and direct scarce resources to the most-effective or least-costly methods to deliver federal support. As of April 2012, OMB had not used its budget and performance review processes to systematically review tax expenditures and promote integrated reviews of related tax and spending programs. GPRAMA could serve as a vehicle for furthering interdepartmental coordination of housing programs, including tax expenditures. As noted previously, in February 2012, the Administration announced 14 interim crosscutting policy areas, and some goals specifically identify tax expenditures as contributing activities.

The combination of the LIHTC program with other federal, state, or local funding sources helps underscore the importance of assessing the effectiveness, costs, and benefits of tax expenditures in relation to housing programs. In 2007, we reported that using federal funds to leverage nonfederal funds can be a useful tool for financing affordable housing and that public and private-sector officials generally regarded it favorably.[67] However, we also reported that leveraging at the project level can be challenging and inefficient, partly because federal, state, and local funding sources often have different application and other requirements and deadlines. As discussed previously, the Rental Policy Working Group was created in part to address these varying requirements.

For this report, we interviewed developers and industry representatives, who estimated that leveraging different funding sources and the associated requirements and the time needed to put together the multiple funding sources necessary to make projects feasible increased project costs. For example, one multifamily developer told us that it typically took from 3 to 4 years to begin construction and leveraging the various funding sources typically added 5-10 percent to project costs. He stressed that the biggest factor in extending project lengths was the time needed to secure multiple funding sources, navigate and comply with multiple requirements, and align funding cycles. He added that obtaining LIHTCs also can slow the process because a project might not receive credits one

[67] See GAO-07-768R.

year or might require more than one year's worth of credit allocations from the state before it was feasible.

The 2007 report also concluded that better information about combining multiple federal sources and amounts—from both tax and spending programs—for rental housing projects could be useful in identifying areas for agencies to coordinate program measurement. Although Treasury tracks taxpayer compliance with LIHTC program rules and HUD collects some information on a few other types of federal subsidy an LIHTC project might receive, neither agency collects leveraging data nor reports a leverage measure for the program. Basic financial information about the multiple sources and amounts—from tax and spending programs—a housing project received could be useful in identifying areas for agencies to coordinate in measuring performance for programs that have overlapping purposes. As we reported in 2008, while HUD and Treasury reported leverage measures that described the ratio of all other funds (federal, state, local, and private) compared with a specific program's funds, alternative measures describing total federal investment provided considerably different results and could be of value to policymakers.[68]

To provide more accurate, relevant, and useful information to Congress and others, our 2008 report recommended that OMB provide guidance to help agencies determine how to calculate, describe, and use leverage measures in a manner consistent with their programs' design; and reevaluate the use of such measures and disclose their relevance to program goals and in future performance reviews of housing programs. At the time, there was no agency-specific or government-wide guidance on what agencies should disclose about the leverage measures they reported or how to calculate them for specific programs. Although OMB has used leveraging as a program output measure in the past, as of April 2012, OMB had not taken action to issue guidance for agencies calculating leverage measures. Better measures of the total federal support and mix of funding would be helpful in better understanding how tax expenditures contribute to rental housing project outcomes and identifying areas of overlap for further coordination.

[68]See GAO, *HUD and Treasury Programs: More Information on Leverage Measures' Accuracy and Linkage to Program Goals Is Needed in Assessing Performance*, GAO-08-136 (Washington, D.C.: Jan. 18, 2008).

Furthermore, additional data could help assess how tax expenditures benefit homeownership compared with programs with similar goals. This information is currently not always collected on tax returns unless IRS needs the information or collection was legislatively mandated. We recommended in 2009 and 2010 that IRS collect property addresses (which can differ from a taxpayer's mailing address) to improve enforcement of mortgage interest deductions.[69] Collecting this information from taxpayers or lenders also could facilitate analysis of who benefits from the mortgage interest and property tax deductions as well as other housing tax provisions. As of April 2012, IRS had not yet taken action to collect property address information.

Consolidating Single-Family Loan Guarantee Programs Could Improve Programs and Produce Savings

Consolidation or greater coordination of RHS and HUD single-family loan programs that serve similar markets and provide similar products may offer opportunities for savings in the long term. For example, program consolidation could improve service delivery, especially when programs with similar objectives and markets are brought together and conflicting requirements and overlap reduced. Consolidation could achieve savings to the extent that agency overhead and, potentially, staffing were reduced. Further, consideration of program consolidation could create opportunities to reassess the various RHS and HUD single-family programs or activities and eliminate programs that are overlapping, or outdated, or whose costs no longer justify federal spending. However, consolidation also presents a number of challenges that we discuss later in the report. We first reported in 2000 that overlap exists among products offered and markets served by FHA, RHS, and others and questioned the need for maintaining separate programs for rural areas. Additionally, we noted the potential for administrative savings by consolidating programs that provided similar products and served similar markets. For instance, FHA and RHS offer similar guaranteed single-family products and operate in the same areas. With VA, which offers a guaranteed loan program, FHA and RHS encourage lenders to make loans by guaranteeing them against losses they might incur if borrowers defaulted on their mortgages. As discussed earlier, lenders in FHA and RHS programs use FHA's mortgage scorecard in evaluating borrowers for mortgages. However, RHS's program offers more generous terms than FHA's program (such as

[69]See GAO-09-769 and *Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt*, GAO-10-997 (Washington, D.C.: Aug. 31, 2010).

no down payment and lower overall mortgage insurance premiums). And RHS's single-family direct loans have no counterparts in FHA or VA. Also, VA loan guarantees are an entitlement only available to veterans, certain members of the Reserves and National Guard, and spouses of certain veterans. RHS guaranteed loans are limited by borrower income and location. Despite the differences, we noted that FHA, RHS, and VA all serve a significant share of low- to moderate-income households.

We suggested in September 2000 that Congress consider requiring HUD and USDA to examine the benefits and costs of merging those programs that serve similar markets and provide similar products. Recognizing the statutory restrictions that exist on both agencies' programs, as a first step we suggested that Congress consider requiring HUD and USDA to explore merging their single-family guaranteed lending programs and multifamily portfolio management programs, taking advantage of the best practices of each and ensuring that targeted populations were not adversely affected. Congress held hearings on the report in 2003 but no further actions have been taken.

Our analyses have shown evidence of overlap in certain aspects of the FHA and RHS single-family programs. First, RHS increasingly has moved from direct to guaranteed loans. The number of guaranteed single-family loans first exceeded the number of direct single-family loans in 1995, and the trend has intensified since 2008. In fiscal year 2010, RHS made more than 28,100 single-family direct loans and grants and guaranteed more than 130,000 single-family loans. Since 2011, the Administration has requested large cuts in RHS direct loan programs. For example, the 2012 President's Budget did not request any funding for Section 504 direct repair loans and requested a 67 percent reduction for Section 502 direct loans. The budget request stated that the shift in direction acknowledges that the single-family direct loan program has struggled to make a measurable impact due to flat funding levels and a labor-intensive review process. According to RHS officials, after the implementation of early-out and buy-out authority at the beginning of fiscal year 2012, RHS had about

900 full-time equivalent staff managing its direct loan program, and about 400 staff managing its larger guaranteed loan program.[70]

Second, the Administration has proposed that RHS use direct endorsement lenders to approve guaranteed loans. Specifically, the 2011 and 2012 President's Budgets proposed that RHS use direct endorsement lenders in its guaranteed loan program to make RHS more efficient and allow time to transition the staff managing guaranteed loans to other priorities.[71] FHA's loan guarantee program relies upon direct endorsement lenders to approve mortgage applications without first submitting paperwork to HUD. As of September 2011, it had about 3,700 such lenders.

Greater Coordination or Consolidation of Certain HUD and RHS Multifamily Activities Could Help Improve Programs

As previously discussed, although RHS properties are more concentrated in rural areas than HUD's, overlap also exists in RHS's and HUD's multifamily guaranteed loan programs, and certain aspects of these programs offer the potential for greater coordination or consolidation. For instance, there is some overlap in the overall purpose of programs—financing the development or rehabilitation of multifamily housing. Both HUD and RHS administer rental assistance programs, which provide rental subsidies to low-income households that rent units in specific properties. In addition, for HUD and RHS guaranteed loans, developers of rental housing obtain loans through approved lenders. The headquarters and field staff of both agencies generally share responsibilities for the reviewing, approving, and processing of applications; performing oversight; and monitoring of properties. However, HUD and RHS's multifamily programs differ in their property and tenant eligibility requirements. Both are also managed differently, and often these differences create inconsistent rules that lead to costs and regulatory burdens for program participants, who can receive assistance from both agencies. The Rental Policy Working Group's efforts described earlier in this report recognize the burden that multiple multifamily programs place

[70]RHS has been looking for other ways to improve the efficiency of its direct loan program. It has been conducting a pilot with various nonprofit groups to see if the most labor-intensive portion of the direct loan process—finding eligible families—can be contracted out. If the pilot is successful, RHS field office staff would no longer be responsible for reviewing the 10-20 loan applications that it takes to find an applicant with a qualifying credit history or to work with families to improve applicants' credit ratings.

[71]The 2013 President's budget did not propose that RHS use direct endorsement lenders.

on participants and the benefit of aligning the requirements of these programs.

HUD and RHS face similar challenges in managing their portfolio of affordable rental properties. Properties assisted by both agencies are aging and need new investments for capital improvements. Also, some property owners may decide to leave the programs and convert their properties to market rate and no longer be subject to rent and tenant income requirements. In response to these challenges, RHS offers incentives that provide equity investments and favorable loan financing to property owners seeking to recapitalize their properties or at risk of exiting the program. Similarly, HUD has various financing tools that offer incentives to property owners to remain in the program. When property owners do exit the program, HUD and RHS offer special rental assistance to households to help ensure that their rents remain affordable.

Further, similarities in guaranteed multifamily loans indicate the need for greater coordination. For instance, among multifamily loan programs, RHS programs (whether direct or guaranteed) are more prevalent in rural areas than the much larger FHA multifamily guaranteed loan program. However, RHS has been moving toward guaranteed multifamily loans, primarily as a leveraged source of funds when preserving its direct loan properties. Moreover, the 2013 President’s budget proposes funding for Section 538 guaranteed loans but not for Section 515 direct loans. According to RHS officials, the only new Section 515 direct loans being made are for preserving existing properties. As discussed earlier, properties with RHS loans also tended to be much smaller than properties with FHA loans, suggesting that RHS and its products have served a unique market segment and that RHS may have a product model that could be useful for FHA. Over the years, HUD has proposed variations of guaranteed loans for small properties, such as in more rural areas where HUD properties are smaller and more comparable in size to RHS properties. For example, HUD announced demonstration programs in 1997 and 2006 for variations of small project guaranteed loans.

More recently, the Rental Policy Working Group discussed existing programs that HUD might use for smaller properties, including RHS’ Section 538 guarantee program. The discussions resulted in the Rental Policy Working Group developing a proposal for the 2013 budget that would allow HUD to implement flexibilities with its Section 542(b) risk-share program to make risk-share loans to refinance, rehabilitate, and recapitalize small properties.[72] The proposal would allow HUD to use this existing program to expand availability of capital to small properties. If successful, this program could be used in urban and rural areas, as HUD has no geographic restrictions. While statutory action would be needed for HUD to implement the changes to its Section 542(b) risk-share program, the working group focused on this effort because it required only minor statutory changes.

Consolidation or Increased Coordination Presents Immediate Challenges and Has Longer-Term Implications

Consolidation presents a number of challenges in the short and long term. These include overcoming statutory barriers; assessing products to be offered; establishing effective delivery structures; aligning resources, policies, and requirements; and ensuring continuing oversight and performance of existing commitments. Potential for savings in the long term must be weighed carefully against the immediate challenges and against the potential implications of consolidation for agency goals and objectives and households served. We previously reported on questions agencies should consider when evaluating whether to consolidate and noted that identifying and agreeing on specific consolidation goals and realistic expectations for their achievement are the key to any consolidation effort.[73] But the fact that programs serve different targeted groups should not rule out studying the potential for consolidation if the potential for long-term savings through better alignment of resources and delivery structures outweighs the challenges and long-term costs. For example, VA's housing program is an entitlement earned by veterans and RHS's guaranteed program is only available to low- and moderate-income households in rural areas. And HUD operates the Good Neighbor Next Door program, which restricts eligibility by profession (for example, to teachers and law enforcement officers).

Several of the immediate challenges that would stem from any consolidation efforts have long been a concern for the agencies. In 2000,

[72]The Section 542(b) risk-share program was developed as a demonstration program to test innovative mortgage insurance and reinsurance products to provide affordable multifamily housing through a partnership between qualified participating entities or their approved lenders and HUD.

[73]See GAO, *Streamlining Government: Questions to Consider When Evaluating Proposals to Consolidate Physical Infrastructure and Management Functions*, GAO-12-542 (Washington, D.C.: May 23, 2012).

when we first recommended that Congress consider requiring USDA and HUD to examine the benefits and costs of merging programs such as their single-family guaranteed programs, USDA noted that such a merger could be detrimental to rural areas, which could lose a federal voice. In addition, HUD noted that without legislative changes, any efforts to merge the programs likely would result in a more cumbersome delivery system. In May 2011 testimony before the House Financial Services Subcommittee on Insurance, Housing, and Community Opportunity, some industry experts said a proposed consolidation plan merited further discussion, but others stated the proposal could negatively affect USDA's efforts to deliver its other rural development programs. In September, the RHS Administrator testified that while RHS and HUD shared an important commitment to meeting the housing needs of rural America, she opposed the proposed consolidation plan. She said that RHS housing services uniquely served rural communities by working in "synergy" with other rural development programs.

Since then, RHS officials and several housing industry officials with whom we spoke also have raised concerns about consolidating RHS and HUD programs. They have argued that rural housing assistance is a part of the community development package that USDA's rural development agencies (RHS, Rural Utilities Service, and Rural Business Cooperative Service) can offer and that consolidating RHS programs into HUD would disrupt the interrelationship between the three rural development agencies in USDA. RHS officials pointed to the human capital challenges that would arise from any consolidation. For example, they noted that training would be an issue because product requirements, information systems, and agency processes and procedures differ between HUD and RHS. In addition, they questioned whether any consolidation would help improve the delivery of service to rural areas. RHS officials and industry officials expressed concern that rural guaranteed single- and multifamily programs would get "lost" in HUD. Some RHS and industry officials also noted that program consolidation would not address the gap in access to affordable housing credit for those individuals who could not qualify for HUD or other conventional single-family loans.

While training and information systems are important considerations for any consolidation or increased coordination between the agencies, consolidation or increased coordination does not necessarily require that product terms be aligned. FHA already offers multiple products with different terms and conditions. And although FHA does not have the extensive delivery structure RHS uses to perform loan origination under its now diminishing direct loan program, the continuing need for this RHS product has been questioned by USDA and OMB. Moreover, the more similar the products become, the stronger the argument for a consolidated delivery structure. In the long term, this could present an opportunity for the agencies to take advantage of the best features of each agency's structure.

In relation to concerns about the level of focus on rural housing in HUD, HUD currently serves a larger number of homeowners in rural areas than RHS serves, and HUD administration officials told us that they considered HUD an agency that served housing needs in all communities—urban, suburban, and rural. Also, while RHS housing programs align with several of HUD's priority goals, USDA currently does not have priority goals for housing, and housing programs have not been a high priority in USDA. For multifamily housing, we first reported in 2002 that RHS could not prioritize the long-term rehabilitation needs of the properties in its Section 515 direct loan portfolio. The fiscal year 2013 budget is the first in which the agency is requesting funding for a permanent (in place of a current demonstration program) multifamily preservation and revitalization program for its rural rental housing portfolio. As described earlier, we reported in 2004 that RHS did not have access to the same wage matching data as HUD to assure that rental payments under the Section 521 rental assistance program were accurate. USDA proposed legislation to access Department of Health and Human Services data for wage matching purposes in the fiscal year 2013 budget. In addition, the administrative and reporting structure of rural housing programs among USDA components has varied. As we reported in 2000, the position of RHS Administrator is at the same organizational level as the State Rural Development Offices, which can develop their own program delivery systems. As a result, state offices still report to the Under Secretary for Rural Development rather than the RHS Administrator on housing issues. The state offices also have developed various interpretations rather than uniform standards on issues ranging from rent calculations to loan prepayment.

Combining programs would not eliminate the need for managing existing commitments. Both FHA and RHS have loan guarantees with terms of as much as 40 years. In the single-family programs, both agencies have systems in place for monitoring the performance of existing mortgages and ensuring that loan servicers and contractors carry out functions related to loss mitigation, foreclosure, and property management, as well as systems for holding lenders accountable in the loan origination process. The continuing need for these functions would necessitate careful planning and alignment to permit consolidation.

Consolidating or coordinating existing programs and activities also raise important implications because of costs, and the potential impact on people and agency mission. When consolidation or increased coordination results in significant shifts of people, space, technology and systems, several issues arise. As an example, simply moving staff and responsibilities could increase costs and not result in any process improvements. Ensuring long-term benefits from cost savings and improved operations will require careful consideration of the responsibilities and staffing resources needed for the combined operation. For example, if the single-family loan programs of RHS and HUD were to be consolidated, it would be necessary to specify the impact on employees, including changes in roles and responsibilities, processes and procedures, individual accountability, and day-to-day operations. There also would be transition issues to consider, such as costs of leases and unoccupied federal property, or moving expenses for employees transferred to new sites. Consolidation or increased coordination also may have implications for borrowers, lenders, developers, and other industry participants. For instance, some borrowers and lenders who may have worked extensively with particular programs could experience increased costs in the short term for adapting existing program administration, personnel, processes, and systems.

Whether through consolidation or further coordination, RHS, FHA, and VA have opportunities to assess the potential for learning from the practices of each other. RHS did this when its guarantee program was created. For instance, RHS officials told us that they had examined FHA's system when they established their guaranteed program and decided it would be more cost-effective to require lenders to dispose of properties. Thus, unlike FHA, RHS relies on lenders to take title of foreclosed properties and manage and market them. But, RHS and FHA have not taken steps to further explore the relative benefits and costs of each other's approaches. This and other areas may represent an opportunity for the agencies to explore how to take advantage of their respective best practices, while minimizing the adverse impact on targeted populations.[74]

Finally, combining management of the portfolio of existing multifamily projects might require reassessing methods for overseeing and

[74]We currently have ongoing work focusing on REO management and disposition strategies of various federal agencies that may help determine which strategy represents a best practice in managing REOs.

monitoring these projects. Some noted that in RHS, staff were responsible for a particular portfolio of multifamily projects and offered a direct point of communication for these projects. They pointed out that HUD, which provides funding for far more projects, did not have staff responsible for individual projects. Also, payment structures for RHS-direct multifamily loans are linked and are offset by RHS rental assistance payments. Combining RHS and HUD rental assistance programs would require assessing the implications of aligning payment methods for the two programs.

Conclusions

The federal government plays an important role in encouraging homeownership and ensuring the availability of decent, safe, and affordable rental housing through a variety of single- and multifamily programs that provide rental assistance, public housing, and tax expenditures. Numerous agencies administer these fragmented programs, and recent assessments have shown that some programs overlap (that is, provide similar products and serve similar populations).

Ongoing fiscal constraints and the accompanying move toward greater use of guaranteed lending and leveraging of federal funds with other public and private funding sources have called into question the feasibility of maintaining the current fragmented structure for providing support to housing and, in particular, the overlap in certain housing programs. Policymakers and agencies have been tasked with continuing to meet affordable housing needs while protecting taxpayer investments. Consolidation and improved collaboration can offer an effective means of realizing necessary cost savings and eliminating unnecessary overlap.

While consolidation and improved coordination efforts are underway, they could be improved and expanded to help ensure that agencies do not miss opportunities to generate savings and efficiencies in their housing programs. A recently created task force may help evaluate the potential for coordinating or consolidating the single-family housing loan programs at HUD, USDA, and VA and the agencies have been working to consolidate and align certain requirements in multifamily housing programs through the Rental Policy Working Group. However, the single-family task force has not yet specified its goals or expected outcomes, roles and responsibilities, resources, or a means of monitoring or reporting on results and reinforcing agency accountability for collaborative efforts. Incorporating these key practices for effective collaboration would help the task force and HUD, USDA, and VA establish the guidance and direction needed to systematically bring about a productive working relationship. With a more effective collaborative approach, the agencies also can generate opportunities to evaluate the potential for improving, coordinating, or consolidating single-family housing loan programs. Certain aspects of the single-family programs show great potential for consolidation—as we have reported, overlap exists in products offered, service delivery, and geographic areas served. Therefore, the task force agencies could productively focus on the products offered, delivery structure, and systems and resources that support the programs as part of any assessment of coordination and consolidation of the programs. For instance, agencies could consider whether and how to align product terms and conditions, and how to optimize service delivery methods. Or, they could move beyond administrative change, and assess what might be accomplished in terms of coordination or consolidation through statutory changes. Such assessments represent valuable first steps and would serve as resources for the agencies.

The Rental Policy Working Group, which has followed a majority of our key collaboration practices, already has taken steps to identify specific areas in which to align sometimes conflicting and redundant requirements. But it focused on actions that require minimal or no statutory changes, or minimal or no costs. Overlap in multifamily programs exists in the overall purpose of programs, delivery structures, and provision of project-based rental assistance. However, any consolidation of multifamily programs would require statutory changes. There is more the Rental Policy Working Group can do to build on its success. For example, it could expand its guiding principles to include areas in which statutory action across individual agencies and programs may be needed to help increase overall programmatic efficiency and save additional taxpayer dollars. It could take additional steps to reinforce agency accountability for collaborative efforts by documenting collaborative efforts in its strategic and annual plans. In addition to the two efforts highlighted above, and as we previously recommended, coordinated reviews of tax expenditures with related spending programs could help reduce overlap and inconsistencies and direct scarce resources to the most effective or least costly methods to deliver federal support.

Options to increase collaboration or to effect consolidation in HUD and USDA's single- and multifamily loan programs that serve similar markets, provide similar products, or have similar delivery structures could enhance the efficiency of and improve the programs overall. But as we have noted, they are not without a number of human capital, information technology, and other significant challenges and implications. We first reported on these options in 2000. The potential exists for greater collaboration or consolidation, including considering statutory action, if applicable. Policy makers face difficult decisions on the structure and funding of housing programs and activities across federal agencies. Although Congress ultimately would have to decide, agencies could further this effort by exploring the potential benefits and costs of consolidating overlapping programs. Such analyses represent a key step on the path to determining the viability of consolidation. The analyses also can support the Administration's efforts to reform the government's role in housing finance.

Recommendations for Executive Action

To enhance task force efforts to evaluate the potential for coordination or consolidation of single-family housing programs and activities, the Secretaries or other designated officials of HUD, USDA, and VA, and the Director of OMB should take steps to establish a more rigorous approach to collaboration. For example, as a first step, agencies could define and articulate goals or common outcomes and identify opportunities that can be addressed or problems solved through their collaborative efforts. Enhancing the task force's efforts also could entail establishing and implementing a written agreement; specifying roles and responsibilities; establishing mechanisms to monitor, evaluate, and report on results; and reinforcing accountability for collaborative efforts.

To further improve HUD, USDA, and Treasury's efforts through the Rental Policy Working Group to consolidate and align certain requirements in multifamily housing programs, the Rental Working Group should take steps to document collaborative efforts in strategic and annual plans to help reinforce agency accountability for these efforts.

To build on task force and working group efforts already underway to coordinate, consolidate, or improve housing programs, and help inform Congress's decision-making process, the Secretaries or other designated officials of HUD, Treasury, USDA, and VA should evaluate and report on the specific opportunities for consolidating similar housing programs, including those that would require statutory changes.

Agency Comments and Our Evaluation

GAO provided a draft of this report for review and comment to the Consumer Financial Protection Bureau, Department of the Interior, Department of Labor, Farm Credit Administration, Federal Deposit Insurance Corporation, Federal Financial Institutions Examination Council, Federal Housing Finance Agency, Board of Governors of the

Federal Reserve System, HUD, IRS, National Credit Union Administration, NeighborWorks America, Office of the Comptroller of the Currency, OMB, Treasury, USDA, and VA. HUD's Acting Assistant Secretary for Housing-Federal Housing Commissioner, USDA's Under Secretary for Rural Development, and VA's Chief of Staff provided written comments, which we address below and which are reprinted in appendixes II, III, and IV, respectively. OMB staff provided a general comment by e-mail. The Department of Interior, Federal Financial Institutions Examination Council, Board of Governors of the Federal Reserve System, HUD, IRS, Treasury, USDA, and VA provided technical comments, which we incorporated as appropriate. The Farm Credit Administration, Federal Deposit Insurance Corporation, National Credit Union Administration, NeighborWorks America, and Office of the Comptroller of the Currency stated they had no comments. Finally, the Consumer Financial Protection Bureau, Department of Labor, and Federal Housing Finance Agency provided no comments.

HUD stated that the report accurately reflected HUD's collaborative efforts and agreed with the report's recommendations. However, in response to the recommendation that HUD and the other agencies establish a more rigorous approach to collaboration, HUD noted the importance of assessing the timing of implementing the recommendation because the relevant agencies have been fully focused on the ongoing recovery of the housing market. OMB staff expressed a similar concern. HUD further stated that it will consult with other interested parties to establish a framework through which to respond to our recommendation and noted that an approximate time frame might involve waiting until after February 2014. As we stated in the report, in addition to focusing on the ongoing housing crisis and government support for the housing market, focusing on achieving efficiencies and cost savings and the delivery of government support for housing is important. By incorporating key practices on collaboration and developing a more formal approach to the single-family task force, HUD, USDA, VA, and OMB can evaluate the potential for coordinating or consolidating single-family loan programs, and possibly generate savings and efficiencies while better serving homeowners. As we noted in the report, whether through consolidation or further coordination, RHS, FHA, and VA have opportunities to assess the potential for learning from the practices of each other.

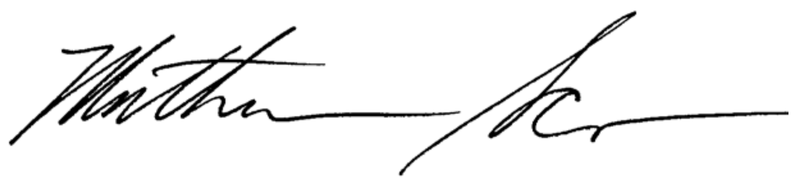
VA concurred with the recommendation to enhance the single-family task force's efforts. VA said that the agency welcomed opportunities to coordinate with other agencies and share best practices and looked forward to refining and improving its own program by applying other agencies' best practices. VA concurred in principle with our recommendation on identifying opportunities to evaluate and report on opportunities for consolidation as long as the efforts were coordinated and not unilateral, adding that unilateral actions could waste resources and have other negative effects. We modified the recommendation to make it clear that we were referring to efforts through the interagency task force and working group and not unilateral evaluations. In addition, VA reiterated its position that while collaborating and coordinating with other housing programs could be beneficial, combining VA's unique home loan guaranty program with other housing programs would go against the statutory intent that established an earned benefit for veterans.

USDA generally agreed with our recommendations, stating that collaborative efforts already under way should reduce duplication of efforts by stakeholders working with multiple agencies as well as "bureaucratic red tape, processing times, and ultimately program costs." USDA also provided a summary of the agency's positions on a number of other issues. First, USDA stated that RHS's single-family guaranteed loan program has been performing better than FHA's loan programs because RHS controlled risk by tightening underwriting and performing preclosing reviews. RHS has reported lower delinquency rates than FHA, and concluded that these differences were due to the tighter controls. However, RHS's analysis does not control for other factors that could explain differences between the agencies' delinquency and default rates. Second, RHS suggests that borrowers of its guaranteed loans could not afford FHA-guaranteed loans, but it has not conducted the analysis needed to make this judgment. RHS's lower fees and lack of down payment could divert prospective borrowers from programs such as FHA's, which could offer further evidence of the overlap in federal mortgage products. Finally, USDA reiterated its position that rural communities have a unique set of challenges and that rather than duplicating other federal programs, USDA's housing programs address unique needs. However, we found that HUD also serves rural areas through its single- and multifamily programs. Further, RHS' greater reliance on guaranteed single-family lending has lessened the differences between RHS and FHA single-family loan programs; for example, more than half of the new RHS-guaranteed single-family loans made in 2009 were in urban or suburban areas.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Agriculture, the Secretary of

Housing and Urban Development, the Acting Director of the Office of Management and Budget, the Secretary of Veterans Affairs, the Secretary of the Treasury, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or sciremj@gao.gov, or Jim White at (202) 512-9110 or whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



Mathew J. Scirè
Director, Financial Markets
and Community Investment

James R. White
Director, Tax Issues Strategic Issues

Appendix I: Objectives, Scope, and Methodology

This report assesses (1) programs and activities the federal government uses to support rental housing and homeownership; (2) the extent to which overlap or fragmentation exists in the goals, products, geographic coverage, service delivery mechanisms, and recipient income levels of selected housing programs and activities of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), Veterans Affairs (VA), and Treasury; and (3) the extent to which federal efforts have increased coordination for selected housing programs and activities, and implications of further coordinating or consolidating selected housing programs or activities.

For purposes of this study, we defined duplication, overlap, and fragmentation.

- *Duplication* occurs when two or more agencies or programs engage in the same activities or provide the same services to the same beneficiaries.
- *Overlap* occurs when multiple programs have similar goals, devise similar strategies and activities to achieve those goals, or target similar users.
- *Fragmentation* occurs when more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national interest.

Programs and Activities the Federal Government Uses to Support Rental Housing and Homeownership

To identify federal agencies' support for housing in fiscal year 2010, we compiled an inventory of direct spending programs, tax expenditures, and other activities, such as regulatory requirements—to which we collectively refer as "activities"—related to housing. To identify programs, we first collected information on programs categorized as housing programs from the Catalog of Federal Domestic Assistance. We also reviewed the fiscal year 2012 President's Budget; program documentation from HUD, USDA, and VA; studies by the Congressional Research Service, Congressional Budget Office (CBO), and other housing groups; and the Compendium of Federal Single Family Mortgage Programs and Related Activities.[1] We

[1]Federal Housing Inspectors General, *Compendium of Federal Single Family Mortgage Programs and Related Activities* (November 2011), http://www.fhfaoig.gov.

collected descriptive information about each program, including (1) the administering or implementing agencies or entities; (2) type of assistance provided; (3) eligibility of recipients in terms of geographic or income restrictions; and (4) other relevant nonfederal entities involved in administering, distributing, or delivering federal assistance, if any.

We compared the programs among the sources described above to create an inventory of federal support for housing. We excluded certain programs that can support housing but were covered in our other recent reports on duplication, overlap, and fragmentation. For example, the inventory does not include housing counseling programs that we covered in 2012 *Annual Report: Opportunities to Reduce Duplication, Overlap, and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington, D.C.: Feb. 28, 2012), or homeless housing programs that we discussed in two March 2011 reports—*Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011); and *List of Selected Federal Programs That Have Similar or Overlapping Objectives, Provide Similar Services, or Are Fragmented Across Government Missions*, GAO-11-474R (Washington, D.C.: Mar. 18, 2011). Additionally, we excluded Federal Trade Commission and Department of Justice enforcement efforts related to certain consumer protections. In some cases, names of programs were inconsistent among the various sources we reviewed. As a result, our usage either conformed with program names as cited in past GAO reports or with agency documents.

Our list of 15 housing tax expenditures is based on lists of tax expenditures and estimates of their cost compiled annually by Treasury and the Joint Committee on Taxation (JCT).[2] Both Treasury and JCT list tax expenditures by budget function. We compiled a preliminary list of tax expenditures for fiscal year 2010 listed under the “housing” subfunction of the commerce and housing budget function, and added other housing-related provisions listed under other budget functions. Our universe included expired tax expenditures listed by either Treasury or JCT that had estimated revenue losses for fiscal year 2010.

[2]Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government*, *Fiscal Year 2012,* Table 17-1 (Washington, D.C.: 2011); and JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014,* JCS-3-10 (Washington, D.C.: Dec. 15, 2010).

While the tax expenditure lists were generally similar, Treasury and JCT's method for reporting specific tax expenditures differed slightly. For the 15 tax expenditures we listed, both Treasury and JCT listed nine under the housing budget subfunction. Treasury and JCT each reported another tax expenditure, but grouped the expenditures under different functions. Two tax expenditures were listed only by JCT, and another only by Treasury. Furthermore, we identified one tax expenditure that both Treasury and JCT reported under the veterans' benefits and services budget function, but which appeared to support housing activities. We also identified another tax expenditure that neither Treasury nor JCT reported annually, but which JCT identified in a separate report on housing tax incentives.

We did not include in our list two tax expenditures Treasury reported under the housing budget subfunction because JCT did not list one and listed the other under the "other business" subfunction.[3] We also did not include a tax expenditure that JCT reported under housing, but Treasury reported under the community development function. As a final step, we compared our list with similar lists of housing tax expenditures.[4] Officials from Treasury and the Internal Revenue Service (IRS) also reviewed our final list of housing tax expenditures before publication of GAO-12-555SP, the e-supplement to this report that lists the tax expenditures as part of all federal housing activities.

To identify regulatory requirements, we included financial regulators (whose responsibilities include helping ensuring that regulated institutions comply with consumer financial protections) and regulators of government-sponsored enterprises (government agencies that provide oversight and supervision of government-sponsored enterprises) and focused on those regulations affecting participants in the housing market, including lenders, consumers, and others involved in homeownership and rental housing. For example, we included the Farm Credit Administration

[3]We did not include the exclusion of imputed net rental income, which is the amount that owner-occupiers would have paid to rent a home, less nondeductible costs such as depreciation and maintenance expense. It is not subject to tax. Treasury lists the exclusion of imputed net rental income as a tax expenditure, and estimated the expenditure at $41 billion for fiscal year 2010. However, JCT does not list the exclusion as a tax expenditure, because it views measuring and taxing net imputed rental income as administratively infeasible.

[4]Congressional Budget Office, *An Overview of Federal Support for Housing* (Washington, D.C.: Nov. 3, 2009); and The Pew Charitable Trusts, *Subsidyscope.org* (Washington, D.C.). Accessed on Dec. 20, 2011, and retrieved from http://www.subsidyscope.org.

because Farm Credit System associations are authorized to engage in rural housing lending under the agency's regulations. We also include as an administering entity the Federal Financial Institutions Examination Council, which is a formal interagency body that prescribes uniform principles, standards, and report forms for the federal examination of financial institutions and makes recommendations to promote uniformity in the supervisions of financial institutions. We relied on our recent reports related to federal mortgage lending laws: *Mortgage Reform: Potential Impacts of Provisions in the Dodd-Frank Act on Homebuyers and the Mortgage Market*, GAO-11-656 (Washington, D.C.: July 19, 2011); and *Mortgage Foreclosures: Documentation Problems Reveal Need for Ongoing Regulatory Oversight*, GAO-11-433 (Washington, D.C.: May 2, 2011).

To summarize federal support for homeownership and rental housing, we reviewed descriptive information about each activity. To characterize the primary purpose for each, we identified 11 categories that illustrate the primary public policy goals associated with each activity, and used the best available information to make a determination. In selecting the categories, we focused on the title, mission, objective, or goal of each activity and made a judgmental determination about common groupings for the activities. We also shared the categories and related descriptions with the responsible agencies. The 11 purposes that we identified are listed below:

- Assistance for buying, selling, or financing a home – assistance to individuals who are purchasing or refinancing a home or a preferential tax treatment on the sale of a home. Also, certain assistance to homeowners who are having difficulty making their mortgage payments.

- Assistance for homeowners – assistance to current homeowners to improve or change their properties, or tax expenditures that allow homeowners to deduct costs associated with homeownership.

- Increasing the availability of mortgage loans – actions taken to provide additional liquidity in the housing market, allowing private and government lenders to make additional mortgage loans.

- Assistance for financing rental housing – financial assistance for the production or preservation of rental housing.

- Assistance for rental property owners – financial assistance to owners of rental properties for units rented to low-income tenants, or tax expenditures that reduce the after-tax costs associated with owning and maintaining rental property.

- Rental assistance for tenants – payments on behalf of tenants to reduce their rent payments.

- Operation/management of rental housing – financial assistance to current owners of rental housing for the operation or management of rental housing.

- Regulatory requirement – regulations affecting participants in the housing market, including lenders, consumers, and others who buy, sell, or rent housing.

- Supports housing and other activities – activities that support any of the above activities under rental housing and homeownership. Also, activities in other areas in which the federal government is involved that have indirect effects on housing.

- Regulator of government-sponsored enterprises – government agencies that provide oversight and supervision of government-sponsored enterprises.

- Emergency assistance to housing market or current homeowners – actions taken to stabilize the housing market or provide financial assistance to homeowners to make their mortgages more affordable; or to provide temporary assistance through the tax code for homeowners.

We used a two-step process to independently assign each activity a primary purpose based on the descriptions listed above, but because many of the activities we reviewed have multiple purposes, we further characterized the type of housing assistance for each activity as related to (1) homeownership, (2) rental housing, or (3) homeownership and rental housing (both). First, an initial determination was made about the primary purpose and type of housing supported for each activity. Second, each determination was independently reviewed to verify the category assignments. When needed, the activity and category in question were discussed. For the tax expenditures, we also compared our selections with how others, including the Congressional Research Service, CBO, and JCT had described the purpose or activity for housing-related tax expenditures. Finally, we shared the inventory with the responsible agencies and incorporated their comments as appropriate.

We also identified the type of assistance associated with each activity in our inventory. In some cases, the agencies provided program dollars to an entity such as a nonprofit or local government that administered the funds to serve the primary targeted recipient. For the purposes of this report, we used "type of assistance" as it relates to the primary targeted recipient. Generally, the programs in our inventory provided the following types of assistance:

- Grant – to any other governmental or nongovernmental entity, or individual;
- Direct payment – to property owner, homeowner, tenant;
- Direct loan – from government agency direct to borrower;
- Guaranteed loan – through approved private lenders;
- Insured loan – through approved private lenders;
- Block grant – to other nonfederal governmental entities that have flexibility on use of funds;
- Regulation;
- Tax exclusions, exemptions, or deductions;
- Tax credits; and
- Deferrals of tax.[5]

The inventory also contains budgetary information for each activity we identified for fiscal year 2010. To determine the budgetary obligations for spending programs, we reviewed the fiscal year 2012 President's Budget and agencies' budget justifications for fiscal year 2012, which contained

[5]JCS-3-10; and Congressional Research Service, *Tax Expenditures: Compendium of Background Material on Individual Provisions,* S. Prt. 111-58 (Washington, D.C.: Dec. 30, 2010).

the actual obligations for fiscal year 2010. To determine the revenue loss estimates for tax expenditures in fiscal year 2010, we reviewed the annual lists of tax expenditures Treasury and JCT compiled. Some of the activities in our inventory incurred no obligations in fiscal year 2010 for a number of reasons; for example, the activity was not part of the federal budget or was inactive in that year. We determined the data and information collected related to each activity and fiscal year 2010 budgetary information to be sufficiently reliable for the purposes of this report. We confirmed information found in the President's Budget for fiscal year 2012, agencies' budget justifications, and agency documentation with agency officials.

Extent to Which Overlap or Fragmentation Existed in Selected Housing Programs or Activities

To determine the extent to which overlap or fragmentation occurred in the selected housing programs or activities of HUD, USDA, VA, and Treasury, we updated and expanded the work from our 2000 report on opportunities and barriers to reducing overlap and fragmentation in delivering single-family and multifamily housing programs.[6] We focused on selected single-family and multifamily programs at HUD, USDA, and VA, and on Treasury's Low-Income Housing Tax Credit (LIHTC) program and the mortgage interest and property tax deductions as of 2010. We identified housing programs that may have similar or overlapping objectives, provide similar services to similar beneficiaries, or are fragmented across missions. For single-family programs, we included the federal loan guarantee programs from USDA, VA, and the largest of HUD's program; the direct loan programs at USDA; and Treasury's two largest tax expenditures that provide assistance to homeowners. Specifically, the single-family programs included in our scope were

- One- to Four-Family Home Mortgage Insurance (Section 203(b));
- Rural Housing Single Family Loans - guaranteed (Section 502 guaranteed);
- Rural Housing Single Family Loans - direct (Section 502 direct);
- Very Low-Income Direct Repair Loans and Grants (Section 504);

[6] GAO/RCED-00-241.

- VA Home Loan Guaranty;
- Mortgage Interest Deduction; and
- Property Tax Deduction.

For multifamily housing programs, we included programs that finance multifamily housing and programs that provide project-based rental assistance. As USDA has fewer housing programs, we selected these first, then selected the active programs at HUD and Treasury with similar purposes. For example, while HUD administers many programs that provide loan guarantees for multifamily housing, we selected HUD's Section 221(d)(3) and (d)(4) programs because they are most similar to USDA's Section 538 loan guarantee and because they had the most loan activity of HUD's programs. The other selected HUD, USDA, and Treasury programs are similar in that they require that the owner keep the properties available to the eligible populations or keep the rents affordable or both. Finally, USDA's Section 521 provides rental assistance to property owners for units rented to low-income tenants. Similarly, HUD's project-based rental assistance provides payments to property owners for the same purpose; therefore, we decided to select HUD's project-based rental assistance (Section 8, Section 202, Section 811, and other rental supplement programs). We excluded some large HUD multifamily housing programs from this analysis because there were no similar housing programs at USDA. For example, the public housing and housing choice voucher programs were excluded. Specifically, the multifamily programs included in our scope were

- Supportive Housing for the Elderly (Section 202);
- Supportive Housing for Persons with Disabilities (Section 811);
- Mortgage Insurance for Rental and Cooperative Housing (Sections 221(d)(3) and (d)(4));
- Project-Based Rental Assistance;
- Multifamily Direct Rural Rental Housing Loans (Section 515);
- Farm Labor Housing Loans and Grants (Sections 514 and 516);
- Rural Rental Housing Guaranteed Loans (Section 538);

- Rural Rental Assistance Payments (Section 521); and
- Low-Income Housing Tax Credit.

We collected and analyzed information and data on the goals, program details, eligibility, product delivery, geographic locations, and populations benefiting from agency housing programs. We identified those housing programs that may have similar or overlapping objectives, provide similar services, or are fragmented across missions. Overlap and fragmentation may not lead to actual duplication, and some degree of overlap and duplication may be justified.

We categorized locations based on three different USDA-developed characterizations of rural and urban, and analyzed agency data from the selected programs based on these characterizations. To do so, we geocoded (that is, mapped the geographic coordinates of) the addresses of properties supported by selected programs of HUD, USDA, VA, and Treasury. By comparing the frequency of properties or units within the type of county or zip code, we could assess the degree to which the three agencies operated in the same types of locations or operated within certain distances of the similar areas. We used MapInfo—a geographic information system designed to prepare maps and graphs that allow users to easily visualize connections between data and geography. For single-family loan analyses, we used a single year of data—active loans that were made in 2009 because they constituted the most recent data. For HUD and USDA multifamily programs, we used the portfolio as of February and May 2012, respectively. For Treasury's LIHTC program, we used data on projects placed in service from 1998 through 2007 because they were the most reliable and complete data available and included LIHTC projects that remain within the 15-year tax credit compliance period.

We analyzed the geocoded properties and units supported by the selected programs in three ways:

- We obtained RHS' program eligibility map from USDA and analyzed the land mass and population that are represented by these areas. We used the geocoded locations of the single-family guaranteed loans to determine whether the properties were within RHS ineligible areas or calculated the distance to the nearest ineligible area.
- We analyzed the geocoded locations of the single-family and multifamily properties using the four-category version of the Economic

Research Service's rural urban commuting area codes. We reported in 2005 that categorization of smaller areas provides a more precise delineation of rural than the county-based rural-urban continuum.[7]

- We distinguished four county categories by collapsing the nine categories in the Economic Research Service's rural-urban continuum. We analyzed the geocoded locations of the single-family and multifamily properties using this categorization.

Additionally, we analyzed borrower income and location data for the HUD and VA single-family guaranteed loan programs and compared borrower income with county-level data on area median income (AMI). For RHS's single-family guaranteed loans, we used the program eligibility limit of 115 percent of AMI for borrower income and loan-level location data. We analyzed the locations of properties using the rural-urban continuum.

To determine how RHS's field structure has changed over time and determine the work breakdown by location within RHS programs, we analyzed field office location and full-time equivalent assignment data from RHS. Also, to determine the difference in the trends between the guaranteed and direct loan programs, we analyzed single-family historical loan data from RHS and Housing Assistance Council data. To assess the reliability of the data we used for geographic and income analysis, we conducted reasonableness checks, including testing the electronic data files for any missing or illogical data, reviewed existing information about data quality, interviewed officials familiar with the data, and corroborated key information. On the basis of this review, we determined that the data used were sufficiently reliable for purposes of our analysis.

Furthermore, to perform our analysis of how different income levels and geographic areas claim the deductions for mortgage interest expenses and property taxes, we reviewed IRS zip code data for tax year 2008 (the latest zip code data available). The IRS zip code data include information for every zip code for which 250 or more returns were filed. Variables include the total number of tax returns filed, ranges of adjusted gross income (AGI) reported on those returns, and the total amounts of property taxes and mortgage interest deducted (as claimed on Form 1040 Schedule A, lines 6 and 10, respectively).

[7] GAO-05-110.

To analyze how the two deductions are used by different income levels, we compared the share of total returns in each AGI range to the share of total mortgage interest and property tax deductions in each range. We also reviewed analysis by JCT about the distribution of tax expenditures for the mortgage interest and property tax deductions by income class in 2009.[8] To analyze how taxpayers in different geographic locations used the deductions, we used the IRS data to calculate and compare the mortgage interest and property tax deductions claimed on tax returns from each state relative to each state's share of total returns. We also used IRS zip code data to analyze use of the mortgage interest and property tax deductions in rural and urban areas.[9]

Using IRS data to analyze the geographic use of housing tax expenditures has some limitations. The IRS data reported by state and by zip code are based on the mailing address as reported by the taxpayer. However, some taxpayers may have used the address of a tax lawyer, accountant, or a place of business. Such addresses each could have been located in a state or zip code different than the state or zip code in which the taxpayer resided. Furthermore, taxpayers report the total dollar amount of mortgage interest or property taxes claimed, but do not report whether they were taking the deduction on their main home, a second home, or both.

Finally, to determine what previous studies had found about usage of housing-related tax expenditures in various geographic locations, we conducted a literature review for studies on the geographic distribution of the mortgage interest and property tax deductions. We identified and reviewed four studies that had used IRS tax return or Census data to analyze the geographic distribution of the mortgage interest and property tax deductions.

[8] JCS-3-10; and JCT, *Present Law, Data, and Analysis Related to Tax Incentives for Homeownership,* JCX-50-11 (Washington, D.C.: Sept. 30, 2011).

[9] Categorization of zip codes as urban or rural was based on the Rural-Urban Commuting Area codes, a classification scheme that utilizes the standard Bureau of Census urbanized area and urban cluster definitions in combination with work commuting information to characterize all the nation's census tracts by their rural and urban status and relationships.

Extent to Which Federal Efforts Increased Coordination for Selected Programs and Activities and Implications of Greater Coordination or Consolidation

To determine the extent to which federal efforts have increased coordination for selected housing programs and activities, we collected and analyzed information, where available, on the efforts taken by HUD, USDA, VA, and Treasury to increase coordination or collaboration on selected housing programs. We reviewed documentation describing the efforts and obtained input from agency officials, including the Office of Management and Budget, on the single-family task force, White House Rural Council, and Rental Policy Working Group. We reviewed our prior work on interagency collaboration and key practices that can help enhance and sustain collaborative efforts, and compared the agencies' efforts with our eight key collaboration practices to determine the extent to which the efforts were consistent with our key practices. As no law or regulation requires collaboration between HUD, USDA, VA, and Treasury, we relied on established practices and our views in examining consistency.

We identified selected housing programs and activities that may benefit from greater coordination or consolidation as first stated in our 2000 report on housing programs and our prior work on tax expenditures, and supplemented that with the recent analysis of fragmentation and overlap described here. To identify some of the challenges and implications of coordinating or consolidating selected housing programs or activities, we reviewed prior GAO and other reports, and collected and analyzed information from housing industry, HUD, USDA, and Office of Management and Budget officials on potential proposals for mitigating duplication, overlap and fragmentation, and some of the challenges and implications of increased coordination or consolidation.

We conducted this performance audit from July 2011 through August 2012, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

JUL 20 2012

Mr. Mathew J. Scirè
Director
Financial Markets and Community Investment
Government Accountability Office
441 G Street, NW
Washington, DC 20548-0001

Dear Mr. Scirè:

Thank you for the opportunity to comment on the draft GAO-12-554 report entitled, "Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation". The report covers the Department of Housing and Urban Development's (HUD) homeownership programs, accurately refers to HUD's collaborative agency efforts and recognizes HUD's leadership in homeownership efforts amongst the Federal agencies. The Federal Housing Administration (FHA) has provided its technical comments to Government Accountability Office (GAO), including some issues related to other programs within HUD. The Department's comments on the recommendations contained in the report are as follows:

Recommendation:

To enhance task force efforts to evaluate the potential for coordination or consolidating single-family housing programs and activities, the Secretaries or other designated officials of HUD, USDA, and VA, and the Director of OMB should take steps to establish a more rigorous approach to collaboration. For example, as a first step, agencies could define and articulate goals or common outcomes and identify opportunities that can be addressed or problems solved through their collaborative efforts. Enhancing the task force's efforts also could entail establishing and implementing a written agreement; specifying roles and responsibilities; establishing mechanisms to monitor, evaluate, and report on results; and reinforcing accountability for collaborative efforts.

HUD Response:

HUD agrees that a more formalized approach with respect to coordination or consolidation between HUD, USDA, and VA should be undertaken as recommended by GAO. At the same time, we believe it is important to recognize that each of the agencies that need to be engaged in these structured conversations have been fully focused on the effective management of their respective programs given the vital role these agencies are playing in the ongoing recovery of the housing market. Therefore, we think it is important to assess the timing for when this more rigorous approach can be undertaken. HUD will consult with the other referenced agencies, Office of Management and Budget as well as the Domestic Policy Council and National Economic Council in establishing the timing and structure for this endeavor. HUD recommends that an approximate timeframe might be after February 2014. This will give us time to monitor how strong and steady the housing recovery has become and give us the bandwidth to shift additional efforts to this important task. It will also align with the timing for the next budget cycle.

We also want to specifically point out that while coordination or consolidation could lead to long term cost savings, at the present time the work load and resources necessary to carrying out the FHA mission

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are already stretched and adequate resources would need to remain as the evaluation of any consolidation alternatives are considered.

Recommendation:

To further improve HUD, USDA, and Treasury's efforts through the Rental Policy Working Group to consolidate and align certain requirements in multifamily housing programs, the Rental Working Group should take steps to document collaborative efforts in strategic and annual plans to help reinforce agency accountability for these efforts.

HUD Response:

FHA agrees with this recommendation.

Recommendation:

To build on federal efforts already underway to coordinate, consolidate, or improve housing programs, and help inform Congress's decision-making process, the Secretaries or other designated officials of HUD, Treasury, USDA, and VA should evaluate and report on the specific opportunities for consolidating similar housing programs, including those that would require statutory changes.

HUD Response:

HUD agrees that Congress's decision making process could benefit from the assistance and insight of the agencics as it contemplates reforms to the nation's housing finance system. As we engage in the more structured approach recommended by GAO, we agree that the agencies should identify statutory changes that would enable greater coordination, especially if Congress invites such technical assistance, research and analysis. .

We appreciate the efforts of the GAO to review HUD programs for duplication and overlap, and to suggest opportunities to increase interagency collaboration and consider consolidation.

Sincerely,

Carol J. Galante
Acting Assistant Secretary for Housing -
Federal Housing Commissioner

Appendix III: Comments from the U.S. Department of Agriculture

USDA Rural Development

United States Department of Agriculture
Rural Development
Office of the Under Secretary

JUL 1 2 2012

Mr. Matthew J. Scirè, Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Scirè:

Thank you for providing the Department of Agriculture (USDA) Rural Development (RD) and Rural Housing Service (RHS) with the Government Accountability Office (GAO) draft report entitled "Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation," Report Number GAO-12-554, dated July 2012. We appreciate the opportunity to respond to GAO's review of RHS's housing programs, and the agency generally agrees with the recommendations in the report. For your consideration, USDA offers the following comments to the draft report and requests that a copy of these comments be included in your final report.

We appreciate GAO's recognition of the collaborative efforts USDA, Housing and Urban Development (HUD), Veterans Administration, and Treasury are undertaking to coordinate both single-family and multi-family housing programs and activities. As the report points out, the collaboration will consolidate and align certain requirements, which should reduce duplication of effort by stakeholders doing business with multiple agencies, thereby, reducing bureaucratic red tape, processing times, and ultimately, program costs for stakeholders and agencies alike.

The Rental Policy Working Group documents its collaborative efforts through periodic reports on the status of its alignment efforts, including ten initiatives proposed by the Rental Policy Working Group in 2010. Progress is also measured through successful achievement of outcomes and activities as determined by the group responsible for each of the ten initiatives. These outcomes include implementation of Memoranda of Understanding between USDA, HUD, and state housing finance agencies under pilot alignment programs for multi-family housing regarding subsidy layering. RD will discuss with the other aligning agencies other documentation of the Working Group's collaboration regarding the possibility of establishing additional alignment goals within each agency's strategic and annual plans, and regulatory authority.

We also want to thank GAO for acknowledging that despite the similarities between RHS and other housing programs, we are the only agency that solely focuses on rural America. To be eligible for a RHS direct single-family housing loan, an applicant must not be able to obtain credit elsewhere at reasonable rates and terms. Credit elsewhere would include federal loan

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Mr. Matthew Scirè 2

guarantee programs (both the Federal Housing Administration (FHA) and RD). In general, direct loan borrowers do not have the financial means to furnish a down payment and they need a loan term greater than 30 years, with a reduced interest rate, in order to make homeownership affordable.

By crafting a program that allows the borrower to go to their loan closing with some cash reserves for unexpected repairs and life events, coupled with the lower monthly payment for the same mortgage amount, RD has the ability to serve a population that cannot be served by FHA. It should be noted that applicants who qualify for RD SFH guaranteed loans are not required to have savings, and many of the credit worthy applicants do not. Applicants that do have savings are in a better position with RD's zero-down-payment program because they can keep their money liquid, rather than applying it to a required down payment. The zero-down-payment requirement, coupled with the lower monthly mortgage payment, allows RHS to reach a population that may not have sufficient income to support a mortgage payment inclusive of FHA's mortgage insurance premium (MIP), which is currently at 125 basis points as compared to RD's requirement of 30 basis points.

RD mitigates the zero-down-payment risk factor by tightening controls on other underwriting risk factors. Applicants for no-down-payment loans are required to have higher credit scores, or lower debt ratios, or a combination of these and other favorable credit factors, if they are to be accepted for a no-down-payment SFH guaranteed loan. Unlike direct endorsement programs, every single SFH guaranteed loan is reviewed by an RD staff member prior to the lender receiving permission to close the loan. These pre-closing reviews include the potential for second and third level reviews of the real estate appraisal by an RD staff appraiser, a very prudent quality control measure in addressing risk associated with zero down-payment programs. Aside from the pre-closing reviews which are unique for Government housing programs, RD also engages in the post-closing review process which other Government agencies employ for quality assurance. As a result, the SFH guaranteed loan program is performing better than FHA because of tighter controls on risk factors other than down payments, and because a pre-closing review is made of each loan before the guaranteed lender is given permission to close the loan.

In summary, many of the borrowers receiving assistance with an RD guaranteed loan would not be able to meet the down payments requirements for an FHA loan or demonstrate adequate repayment capacity for an FHA loan due to the monthly MIP that is added to the monthly payment. On an average loan of $138,000, the MIP payment for an FHA loan would be approximately $144 as compared to approximately $35 for an RD loan.

While we appreciate Congress' intent to identify duplication of services across the Federal government, we believe that mission and delivery of programs in RHS and HUD are quite different. RD has the flexibility to respond to changing needs across the rural landscape and lead other public and private sectors for-profit and non-profit partners to invest strategically in rural people and places, particularly those who are traditionally underserved by conventional financial models. With its long record of success attracting private capital to rural areas, primarily through loan guarantees and leveraged grants; providing public capital for economic and community development where the private sector is unable to step in; and building capacity in rural communities through technical assistance, RD enables significant improvement

Mr. Matthew Scirè 3

in job opportunities and quality of life for millions of rural Americans. The synergistic structure within RHS, through RD, enables close coordination of programs across all mission areas. This is a critical asset in rural America that is not duplicated elsewhere in the Federal Government.

A robust housing sector is critical to growing and sustaining the rural economy, and housing programs are an essential component of rural community development that serve as a catalyst for rural jobs. Rural communities have a unique set of challenges, quite different from those in urban areas and rather than duplicating other Federal Programs, RD's Housing programs provide a catalyst for their success by laying foundations through making credit available to those that would not otherwise be served. As policymakers look to the future of the Federal role in housing, it is important that the discussion addresses these unique needs, which are inherently rural.

Once again, we appreciate the opportunity to respond to GAO's report on RHS and its housing programs, and we hope that our comments will help in the preparation of the final report. If you have any questions, please contact Mr. John Purcell, Director, RD Financial Management Division, at (202) 692-0328.

Sincerely,

Dallas Tonsager

Dallas Tonsager
Under Secretary

Appendix IV: Comments from the Department of Veterans Affairs

DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

July 16, 2012

Mr. James R. White
Director, Tax Issues,
Strategic Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. White:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, ***"HOUSING ASSISTANCE: Opportunities Exist to Increase Collaboration and Consider Consolidation"*** (GAO-12-554), and generally agrees with GAO's conclusions and recommendations to the Department.

The enclosure specifically addresses GAO's two recommendations and includes a general comment. VA appreciates the opportunity to comment on your draft report.

Sincerely,

John R. Gingrich

John R. Gingrich
Chief of Staff

Enclosure

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
"HOUSING ASSISTANCE: Opportunities Exist to Increase Collaboration and Consider Consolidation"
(GAO-12-554)

Recommendation 1: To enhance task force efforts to evaluate the potential for coordination or consolidating single-family housing programs and activities, the Secretaries or other designated officials of HUD, USDA, and VA, and the Director of OMB should take steps to establish a more rigorous approach to collaboration. For example, as a first step, agencies could define and articulate goals or common outcomes and identify opportunities that can be addressed or problems solved through their collaborative efforts. Enhancing the task force's efforts also could entail establishing and implementing a written agreement; specifying roles and responsibilities; establishing mechanisms to monitor, evaluate, and report on results; and reinforcing accountability for collaborative efforts.

VA Response: Concur. VA will collaborate with the noted Government entities to enhance task force efforts to evaluate the potential for coordination of and collaboration between single-family housing programs and activities. As an example, VA notes that, in the housing industry, VA home loans have had the lowest foreclosure rate for the last 16 quarters and the lowest serious delinquency rate for the last 13 quarters, even when compared to prime loans. VA welcomes the opportunity to coordinate with other agencies to share best practices in loan origination, loan servicing, and loss mitigation. VA also looks forward to the possibility of using other agencies' best practices in other areas of single-family housing to refine and improve its own program.

Recommendation 3: To build on federal efforts already underway to coordinate, consolidate, or improve housing programs, and help inform Congress's decision-making process, the Secretaries or other designated officials of HUD, Treasury, USDA, and VA should evaluate and report on the specific opportunities for consolidating similar housing programs, including those that would require statutory changes.

VA Response: Concur in principle. As noted in this GAO Report, "Consolidating programs carries certain implications for users, existing programs, personnel, portfolios, and associated information systems." (DRAFT GAO Highlights). The uncoordinated, unilateral reporting by Departments could waste resources, cause confusion and inaccurately portray opportunities. The Department supports efforts to identify opportunities to achieve more efficient and effective programs across federal government through a coherent and coordinated mechanism. This recommendation does not suggest such a mechanism, and the Department would not support unilateral evaluations and reporting in this area.

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Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
"HOUSING ASSISTANCE: Opportunities Exist to Increase Collaboration and Consider Consolidation"
(GAO-12-554)

General Comment:

VA notes, as does GAO's report, that Veterans have earned the benefit of VA's Home Loan Guaranty program in recognition of their service to the Nation. While VA's Home Loan Guaranty program could certainly be compared or coordinated with aspects of other Federal housing programs, such as the Federal Housing Administration's (FHA) programs, consolidation of the program under another agency is not recommended. VA's Home Loan Guaranty program was authorized under the GI Bill of 1944, and the President and Congress, expressing the will of the American public, have modified and expanded the program through legislation in nearly every Congress since that time. Veterans as a group have been deliberately provided a unique program and Cabinet-level access for their unique voice. Combining VA's Home Loan Guaranty program with other housing programs would dilute that intent. Of additional note is the fact that as the only widely available no-down payment and no-mortgage insurance premium program in the marketplace, VA's Home Loan Guaranty program provides millions of Veterans with an affordable path to homeownership – a path that would not necessarily be available to them through more costly conventional or FHA financing.

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Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Mathew J. Scirè, (202) 512-8678 or sciremj@gao.gov
James R. White, (202) 512-9110 or whitej@gao.gov.

Staff Acknowledgments

In addition to the individuals named above, Andy Finkel, Assistant Director; MaryLynn Sergent, Assistant Director; Michelle Bowsky; Emily Chalmers; Andrea Dawson; Karen Jarzynka-Hernandez; Mark Kehoe; Anar Ladhani; John McGrail; John Mingus; Marc W. Molino; Alise Nacson; Barbara Roesmann; Erinn Sauer; Carrie Watkins; and Edwin Yuen made key contributions to this report.

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