KEY POINTS IN RESPONSE TO NEW YORK TIMES STORY ON USDA'S GUARANTEED HOUSING PROGRAM

1) **"The rural loan program… was plagued by lax government oversight and many of the same sloppy banking practices that fed the broader mortgage debacle."**
   - Oversight in the Single Family Housing Guaranteed program is unique in that 100% of our loan guarantees undergo individual review by an agency employee before the loan is closed and the guarantee is issued. This oversight process has been in place since the inception of the program in 1991.
   - USDA offers a safe and stable product for customers and taxpayers. We only guarantee 30-year, fixed rate loans. In addition, we ensure 100% income-verification and repayment ability evaluation; have strong credit rules and strict credit thresholds; and appraise of 100% of homes in the program to ensure they are decent, safe, sanitary and accurately priced.

2) **"Although the auditors looked at only a tiny sample of the 133,053 loan guarantees made in 2009, they estimated that tens of thousands might have been done improperly and warned that a wave of defaults might be looming."**
   - The auditor's report states eight loans were made to borrowers whose ability to repay was questionable, however, five of the eight loans were cleared by a previously approved and closed audit in May 2009. Of the remaining three loans, we agree with one, which does not constitute the potential for "tens of thousands."
   - The overriding issue in the audit in fact questions loans to borrowers whose higher incomes may have exceeded the threshold. Though all of these loans have been reviewed and the vast majority found to be sound, such errors would not lead to higher risks of default, but rather have the opposite effect of further solidifying the loan portfolio.
   - Our analysis of the portfolio shows that it is sound and that there is no indication of a wave of looming defaults.
   - Prior to the publication of this report, USDA had already taken many steps to ensure the actuarial soundness of our portfolio. These steps include strengthening our automated underwriting system, implementing new tools to help borrowers stay in their homes, distributing and providing training on tougher underwriting guidelines to lenders and field staff, and holding lenders financially responsible for loans that default as a result of their underwriting errors.

3) **“The auditors reported that 18 of the loans they examined were made to borrowers whose income or work history was either clearly insufficient to qualify or questionable enough that it could put their ability to repay at risk.”**
    - Five of the 18 loans were reconciled in a previously closed audit; and we concur with the auditor on only 1 of the findings.
    - We recognize that in borderline cases our current guidelines for lenders determining repayment ability could be clearer and we are in the process of updating our regulations to address this issue and will conduct training for field staff and lenders on the new guidelines. We remain very confident in the soundness of our portfolio.

4) **“The growth strained the capacity of the Rural Housing Service to monitor the loans.”**
    - The increase in loan volume did not affect our loan-monitoring ability. In 2006, we implemented an automated underwriting system, which allows staff to monitor four times as many loans in process as can be done manually in the same amount of time. During the Recovery Act timeframe, 57% of all single family guaranteed loans were processed using the automated system. Additionally, more than 200 staff members were hired under Recovery Act authority to assist in overseeing the single family guaranteed program. While staff had to work harder than ever to implement the Recovery Act with the great urgency required to rescue the economy, we nonetheless had sufficient staff resources to effectively execute our programs.

5) **“The foreclosure rate for the USDA’s portfolio of guaranteed mortgages rose to 2.25 percent in the fiscal year that ended Sept. 30.”**
    - While this is correct, it is important to note that the 30-day delinquency rate actually dropped from 12.16% to 10.65% from 2009 to 2010. Moreover, the rise in the foreclosure rates is not attributable to the default of loans made under the Recovery Act.

6) **“The auditor said as many as one in six borrowers… should have been ineligible because their income was too high to qualify... Those borrowers may have prevented needier applicants from receiving guarantees.”**
    - No needier applicants were prevented from receiving loan guarantees because between Recovery Act funding and annual appropriations, we had sufficient resources to guarantee all qualified loans submitted by certified lenders over the Recovery Act time period.

Note: On January 13, 2011, the New York Times published an article concerning an audit of home loans guaranteed by USDA Rural Development with funding provided through the American Recovery and Reinvestment Act (Recovery Act). This post is in response to portions of that story.