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*REPORT TO THE COMMITTEE
ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES*

RELEASED 090289

Differences In Cost Of Purchasing
Houses In Seven States Through
The Departments Of Housing And
Urban Development And Agriculture

B-114860, B-114873

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~906776~~ 090289

MAY 15, 1974



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

B-114860
B-114873

The Honorable Wright Patman, Chairman
Committee on Banking and Currency
House of Representatives

Dear Mr. Chairman:

Pursuant to your request of June 19, 1973, and subsequent discussions with your office, we reviewed home buyers' costs for comparable houses purchased in six States through the Department of Housing and Urban Development's section 203(b) and 221(d)(2) programs and through the Department of Agriculture's section 502 program administered by the Farmers Home Administration. We previously furnished you with a report on a similar review in Georgia (B-114860 and B-114873, May 10, 1973), and as directed by your office, we have incorporated the results of that review in this report.

As requested by your office, we did not obtain written comments from the two Departments on the matters discussed in this report; however, we did obtain oral comments from their local officials and have included their views in this report.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in black ink, appearing to read "A. M. Kellner".

Acting Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
USDA	Department of Agriculture

COMPTROLLER GENERAL'S
REPORT TO THE
COMMITTEE ON BANKING
AND CURRENCY--HOUSE
OF REPRESENTATIVES

D I G E S T

WHY THE REVIEW WAS
MADE

GAO made this review at the request of the Chairman to determine cost differences to home buyers who purchased comparable houses through programs in the Departments of Housing and Urban Development (HUD) and Agriculture (USDA) in California, Missouri, New York, Texas, Virginia, and Washington.

This report incorporates the results of a previously made similar review in Georgia.

FINDINGS AND CONCLUSIONS

Under HUD-insured mortgage housing programs, private lenders are allowed to charge buyers for certain costs, such as loan discount points and closing costs, which the USDA-financed home buyers do not have to pay because their loans are made by the Government.

Loan discount points are assessed because the rate of interest that lenders can charge on HUD-insured mortgages is lower than the market rate. The loan discount points make up the difference.

DIFFERENCES IN COSTS OF
PURCHASING HOUSES IN SEVEN
STATES THROUGH THE
DEPARTMENTS OF HOUSING
AND URBAN DEVELOPMENT
AND AGRICULTURE
B-114860, B-114873

GAO compared costs to home buyers for 34 sets of comparable houses purchased through HUD and USDA in California, Georgia, Missouri, New York, Texas, Virginia, and Washington and found that:

--HUD home buyers paid from \$38 to \$3,311, or from 0.2 to 19.9 percent, more for their houses in 27 sets of comparables.

--USDA home buyers paid from \$30 to \$521, or from 0.2 to 2.3 percent, more for their houses in 6 sets of comparables.

--HUD and USDA home buyers paid about the same amounts for their houses in one set of comparables. (See pp. 10 to 33.)

HUD's houses generally cost more because of

--higher costs for the basic structures,

--loan discount points,

--higher closing costs, and

--higher sales commissions.

The USDA houses cost more in six sets of comparables because of higher costs for the basic structures. In one of the six sets, the USDA home buyer paid a higher sales commission than the HUD home buyer.

GAO analyzed the cost differentials between HUD and USDA houses. In relation to total adjusted costs, GAO's review showed that:

- Basic-structure costs on HUD houses were from 0.2 to 10.8 percent higher in 15 sets of comparables and the basic-structure costs on USDA houses were from 0.2 to 8.9 percent higher in 18 sets of comparables. The basic-structure costs on the remaining set of comparables were the same. (See pp. 7 to 8.)
- HUD home buyers' costs were from 1.3 to 8.3 percent higher than USDA home buyers' costs in all 34 sets of comparables because of loan discount points. (See p. 7.)
- HUD home buyers' costs were higher than USDA home buyers' costs by 0.3 to 2.9 percent in 32 of the 34 sets of comparables because of higher loan-closing costs. (See p. 7.)
- HUD home buyers paid from 0.1 to 6.9 percent higher sales commissions than USDA home buyers in seven sets of comparables and USDA home buyers paid from 0.1 to 3.2

percent higher sales commission than HUD home buyers in three additional sets of comparables. In the remaining 24 sets of comparables, no sales commissions were involved. (See p. 8.)

GAO noted that the President, in his message to the Congress on September 19, 1973, recommended that home buyers under Federal insurance programs be permitted to pay market interest rates, which would eliminate payment of loan discount points.

AGENCY COMMENTS

As requested by the Chairman's office, GAO did not obtain written comments from HUD and USDA on matters discussed in this report; however, it did obtain oral comments from local HUD and USDA officials and has incorporated their views in the report.

In general, officials of both agencies either agreed with the results of GAO's comparisons or did not object to the cost differentials noted in the comparisons. (See pp. 34 to 35.)

CHAPTER 1

INTRODUCTION

Pursuant to a request on November 20, 1972, by the Chairman, House Committee on Banking and Currency, we reviewed cost differences to home buyers who purchased comparable houses in Georgia through programs of the Departments of Housing and Urban Development (HUD) and Agriculture (USDA) and reported the results of that review to the Chairman (B-114860 and B-114873, May 10, 1973). The report pointed out that, on the basis of a comparison of five houses purchased under HUD's section 203(b) program with five comparable houses purchased under USDA's section 502 program, HUD home buyers paid from 2.3 to 18.7 percent more than USDA home buyers because of

- higher costs for the basic structures,
- loan discount points,
- higher closing costs, and
- higher sales commissions.

On June 19, 1973, the Chairman requested us to make a similar review at other locations. As agreed with the Chairman's office, we made that review in California, Missouri, New York, Texas, Virginia, and Washington. We did not determine the Government's cost for administering the HUD and USDA housing programs.

At the direction of the Chairman's office, we have incorporated the results of our prior review of housing in Georgia in this report.

HUD'S SECTION 203(b) PROGRAM

Section 203(b) of the National Housing Act (12 U.S.C. 1701) authorizes the Secretary of HUD to insure mortgage loans to anyone who can make the required cash investment and the payments on the mortgage. It is HUD's basic and most commonly used insurance program. The maximum mortgage for a single-family dwelling is \$33,000, and the maximum maturity is 35 years. HUD establishes the maximum interest rate on section 203(b) loans. The program does not prescribe any income requirements for eligibility. Properties insured under the program must meet HUD's minimum property standards.

From January 1, 1970, to June 30, 1973, HUD insured 863,499 section 203(b) loans amounting to \$16.2 billion.

HUD'S SECTION 221(d)(2) HOUSING PROGRAM

Section 221(d)(2) of the National Housing Act authorizes the Secretary of HUD to insure mortgages to finance purchasing or rehabilitating new and existing one- to four-family properties (referred to by HUD as single-family properties) of low- and moderate-income families or families displaced by Government action. Properties must meet HUD's minimum property standards. The program does not prescribe any income requirements for eligibility.

Mortgages for single-family dwellings may be insured up to \$18,000 for a family of four or less and \$21,000 for a family of five or more. Mortgages may exceed these limits by \$3,000 in high cost areas. Mortgage maturities may not exceed 30 years, except when HUD determines that a longer maturity is warranted. HUD establishes the maximum interest rates on section 221(d)(2) loans.

From January 1, 1970, to June 30, 1973, HUD insured 278,889 section 221(d)(2) loans amounting to \$4.6 billion.

- - - -

In processing a mortgage loan application under the section 203(b) and section 221(d)(2) programs, HUD performs a number of services which include (1) reviewing credit reports on the applicant that the lender submits, (2) reviewing plans and specifications on proposed new construction, and (3) appraising the property which is to be security for the mortgage. HUD does not pass on the costs of these services to the loan applicant; however, the lender may charge the applicant a fee for obtaining credit reports and/or other administrative costs incurred in processing the application.

USDA'S SECTION 502 PROGRAM

Title V of the Housing Act of 1949 (42 U. S. C. 1471) authorizes USDA to make housing loans in rural areas or communities with populations of not more than 10,000. To qualify for a section 502 loan, the applicant, among other things, must

- be a rural resident or plan to become a rural resident when the loan is closed;
- be without decent, safe, and sanitary housing for his own use or for his farm manager, tenants, sharecroppers, or laborers; and

--be unable to secure the necessary credit from other sources on terms and conditions which he reasonably can be expected to fulfill.

USDA has not established maximum mortgage limits for section 502 loans; however, its eligibility requirements, as shown above, and the requirement of the act that USDA make loans only for modest housing generally limit the purchase price of the houses. Most of the section 502 houses which we reviewed cost less than \$20,000. The act provides that the loans be repaid in 33 years or less.

In processing a rural-housing loan application, USDA personnel perform a number of services similar to those performed by HUD and the lender, including (1) obtaining credit information on the applicant, (2) reviewing plans and specifications for proposed new construction, and (3) appraising the property which is to be security for the loan. The cost of these services, which are provided without charge to the loan applicant, is paid from USDA's salary and expense appropriation.

From January 1, 1970, to June 30, 1973, USDA made 214,989 section 502 direct loans amounting to \$2.7 billion.

CHARGES ALLOWED UNDER HUD
PROGRAMS NOT ALLOWED UNDER
USDA PROGRAM

Private lenders finance the mortgages insured under HUD programs, whereas the Government finances the mortgages under the USDA rural-housing program. Private lenders may make certain charges to either the buyer or the seller for loan discount points and lenders' service charges which are not involved in USDA mortgages.

Loan discount points are assessed because at times the interest rate that lenders can charge on HUD-insured mortgages is lower than the market rate. For this reason lenders charge points to make up the difference between the HUD interest rate and the market rate. When a seller has to pay discount points, he compensates by including their cost in the property's selling price. The number of points charged varies in different places at different times and among different lenders.

The HUD program also permits a lender's service charge of 1 to 2-1/2 percent of the loan amount.

SELECTION OF HOUSES FOR COMPARISON

Although basic differences between the HUD and the USDA programs somewhat limited the number of houses considered comparable, we selected 34 sets of HUD and USDA houses which met, or essentially met, our criteria of being in the same location and built at about the same time by the same builder using the same plans and specifications. We compared the 34 sets of houses and their related costs, made adjustments when necessary, and identified cost differences. If one of the houses in a set of comparables had extra amenities, we adjusted the cost of the basic house for the value of these extra amenities and for any related costs, such as loan discount points, closing costs, and sales commissions.

If the houses in a set of comparables were sold at considerable different times, we made adjustments for price-level increases. For consistency in presentation we made all necessary adjustments to the cost of the HUD houses.

CHAPTER 2

COMPARISON OF HOME BUYERS' COST

Our review of 34 sets of comparable HUD and USDA houses showed that:

- HUD home buyers paid from \$38 to \$3,311, or from 0.2 to 19.9 percent, more for their houses than USDA home buyers in 27 sets of comparables because of a combination of higher costs for the basic structures, loan discount points, higher closing costs, and higher sales commissions.
- USDA home buyers paid from \$30 to \$521, or from 0.2 to 2.3 percent, more for their houses than HUD home buyers in 6 sets of comparables because of higher costs for the basic structures and one USDA home buyer paid a higher sales commission than the HUD home buyer.
- HUD and USDA home buyers paid about the same amounts for their houses in one set of comparables.

IDENTIFIED COST DIFFERENCES

Loan discount points

The 34 HUD home buyers had to pay loan discount points which increased their costs from \$328 to \$1,592, or from 1.3 to 8.3 percent. The USDA home buyers, however, did not have to pay points.

Closing costs

In all but two comparisons, the HUD home buyers' total costs were higher by \$55 to \$699, or by 0.3 to 2.9 percent, than the costs to the USDA home buyers, because of higher closing costs. The higher costs were for lender service charges and charges for such things as recording the loan and warranty deeds and appraisal reports.

In the remaining two comparisons, the closing costs were about the same for the HUD and the USDA home buyers.

Basic-structure costs

In 18 comparisons, the USDA home buyers' total costs were higher by \$36 to \$2,002, or by 0.2 to 8.9 percent, than the costs to the HUD home buyers, because of higher basic-structure costs.

In 15 other comparisons, the HUD home buyers' total costs were higher by \$36 to \$1,801, or by 0.2 to 10.8 percent, than the costs to the USDA home buyers, because of higher basic-structure costs. In the one remaining comparison, the basic-structure costs were the same for the HUD and the USDA home buyers.

Sales commissions

In seven comparisons, the HUD home buyers' total costs were higher by \$15 to \$1,308, or by 0.1 to 6.9 percent, than the costs to the USDA home buyers, because of higher sales commissions. In three other comparisons, the USDA home buyers' total costs were higher by \$10 to \$545, or by 0.1 to 3.2 percent, than the costs to the HUD home buyers, because of higher sales commissions. In the remaining comparisons, no sales commissions were involved.

State	City	Total adjusted cost		Cost difference increase or decrease (-)	Percent of difference of total adjusted cost
		HUD house	USDA house		
California	Riverbank	\$16,306	\$16,300	6	--
	Hesperia	15,247	14,525	722	5.0
	Watsonville	21,225	20,015	1,210	6.0
	Brentwood	22,123	19,093	3,030	15.9
	Exeter	17,382	16,829	553	3.3
Georgia	Waynesboro	19,140	16,120	3,020	18.7
	Fitzgerald	18,486	15,670	2,816	18.0
	Newnan	15,724	13,410	2,314	17.3
	LaFayette	16,100	15,736	364	2.3
	LaFayette	17,721	15,446	2,275	14.7
Missouri	Harrisonville	19,499	18,532	967	5.2
	Ozark-Nixa	18,878	16,560	2,318	14.0
	Nixa	15,140	15,170	-30	-.2
	St. Joseph	19,098	18,000	1,098	6.1
	St. Joseph-Faucett	19,007	18,000	1,007	5.6
New York	Shirley	25,399	24,329	1,070	4.4
	Mastic	26,187	24,408	1,779	7.3
	Mastic	23,132	21,529	1,603	7.4
	Shirley	24,849	25,313	-464	-1.8
	Calverton-Patchogue	22,396	22,917	-521	-2.3
Texas	Seagoville	17,996	17,580	416	2.4
	Bonham	17,469	16,900	569	3.4
	Mount Pleasant	17,731	15,407	2,324	15.1
	Honey Grove	16,735	16,950	-215	-1.3
Virginia	Bassett	18,705	17,623	1,082	6.1
	Front Royal	19,474	19,800	-326	-1.6
	Front Royal	20,433	20,715	-282	-1.4
	Ridgeway	17,588	16,222	1,366	8.4
	Martinsville	19,984	16,673	3,311	19.9
Washington	Ferndale	19,060	18,759	301	1.6
	Ferndale	19,148	19,108	40	.2
	Puyallup	19,743	18,618	1,125	6.0
	Clark County	17,038	17,000	38	.2
	Puyallup-Enumclaw	18,925	16,921	2,004	11.8

ANALYSES OF SIX SETS OF
COMPARABLES

Analyses of six of the comparisons and the related cost differences are presented in the following sections of this chapter.

Comparison of HUD and USDA houses
in Brentwood, California

Although virtually identical, the HUD house in Brentwood cost 15.9 percent more than USDA's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase or decrease (-)</u>	<u>Percent of difference of total adjusted cost</u>
Purchase price	\$24,487.70	\$19,362.98	\$5,124.72	
Less:				
Loan discount points	1,728.75	-	1,728.75	
Closing costs	618.23	226.67	391.56	
Prepaid expenses	328.37	269.71	58.66	
Sales commission	1,308.00	-	1,308.00	
Cost of basic house	20,504.35	18,866.60	1,637.75	
Less value of extra amenities	1,825.00	-	1,825.00	
Adjusted cost of basic house	18,679.35	18,866.60	-187.25	-1.0
Adjusted loan discount points	1,591.88	-	1,591.88	8.3
Adjusted closing costs	544.10	226.67	317.43	1.7
Sales commission	1,308.00	-	1,308.00	6.9
Total adjusted cost	<u>\$22,123.33</u>	<u>\$19,093.27</u>	<u>\$3,030.06</u>	<u>15.9</u>

A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living area	1,176	1,176
Type of construction	Site	Site
Type of structure	Frame	Frame
Exterior walls	Stucco and wood siding	Stucco and wood siding
Number of stories	1	1
Basement	No	No
Rooms:		
Bedroom	3	3
Living-dining room	1	1
Kitchen	1	1
Bath	2	2
Storage	No	No
Garage	2 car	2 car
Water and sewer	Public	Public
Type of street	Paved	Paved
Curb	Yes	Yes
Location	Subdivision	Subdivision
Type of heating	Forced air	Forced air
Carpeting	No	No
Interior ceilings and walls	Sheetrock	Sheetrock
Kitchen sink	Steel, 30"x21"	Steel, 30"x21"
Driveway	Paved	Paved
Walkway	Yes	Yes
Rake (roof overhand)	Yes	Yes
Exterior trim	Yes	Yes
Landscaping	Yes	Yes
Cabinets	Hardwood (plywood)	Hardwood (plywood)
Foundation	Concrete slab	Concrete slab
Light fixtures	10	10
Front door	Mahogany	Mahogany
Window (frame)	Aluminum	Aluminum
Porches	Yes	Yes
Patio	No	No

<u>Dissimilar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Cooling	Central	No
Lot size	60'x120'x50'x90'	60'x120'
Dishwasher	Yes	No
Garbage disposal	Yes	No
Bathroom vanities	Yes	No
Built-in range	Deluxe	Standard
Full-length gutters	Yes	No
Dining bar	Yes	No

Pictures of the two houses are on page 13.

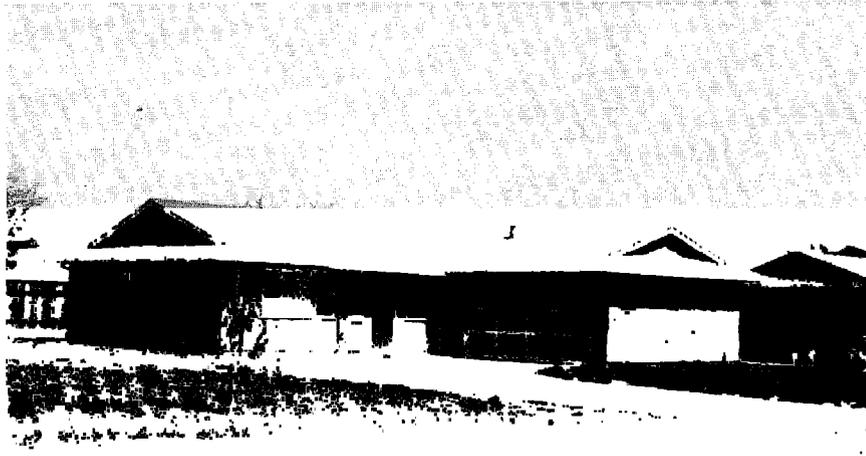
Both houses are in the same subdivision, were built by the same builder from the same basic floor plan and specifications, and were sold at about the same time. The lot sizes differed; however, the builder considered the lots to be of equal value. Extra amenities in the HUD house included central air-conditioning, dishwasher, garbage disposal, bathroom vanities, deluxe built-in range, full-length gutters, and a dining bar. The builder valued these amenities at \$1,825.

After adjusting costs for the \$1,825 difference in the value of the comparable houses, the HUD home buyer had paid \$3,030, or 15.9 percent, more than the USDA home buyer. The higher cost to the HUD home buyer resulted from his having to pay loan discount points, higher closing costs, and a sales commission.

HUD appraised its house at \$21,000; USDA appraised its house at \$18,900. The builder said that he had charged more for the HUD house because HUD's appraisal was higher than USDA's appraisal. The builder said also that, under the HUD section 203(b) program, he was not required to sell a house at the appraised value.

Houses in Brentwood

HUD house



USDA house



Comparison of HUD house in
Ozark, Missouri, and USDA
house in Nixa, Missouri

There were several differences between the houses in Ozark and Nixa; however, we made adjustments for the differences and determined that HUD's house cost 14 percent more than USDA's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase or decrease (-)</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$17,649.22	\$16,668.00	\$ 981.22	
Less:				
Loan discount points	924.00	-	924.00	
Closing costs	324.50	92.00	232.50	
Prepaid expenses	149.22	108.00	41.22	
Sales commission	875.00	-	875.00	
Cost of basic house	15,376.50	16,468.00	-1,091.50	
Adjustment for differences	1,267.50	-	1,267.50	
Adjusted cost of basic house	16,644.00	16,468.00	176.00	1.1
Adjusted loan discount points	993.71	-	993.71	6.0
Adjusted closing costs	337.18	92.00	245.18	1.5
Adjusted sales commission	903.38	-	903.38	5.4
Total adjusted cost	<u>\$18,878.27</u>	<u>\$16,560.00</u>	<u>\$2,318.27</u>	<u>14.0</u>

A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living area	1,053	1,092
Type of construction	Site	Site
Type of structure	Frame	Frame
Number of stories	1	1
Basement	No	No
Rooms:		
Bedroom	3	3
Living room	1	1
Kitchen-dining room	1	1
Bath	1	1
Garage	1 car	1 car
Water	Public	Public
Sewer	Septic tank	Septic tank
Type of street	Paved	Paved
Curb and gutter	No	No
Type of heating	Central	Central
Type of cooling	None	None
Location	Subdivision	Subdivision
 <u>Dissimilar characteristics</u>		
Lot value	\$2,200	\$1,800
Exterior walls	Wood and brick	Masonite and brick
Carpeting	Yes	Partial
Driveway	Gravel	Concrete
Window frames	Aluminum	Wood
Entrances	1 rear	2 rear
Roof	Hip	Gable

Pictures of the two houses are on page 17.

The houses were built by different builders in subdivisions of small towns about 5 miles apart.

The HUD house was sold in November 1972 and the USDA house in April 1973. HUD officials gave us a percentage figure (price-level increase) to add to the total selling price of the HUD house, to compensate for the different selling dates.

Using information furnished by builders of both houses, we compared the cost of amenities in each house and determined that the HUD house had a net value of \$375 less than the USDA house. After adjusting costs for this difference and for a price-level

increase of \$892, the HUD home buyer had paid about \$2,318, or 14 percent, more than the USDA home buyer. This amount included \$2,142 for loan discount points, closing costs, and sales commission and \$176 which represented a higher charge by the seller of the HUD house for the basic house and lot.

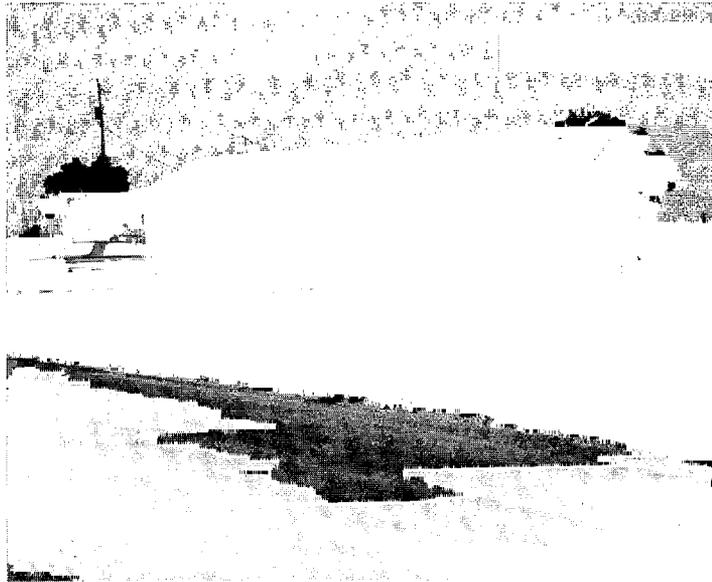
HUD appraised its house at \$18,200; USDA appraised its house at \$16,570.

The builder of HUD's house said that he had built houses under both programs and felt that USDA's appraisals were low and took away profit incentive.

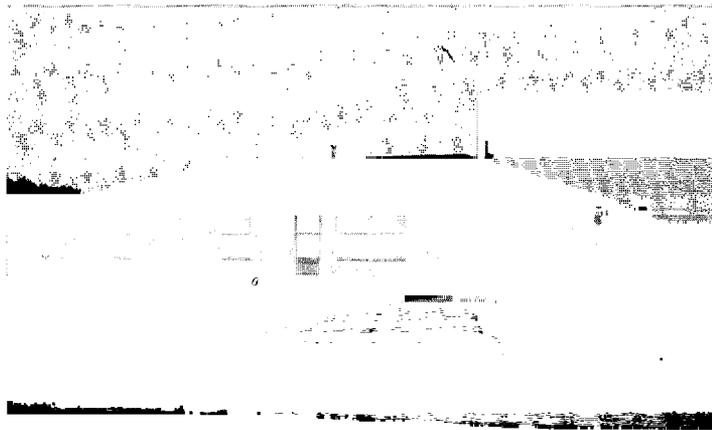
The builder of USDA's house said that he had had no experience with HUD. He said that he believed USDA's appraisals were fair and that he had been pleased with them.

Houses in Ozark and Nixa

HUD house



USDA house



Comparison of HUD and USDA
houses in Shirley, New York

Although essentially identical, the HUD house in Shirley cost 4.4 percent more than USDA's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase or decrease (-)</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$25,763.09	\$24,328.85	\$1,434.24	
Less:				
Loan discount points	454.00	-	454.00	
Closing costs	1,053.24	349.70	703.54	
Prepaid expenses	84.00	-	84.00	
Cost of basic house	24,171.85	23,979.15	192.70	
Less value of extra amenities	270.00	-	270.00	
Adjusted cost of basic house	23,901.85	23,979.15	-77.30	-.3
Adjusted loan discount points	448.60	-	448.60	1.8
Adjusted closing costs	1,048.29	349.70	698.59	2.9
Total adjusted cost	<u>\$25,398.74</u>	<u>\$24,328.85</u>	<u>\$1,069.89</u>	<u>4.4</u>

A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living area	1,050	1,050
Type of construction	Site	Site
Type of structure	Frame	Frame
Exterior walls	Wood and cedar shakes	Wood and cedar shakes
Number of stories	1	1
Basement	Yes	Yes
Rooms:		
Bedroom	3	3
Living room	1	1
Kitchen-dining room	1	1
Bath	1	1
Storage	Yes	Yes
Carport	No	No
Water	Well	Well
Sewer	Septic	Septic
Type of street	Paved	Paved
Curb	No	No
Location	City lot	City lot
Type of heating	Oil-fired hot water	Oil-fired hot water
Cooling	No	No
Carpeting	No	No

Pictures of the two houses are on page 21.

Both houses, built by the same builder using the same plans and specifications, were sold at about the same time. The houses are adjacent to each other on the same street.

After adjusting the costs of the HUD house for \$270 worth of amenities, the HUD buyer paid about \$1,070, or 4.4 percent, more than the USDA buyer. Although the HUD buyer paid \$77 less for his basic house, he paid much more in loan discount points and in closing costs.

HUD's house was appraised at \$24,600 which was based on a certificate of reasonable value previously obtained by the buyer from the Veterans Administration. USDA appraised its house at \$22,800.

The builder stated he believed that there were no appreciable differences between HUD's and USDA's appraisals and indicated that there was no difference in the profit he could have made

selling through either agency's program. He said that HUD's paperwork was time consuming. According to the builder, there were instances when it took so long between signing the contract and HUD's final approval that his costs increased to the point where the house could not be delivered at the contract price and the contract had to be canceled.

Houses in Shirley

HUD house



USDA house



Comparison of HUD and USDA
houses in Seagoville, Texas

Although virtually identical, the HUD house in Seagoville cost 2.4 percent more than USDA's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase or decrease (-)</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$18,159.02	\$17,580.00	\$579.02	
Less:				
Loan discount points	868.88	-	868.88	
Closing costs	530.00	475.50	54.50	
Prepaid expenses	274.02	-	274.02	
Sales commission	<u>1,062.00</u>	<u>1,053.00</u>	<u>9.00</u>	
Cost of basic house	15,424.12	16,051.50	-627.38	
Value of front elevation of USDA house	<u>100.00</u>	<u>-</u>	<u>100.00</u>	
Adjusted cost of basic house	15,524.12	16,051.50	-527.38	-3.0
Adjusted loan discount points	874.13	-	874.13	5.0
Adjusted closing costs	530.00	475.50	54.50	.3
Adjusted sales commission	<u>1,068.00</u>	<u>1,053.00</u>	<u>15.00</u>	<u>.1</u>
Total adjusted cost	<u>\$17,996.25</u>	<u>\$17,580.00</u>	<u>\$416.25</u>	<u>2.4</u>

A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living area	976	976
Type of construction	Site	Site
Type of structure	Frame	Frame
Exterior walls	Brick	Brick
Number of stories	1	1
Rooms:		
Bedroom	3	3
Living room	1	1
Kitchen-dining room	1	1
Bath	1	1
Garage	Yes	Yes
Water and sewer	Public	Public
Type of street	Paved	Paved
Curb	Yes	Yes
Location	Subdivision	Subdivision
Type of heating	Central	Central
Type of cooling	Central	Central
Carpeting	Yes	Yes

Pictures of the two houses are on page 25.

Both houses were built by the same builder from the same plans and specifications and were sold about the same time. The houses were on the same street on lots of equal size and value. The only difference in the houses was that USDA's house had a different type of front elevation. The builder estimated USDA's house to be worth \$100 more because of its front elevation.

After adjusting for the \$100 difference, the HUD home buyer paid about \$416, or 2.4 percent, more than the USDA home buyer. The basic cost of HUD's house was about \$527, or 3 percent, less than USDA's; however, as a result of having to pay about \$874 in loan discount points and slightly higher closing costs and sales commission, the total cost to HUD's home buyer was 2.4 percent more.

HUD appraised its house at \$17,750; USDA appraised its house at \$17,500. According to the builder, the buyer's cost for the basic HUD house was less because of HUD's appraisal. He explained that, although HUD's appraisal was actually \$250 higher, the purchase price included \$869 in loan discount points, a substantial amount that was not included in the purchase price for USDA's house.

The builder told us that, of the houses he had constructed in this subdivision, only one (the house we selected for review) had been sold through the HUD section 203(b) program. The builder stated that he could not realize adequate profits on HUD houses because HUD appraisals were generally not high enough for him to recover the additional costs he incurred for loan discount points, and as a result, he was forced to sell his houses through other means. This builder also told us he had severed all relations with HUD and was building houses primarily for the conventional market with periodic construction for USDA.

Houses in Seagoville

HUD house



USDA house



Comparison of HUD and USDA
houses in Front Royal, Virginia

Although virtually identical, USDA's house in Front Royal cost 1.6 percent more than HUD's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase or decrease (-)</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$20,119.86	\$19,800.00	\$ 319.86	
Less:				
Loan discount points	875.25	-	875.25	
Closing costs	641.30	300.00	341.30	
Prepaid expenses	219.86	-	219.86	
Cost of basic house	18,383.45	19,500.00	-1,116.55	
Less adjustment for differences	400.00	-	400.00	
Adjusted cost of basic house	17,983.45	19,500.00	-1,516.55	-7.8
Adjusted loan discount points	857.25	-	857.25	4.3
Adjusted closing costs	633.30	300.00	333.30	1.7
Total adjusted cost	<u>\$19,474.00</u>	<u>\$19,800.00</u>	<u>\$ -326.00</u>	<u>-1.6</u>

A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living area	1,053	1,053
Type of construction	Site	Site
Type of structure	Frame--brick vener	Frame--brick vener
Exterior walls	Brick	Brick
Number of stories	1	1
Basement	Yes	Yes
Rooms:		
Bedroom	3	3
Living room	1	1
Kitchen-dining room	1	1
Bath	1	1
Storage	No	No
Carport	No	No
Water and sewer	Public	Public
Type of street	Hard surface gravel	Hard surface gravel
Curb	No	No
Location	Subdivision	Subdivision
Type of heating	Oil furnace forced air	Oil furnace forced air
Cooling	No	No
Carpeting	No	No
Front porch	Stoop	Stoop
Driveway	Gravel	Gravel
Lot size (sq ft)	7,500	7,500
Landscaping	Yes	Yes
Kitchen sink	Double stainless steel	Double stainless steel

Pictures of the two houses are on page 29.

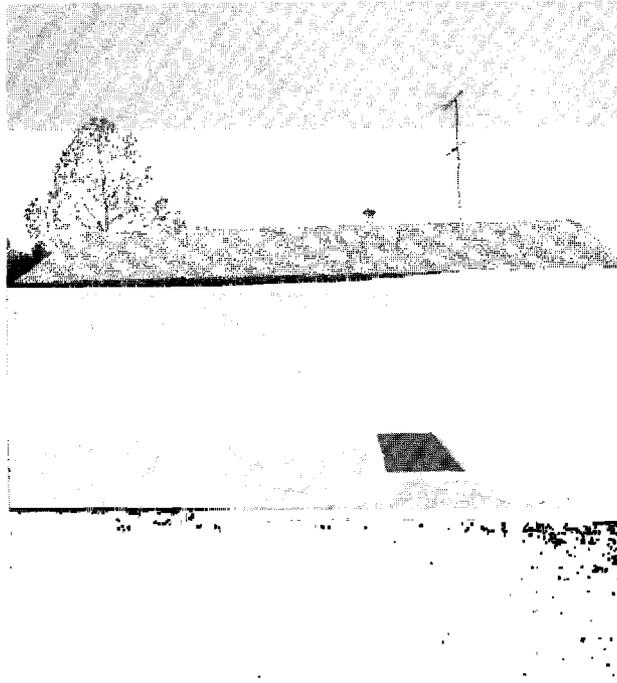
Both houses were built by the same builder using the same plans and specifications and were in the same subdivision. The only structural difference in the houses was that the HUD house had a door leading directly outside from the basement. The builder said he had not charged the home buyer for this extra exit. The only other difference we identified was that the HUD house was sold 6 months after the USDA house. The builder told us that, as a result of inflation, the sales price of the USDA house increased \$400 during the 6 months between sales dates.

After adjusting costs for inflation, the USDA home buyer paid \$1,517, or 7.8 percent, more than the HUD home buyer for the same basic house and lot. Although the HUD home buyer paid \$1,191 in points and higher closing costs, the USDA home buyer still paid \$326, or 1.6 percent, more than the HUD home buyer.

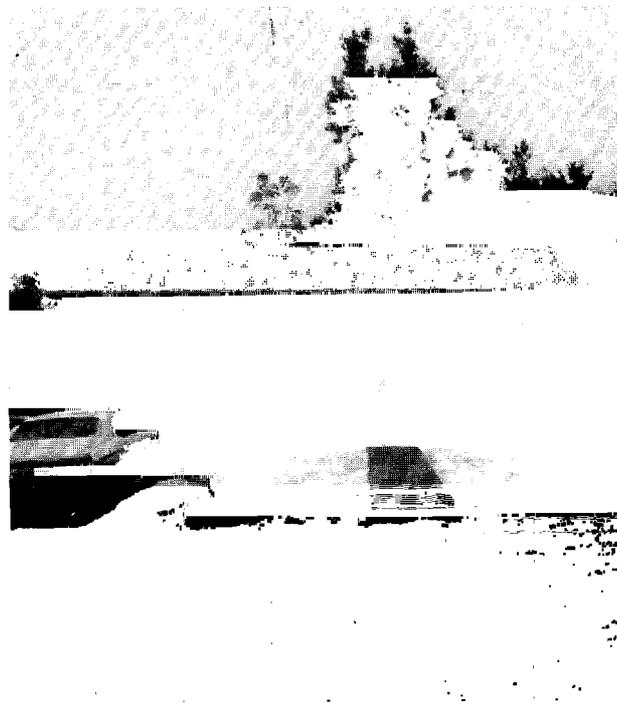
Both HUD and USDA officials in Virginia were surprised at the results of this comparison. These officials said that they had expected the HUD house to cost more because of the loan discount points and higher closing costs.

Houses in Front Royal

HUD house



USDA house



Comparison of HUD and USDA houses in
the Puyallup-Enumclaw, Washington, area

Although essentially identical, HUD's house in the Puyallup-Enumclaw area cost 11.8 percent more than USDA's comparable house.

<u>Description of cost</u>	<u>HUD house</u>	<u>USDA house</u>	<u>Cost difference increase</u>	<u>Percent of difference of total adjusted cost</u>
Total purchase price	\$19,104.03	\$16,955.44	\$2,148.59	
Less:				
Loan discount points	740.00	-	740.00	
Closing costs	593.13	342.60	250.53	
Prepaid expenses	234.25	33.82	200.43	
Sales commission	925.00	842.50	82.50	
Cost of basic house	16,611.65	15,736.52	875.13	
Adjustment for differences	50.00	-	50.00	
Adjusted cost of basic house	16,661.65	15,736.52	925.13	5.4
Adjusted loan discount points	742.00	-	742.00	4.4
Adjusted closing costs	594.18	342.60	251.58	1.5
Adjusted sales commission	927.50	842.50	85.00	.5
Total adjusted cost	<u>\$18,925.33</u>	<u>\$16,921.62</u>	<u>\$2,003.71</u>	<u>11.8</u>

Both houses were built by the same builder from the same basic floor plan, although the garage for each house was built in a different place. The two houses were about 23 miles apart. A comparison of the two houses is shown below.

<u>Similar characteristics</u>	<u>HUD</u>	<u>USDA</u>
Square feet of living space	960	960
Type of construction	Site	Site
Type of structure	Frame	Frame
Number of stories	1	1
Basement	No	No
Rooms:		
Bedroom	3	3
Living room	1	1
Kitchen-dining room	1	1
Bath	1	1
Storage	Yes	Yes
Garage	Yes	Yes
Water	Public	Public
Type of street	Paved	Paved
Type of heating	Electric baseboard	Electric baseboard
Carpeting	Yes	Yes
Lot value	\$3,500	\$3,500
<u>Dissimilar characteristics</u>		
Location	City lot	Subdivision
Sidewalk	Gravel	Concrete
Lot size (sq ft)	8,100	15,387
Sewer	Public	Septic tank
Wall	Single	Double
Foundation	Concrete	Steel-reinforced concrete
Subflooring	3/4 inch	1-1/8 inch
Window screens	No	Yes
Fireplace	Yes	No

Pictures of the two houses are shown on page 33.

The builder estimated that the USDA house cost about \$50 more to construct. This net cost was computed by offsetting the \$600 cost of a fireplace in the HUD house against the \$650 higher cost to build the basic USDA house, due primarily to stricter USDA standards in the State of Washington.

After adjusting costs for differences in the houses, the HUD home buyer paid about \$2,004, or 11.8 percent, more than the USDA home buyer. Included in the \$2,004 was \$1,079 for loan discount points, higher closing costs, and sales commission and \$925 for the basic house and lot.

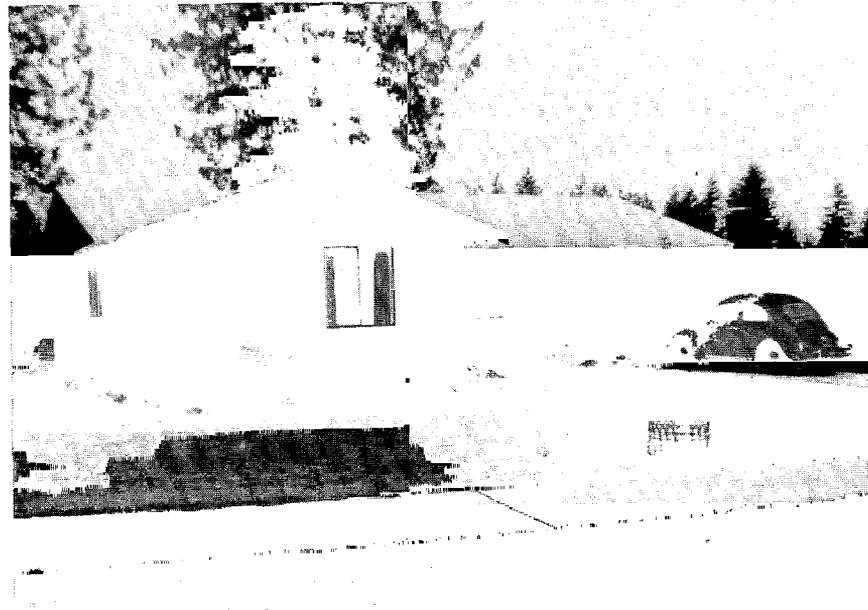
HUD's house was appraised at \$18,100; USDA's house was appraised at \$16,850. The builder told us the adequacy of appraisals under either program depended on the geographical area where the appraisal was made and on the person making the appraisal. He said that he had lost money under both programs.

Houses in the Puyallup-Enumclaw area

HUD house



USDA house



CONCLUSIONS

Our review of the 34 sets of comparable houses showed that HUD's houses generally cost more because of

- higher costs for the basic structures,
- loan discount points,
- higher closing costs, and
- higher sales commissions.

A few of the USDA houses cost more as a result of higher costs for the basic structures.

Our comparisons showed that, when identical houses were purchased through both programs, the price of HUD's house normally would be higher by the amount of loan discount points and certain closing costs. We noted that the President, in his message to the Congress on September 19, 1973, recommended that the Congress allow HUD and the Veterans Administration to insure mortgages carrying market rates of interest, which would eliminate payment of loan discount points under Federal insurance programs.

COMMENTS BY HUD AND USDA FIELD OFFICE OFFICIALS

As requested by the Chairman's office, we did not obtain written comments from HUD and USDA on this report. We did, however, discuss the results of our review with local HUD and USDA officials.

Officials of both agencies either agreed with the results of our comparisons or did not object to the cost differentials in our comparisons.

Relative to the higher cost for houses purchased through HUD's programs, one HUD official in Georgia said that he had made a similar study which showed essentially the same results as our review in Georgia.

A HUD official in the State of Washington said that HUD houses had to sell for more than comparable USDA houses so the builders could make profits after paying the loan discount points. He said that, in his opinion, points paid on HUD houses had been an important factor to inflation in the housing market because HUD houses often were used as comparables for appraising other

houses and, in many cases, all or part of the discount points included in the values of HUD houses may not have been deducted. Consequently, he said, whether houses were financed conventionally or by some Government program, such as USDA's section 502 program, the housing market was influenced by the discount points included in the values of HUD's houses.

A HUD official in Virginia estimated that HUD's houses cost 4 or 5 percent more than comparable USDA houses in Virginia. He said that points had averaged 3 to 4 percent in Virginia and that HUD's closing costs exceeded USDA's closing costs by about 1 percent of the total loans.

A HUD official in Texas expressed concern over the payment of points to mortgage companies each time houses were sold. He emphasized that such payments often occurred more than once for the same house, depending upon the number of times the house was resold.

USDA officials said that for four of the six USDA houses that cost more, the higher costs were unusual or had resulted from high appraisals by county supervisors. For the other two houses, responsible local USDA officials in those two States did not comment on the higher costs of the USDA houses.

CHAPTER 3

SCOPE OF REVIEW

We made our review in seven states--California, Georgia, Missouri, New York, Texas, Virginia, and Washington.

We did our work at selected HUD regional and area offices and USDA State and county offices. We interviewed agency officials and examined documents and records applicable to the houses selected for review. We inspected and photographed the houses and interviewed builders, where possible, concerning cost differences between HUD and USDA houses. We also obtained the builders' cost estimates for such differences.

To the extent possible, we selected HUD and USDA houses in the same location, built by the same builders, and built and sold at or about the same time.

We reviewed 34 sets of comparable houses, identified and compared costs differences to the home buyers, and made adjustments where necessary.

We obtained oral comments from HUD and USDA field office officials on the results of our review.

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CLERK AND STAFF DIRECTOR
225-4247

Honorable Elmer B. Staats
Comptroller General of the
United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Several months ago, at my request, the General Accounting Office conducted a field study to determine what if any cost differences existed between comparable moderate family income rural housing financed by the Farmers Home Administration and private sector loans insured by the Federal Housing Administration.

Released on May 10, 1973, the report on the study, "Cost Differences of Purchasing Comparable Houses through the Departments of Housing and Urban Development and Agriculture," disclosed that cost differences did indeed exist for comparable homes financed by the two housing programs and that the difference ranged up to nearly 20 percent. In my view, the GAO study was a fine effort which produced some alarming findings.

Without going into the details, let me say that in effect it disclosed that in many instances the housing dollar of a moderate income family utilizing Federal Housing Administration mortgage insurance and private sector loans was devalued nearly 20 percent when compared to the cost of housing financed through Farmers Home Administration. By the same token, the study strongly indicated that the scope of the Federal Housing Administration program, at least for rural housing if not for all housing, could be greatly expanded in terms of families served if it could realize some if not all of the economies achieved by the Farmers Home Administration housing program for moderate income families.

The GAO study on housing cost differentials was conducted on a preliminary basis to determine if a full scale, nationwide examination of the subject would be warranted. Under these circumstances, the GAO team conducting the study confined their efforts to rural Georgia where they examined

Honorable Elmer B. Staats
Page Two

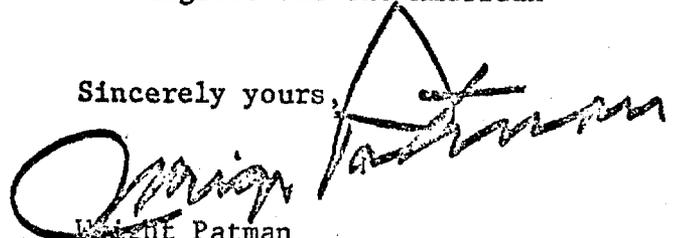
June 19, 1973

a total of ten houses, five financed through the Farmers Home Administration and five through private sector loans insured by the Federal Housing Administration. I would be remiss in failing to state that the study was a careful and well documented effort. However, by its nature the sample used in the preliminary study was too small to support a conviction that the circumstances creating cost differences on comparable housing in Georgia extended throughout much of the nation.

Obviously a much broader study, patterned on the Georgia effort, needs to be conducted on a regional basis touching most if not all sections of the country. For example, I would think a complete study would constitute a ten unit sample in each of HUD's ten administrative regions. It is my expectation that a full study would bear out the findings of the Georgia project and give Congress the kind of concrete information that would be highly valuable in terms of considering pending Administration and Congressional proposals to reorganize Federal housing programs.

Accordingly, I am taking this opportunity to formally request that the General Accounting Office conduct a full study as soon as possible to determine what if any cost differences exist between comparable moderate family income rural housing financed through Farmers Home Administration and the Federal Housing Administration mortgage insurance program. The results, I am sure, will prove invaluable to Congress and the American public.

Sincerely yours,



Wright Patman
Chairman

APPENDIX II

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF AGRICULTURE AND THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
RESPONSIBLE FOR THE ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE:

Clifford M. Harden	Jan. 1969	Dec. 1971
Earl L. Butz	Dec. 1971	Present

ASSISTANT SECRETARY, RURAL
DEVELOPMENT (note a):

Thomas K. Cowden	May 1969	Feb. 1973
William W. Erwin	Feb. 1973	Present

ADMINISTRATOR, FARMERS HOME
ADMINISTRATION:

James V. Smith	Jan. 1969	Feb. 1973
Vacant	Feb. 1973	Mar. 1973
Frank B. Elliott (acting)	Mar. 1973	Aug. 1973
Frank B. Elliott	Aug. 1973	Present

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SECRETARY OF HOUSING AND URBAN
DEVELOPMENT:

George W. Romney	Jan. 1969	Jan. 1973
James T. Lynn	Feb. 1973	Present

ASSISTANT SECRETARY FOR HOUSING
PRODUCTION AND MORTGAGE CREDIT
AND FEDERAL HOUSING COMMISSIONER:

William B. Lass (acting)	Feb. 1969	Sept. 1969
Eugene A. Gulledge	Oct. 1969	Jan. 1973
Woodward Kingman (acting)	Feb. 1973	June 1973
Sheldon B. Lubar	July 1973	Present

^aUntil February 1973 the title of this position was Assistant Secretary of Agriculture for Rural Development and Conservation.