

GAO Highlights

Highlights of [GAO-19-517](#), a report to congressional committees

Why GAO Did This Study

FHA insures hundreds of thousands of single-family home mortgages annually. When an FHA borrower defaults, the mortgage servicer in many cases forecloses, obtains title to the property, and conveys ownership to FHA. FHA inspects the property, acquires it if it complies with condition standards and title requirements, and lists the property for sale. FHA may reconvey noncompliant properties to servicers. During conveyance, homes may sit vacant for months and can deteriorate, contributing to neighborhood blight.

Senate Report 114-243 included a provision for GAO to review FHA's effectiveness and efficiency in reaching determinations of conveyable condition. This report discusses (1) timelines for FHA property conveyances in 2010–2017 and whether servicers and FHA met time requirements, and (2) changes FHA has made to the conveyance process in recent years and any ongoing process challenges. GAO analyzed FHA data on properties conveyed in 2010–2017, reviewed FHA's policies and procedures, and interviewed 20 randomly selected mortgage servicers accounting for more than one-third of active FHA mortgages.

What GAO Recommends

GAO recommends that FHA (1) enhance the content and communication of policies and procedures on conveyance condition, (2) provide written direction on alternatives to reconveyance, and (3) develop a plan to assess a pilot program. FHA agreed with the second and third recommendations and did not agree or disagree with the first.

View [GAO-19-517](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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FEDERAL HOUSING ADMINISTRATION

Improved Procedures and Assessment Could Increase Efficiency of Foreclosed Property Conveyances

What GAO Found

From July 2010 through December 2017, the process for conveying foreclosed properties to the Federal Housing Administration (FHA) took a median of 70 days. The conveyance process—which GAO measured from a mortgage servicer's obtaining title to and possession of the property to FHA's marketing of the property—involves servicers making repairs, transferring ownership, and filing a mortgage insurance claim, and FHA inspecting the property. FHA attributes the length of time to complete the process partly to foreclosure processing delays that left properties vulnerable to damage and vandalism, which can increase the time servicers need to bring properties into conveyance condition. Property damage also may increase the likelihood that FHA will reconvey a property (transfer it to the servicer) for not complying with condition standards, further extending the conveyance process. For about 55 percent of properties conveyed in July 2010–December 2017, servicers exceeded the required time to obtain title and possession of a foreclosed property and convey it to FHA. For 2017 alone, the corresponding figure was 72 percent. As a result, servicers were not eligible to be reimbursed for all repairs and interest expenses for those properties when filing insurance claims with FHA.

In recent years, FHA changed aspects of its conveyance process to help address some of the execution challenges the agency and servicers have faced. For example, in 2016, FHA enhanced its data system for conveyed properties to reduce manual administrative processing. FHA also began a pilot program in 2017 to decrease the number of properties FHA reconveys by inspecting properties before conveyance. However, GAO found shortcomings in FHA policies, procedures, and assessment efforts that are inconsistent with federal evaluation criteria and internal control standards, as follows:

- FHA's policies and procedures lack detail that could help servicers and contractors determine if a property is in compliance, and the agency has not examined alternative methods of communicating this information. Fifteen of the 20 servicers GAO interviewed said existing policies, procedures, and communications often were not clear or specific enough to address property conditions or repair decisions they encountered. FHA also relies on brief written policies to explain standards and makes limited or no use of other methods, such as photographs or industry-wide calls.
- FHA has not provided written direction on when to use alternatives to reconveyance—such as agreements under which servicers make repairs or repay FHA for any repair costs after conveyance—for properties not meeting condition standards. In the absence of such direction, FHA may not be addressing these properties in the most consistent or effective manner.
- FHA has not developed a plan to assess the outcome of its inspection pilot. Without rigorous assessment, FHA risks making decisions about the future of the pilot based on inaccurate or incomplete information.

Addressing these shortcomings could help improve the efficiency and effectiveness of FHA's property conveyance process.