



093458

B-171630
11-22-72

REPORT TO THE CONGRESS

Opportunity For Reducing Interest Costs Under Sections 235 And 236 Housing Programs

B-171630

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

093458

~~713439~~

NOV 22, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-171630

BEST DOCUMENT AVAILABLE

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the opportunity for reducing interest costs under the sections 235 and 236 housing programs. The Department of Housing and Urban Development (HUD), as authorized by sections 235 and 236 of the National Housing Act, makes monthly assistance payments to mortgagees so that lower income families may purchase or rent housing. Also under these programs, HUD insures that the mortgage loans will be paid. For this insurance, HUD charges the mortgagees mortgage insurance premiums.

HUD's monthly assistance payments to mortgagees include the monthly amounts of the mortgage insurance premiums. Annually, in the anniversary month of each mortgage, the mortgagees pay the accumulated premiums to HUD.

The General Accounting Office (GAO) reviewed HUD policies and procedures for making assistance payments and for billing and collecting mortgage insurance premiums. Our objective was to determine whether it would be practicable to deduct the premiums from the monthly assistance payments because such a procedure would result in saving the interest costs on the funds that the Government borrows to cover the premium portion of the monthly assistance payments.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U S C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67).

BACKGROUND

Under section 235 of the National Housing Act (12 U S C 1715z), HUD provides financial assistance to help lower income families purchase homes. The assisted homeowners must make monthly payments equal to 20 percent of their monthly incomes to the mortgagees. These payments are generally not sufficient to meet the monthly mortgage payments for loan principal and interest, property taxes and insurance, and mortgage insurance premiums. HUD pays the balances of the monthly mortgage payments to the mortgagees. HUD's payments, however, cannot exceed the difference between the required monthly

mortgage payments for principal, interest, and mortgage insurance premiums and the monthly amounts that would be required for payments of the mortgage principal and interest at a 1-percent rate

Under section 236 of the act (12 U S C 1715z-1), HUD provides financial assistance to help lower income families obtain rental housing HUD makes monthly payments to mortgagees for the mortgage insurance premiums and all interest due on project mortgages in excess of interest at a 1-percent rate The project owners are responsible for the balances of the mortgage payments To insure that the financial assistance results in lower rents, the project owners must establish basic rents for project units on the basis of financing the projects with a 1-percent interest rate loan

Lower income families which occupy the projects pay the basic rents or 25 percent of their monthly incomes, whichever is greater The rents, however, cannot exceed those which would be required if the projects received no assistance The project owners are required to pay all rents collected in excess of the basic rents to HUD

HUD receives annual appropriations for housing assistance payments HUD estimated these payments would total \$1.9 billion in fiscal year 1973, including homeownership assistance payments of \$428 million and rental housing assistance payments of \$190 million

Mortgagees are charged mortgage insurance premiums pursuant to section 203 of the National Housing Act (12 U S C 1709), which provides that the insurance premiums are legal obligations of the mortgagees These premiums help defray the cost of the insurance program and provide a reserve fund to protect mortgagees against loss on insured mortgage transactions The act states that the insurance premiums shall be payable to HUD in the manner prescribed by the Secretary.

HUD charges mortgagees annual premiums of one-half of 1 percent of the average mortgage principal balances outstanding during the year Mortgagees assess the mortgagors for the insurance premiums and collect them as a part of the monthly mortgage payments The monthly premium payments may be used only for the purpose for which collected Mortgagees generally deposit and retain such payments in special custodial bank accounts (escrow accounts) for an average of 6 months--the first payment is held for 12 months and the last for 1 month--before they remit the payments to HUD

HUD deposits its section 235 and 236 mortgage insurance premiums in a Special Risk Insurance Fund to meet expenses and losses in administering several mortgage insurance programs, including the sections 235 and 236 programs

SAVINGS AVAILABLE BY DEDUCTING MORTGAGE
INSURANCE PREMIUMS FROM ASSISTANCE PAYMENTS

Because HUD's monthly assistance payments include the mortgage insurance premiums, HUD is paying out funds which it must subsequently collect from the mortgagees. As a result, the Government loses the use of such funds for an average of 6 months. Because interest is a cost which is related to all Government expenditures, substantial interest costs could be saved if HUD deducted the premiums from the monthly assistance payments.

For every \$1 billion of outstanding mortgages insured under the sections 235 and 236 programs, the Government could save interest costs of \$140,000 a year if HUD deducted mortgage insurance premiums from monthly assistance payments. HUD estimated that at June 30, 1972, assistance payments had been made for 680,000 housing units. We estimated that these units had outstanding mortgage principal balances of \$11 billion and that interest costs applicable to the insurance premiums would be at least \$1.6 million during fiscal year 1973.

The President's Second Annual Report on National Housing Goals (H. Doc. 292, 91st Cong., 2d sess.) set a goal of providing lower income families with about 2.7 million housing units under the sections 235 and 236 programs from 1969 through 1978. HUD estimated that assistance payments would be made for a minimum of 13 years for families buying houses under the section 235 program and for a minimum of 20 years for families occupying units in section 236 rental housing projects.

Because of the large number of housing units planned to be assisted under the programs, interest costs substantially in excess of the \$1.6 million estimated for fiscal year 1973 could be involved. Of course, the savings in interest cost will depend on the Government's borrowing rate. For this report we used a borrowing rate of 5.59 percent, the average yield on long term Government bonds at July 31, 1972.

To deduct the mortgage insurance premiums from the monthly assistance payments, HUD would have to design a system to reconcile the premium deductions with the premiums due.

because of the procedures followed by HUD for determining the monthly assistance payments and those for billing and collecting the premiums

The mortgagees who submit monthly billings to HUD determine the amounts of assistance payments. Although these billings show only the total amounts due under each program, HUD requires the mortgagees to maintain records of assistance payments due for each section 235 or 236 mortgage loan held

Computers process the premium billings which HUD issues annually to mortgagees participating in the sections 235 and 236 programs. Mortgagees reconcile the annual premium billings received from HUD with their own records, make any necessary adjustments for mortgage transfers, sales, or terminations, and remit to HUD the adjusted amounts of premiums due. HUD then reviews the adjustments to insure their accuracy

PROPOSAL, AGENCY COMMENTS, AND GAO EVALUATION

In a draft of this report, we proposed that HUD deduct the mortgage insurance premiums from the monthly assistance payments. Also, we recognized that adoption of the proposal would require certain changes in HUD's premium billing and collection procedures.

Although HUD could implement our proposal by other methods, we cited one uncomplicated procedure that could be used. For example, in computing the monthly assistance payments due from HUD, the mortgagees could deduct the amounts for the mortgage insurance premiums and could credit such deductions to the accounts of the applicable mortgagors in the normal manner. HUD could continue to bill mortgagees annually. The mortgagees, instead of remitting cash for the premiums due, could furnish HUD with credit slips for the total amounts of the premiums deducted from the assistance payments. HUD could then transfer the appropriate amounts of funds for the premiums due, as indicated by the credit slips received from mortgagees, from the appropriation accounts to the Special Risk Insurance Fund.

The major objections raised by HUD in commenting on our proposal are discussed below

HUD advised us that, under the section 236 program, the mortgage insurance premiums are remitted by the mortgagees

annually in advance, therefore, since the premiums are paid to HUD before the assistance payments are made, the objective of our proposal has been met

We do not agree that the objective has been met. We recognize that, under a section 236 project, the mortgage insurance premium is paid to HUD before HUD makes any assistance payments. This is because the initial mortgage insurance premium is included as a cost of the project in determining the amount of the mortgage loan and is paid by the mortgagor to the mortgagee from the loan proceeds. The mortgagee, in turn, remits the insurance premium to HUD. The objective of our proposal is to avoid unnecessary monthly disbursement of funds from the Treasury. Under present procedures HUD pays out funds to mortgagees for future insurance premiums that would not otherwise have to be disbursed if our proposal were adopted. Our proposal would avoid HUD's paying out funds monthly to mortgagees which, in turn, return the funds to HUD after holding them an average of 6 months.

HUD stated that implementing our proposal for the section 235 program would further complicate the program and would not result in savings to the Government because the potential savings would be offset by the cost of the additional work necessary to implement the proposal.

The cost of the additional work has not been determined, but following the procedure we have suggested above, the additional costs should be minor in relation to the potential savings. We are proposing, however, an alternative method which would eliminate any additional administrative costs.

MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the Secretary's disagreement with our proposal, we recommend that the Congress authorize HUD to waive the mortgage insurance premiums for the sections 235 and 236 housing programs similar to the waiver of premiums now provided for mortgages insured under the low- and moderate-income rental housing program (section 221(d) (3) of the National Housing Act). This alternative to our proposal would result in the savings of interest costs without any additional administrative work.

B-171630

Copies of this report are being sent to the Director, Office of Management and Budget, the Secretary of Housing and Urban Development; and the Secretary of the Treasury

A handwritten signature in cursive script, reading "James B. Axtell". The signature is written in black ink and is positioned above the printed name and title.

Comptroller General
of the United States

Copies of this report are available from the
U S General Accounting Office, Room 6417
441 G Street, N W , Washington, D C , 20548

Copies are provided without charge to Mem-
bers of Congress, congressional committee
staff members, Government officials, members
of the press, college libraries, faculty mem-
bers and students. The price to the general
public is \$1.00 a copy. Orders should be ac-
companied by cash or check.