



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: June 26, 2009

REPLY TO
ATTN OF: 04703-1-KC

TO: Dallas Tonsager
Under Secretary
Rural Development

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Single-Family Housing Direct Loans Recovery Act Controls (1)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included \$1 billion for the Rural Housing Service (RHS) to provide single-family housing direct loans to borrowers.¹ Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Further, on February 18, 2009, the Office of Management and Budget (OMB) issued initial guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.² As of June 16, 2009, Rural Development had obligated over \$150 million in direct loans to 1,167 low and very-low income borrowers.

RHS, an agency within the Rural Development mission area, is responsible for distributing Recovery Act funds through the Section 502 Single-Family Housing (SFH) Direct Loan Program.³ These loans are available for low and very-low income households who cannot qualify for other credit to obtain homeownership. Applicants may obtain 100 percent financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas.

Our role, as mandated by the Recovery Act, is to oversee agency activities and to ensure agencies expend funds in a manner that minimizes the risk of improper use. During this initial phase, we identified additional performance measures that Rural Development could be tracking and reporting to better define its accomplishments in meeting the goals of the Recovery Act. This memorandum is one in a series that will report on our oversight activities regarding SFH direct loans. Issues identified in these memoranda will be compiled into a final report at the conclusion of our audit.

¹ The American Recovery and Reinvestment Act, H.R. 1, was signed into law by President Obama on February 17, 2009.

² *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009.

³ SFH Direct Loans are authorized by Title V of the Housing Act of 1949 under Section 502. 7 CFR Part 3550 provides the policies for the SFH Direct Loan Program.

To accomplish our overall objectives, we assessed the program's policies and procedures, as well as its internal controls.⁴ Agency officials follow this guidance to process Section 502 Direct Loans obligated under the Recovery Act. To meet our specific objective we discussed performance measures in our interviews with Rural Development National Office officials and State officials in two Rural Development State offices. We also reviewed performance measures stated in Rural Development's American Recovery and Reinvestment Act Implementation Plan (the Plan) and specifically for its SFH Direct Loan Program.

We noted that Rural Development established only one measure of performance for Recovery Act-related Section 502 Direct Loan activity, which was to "increase the number of homeowners."⁵ According to the Plan, this will be measured by loan obligations. National Office officials told us this measure has historically been used because it is easily tracked and quantified. From our interviews with Rural Development State officials, we identified several additional performance measures which potentially might better reflect the agency's success in meeting the goals of the Recovery Act, specifically, "to promote economic recovery and to assist those most impacted by the recession," such as:⁶

- Increase in the number of loans for purchasing existing new homes, to boost new home construction and developments in rural areas;⁷
- Increase in the number of home buyers moving from rental properties, to encourage permanent residencies in rural communities;
- Increase in the number of rural home buyers moving from cities or suburbs, to lift the economy in rural communities hardest hit by the recession;
- Increase in the number of refinances, to ease payments for economically distressed low and very-low income homeowners in rural areas;
- Increase in the ratio of loans closed within 30 days to the number of loan applications, to measure the timely disbursement of Recovery Act funds to rural homeowners; and
- Stability or decline in first year delinquency rates, to measure whether Recovery Act loans were made to borrowers most eligible to become successful homeowners.

We were unable to determine if appropriate data are available in Rural Development's current financial and/or program systems to track these additional performance measures. If not, Rural Development would need to also develop procedures or systems to collect and track the appropriate data as early as possible. Since only about 15 percent of Recovery Act funds for SFH direct loans have been obligated as of June 17, 2009, we believe there is still time to develop these procedures or systems.

⁴ *Rural Development Handbook HB-1-3550, Direct Single Family Housing Loans and Grants Field Office Handbook*, dated January 23, 2003, and associated Special Procedural Notices.

⁵ *Rural Development American Recovery and Reinvestment Act Implementation Plan*, page 41.

⁶ *American Recovery and Reinvestment Act*, H.R. 1, Section 3, Purposes and Principles, paragraphs a(1) and a(2).

⁷ Rural Development is currently using only regular program funds to make construction loans for new homes or rehabilitation and repair on existing homes due to the Davis-Bacon Act provisions of the Recovery Act. Existing new homes can be purchased using Recovery Act funds.

We discussed this issue with Rural Development National Office officials on June 4, 2009. We were told that when the SFH section was asked for performance measure recommendations, they only suggested measures for which data were already reported using the systems currently in place. State Rural Development officials agreed that additional performance measures, like the list previously presented, would better measure the success of the SFH Direct Loan Program going forward. State officials also added that tracking and reporting the performance of Recovery Act loans separately from regular-funded loans would provide a better measure of the success of the Recovery Act alone. We also discussed these issues with Rural Development National Office officials on June 26, 2009, and they generally agreed with our findings.

We therefore recommend that the Rural Development National Office:

Establish additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act, specifically, "to promote economic recovery and to assist those most impacted by the recession."

Define and collect any new data needed to quantify the additional performance measures established as soon as possible.

Track and report these measures for Recovery Act loans separately from regular Section 502 direct loans.

Please provide a written response within 5 days outlining your proposed corrective action for this issue. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Steve Rickrode, Audit Director, Rural Development and Natural Resources Division, at (202) 690-4483.



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

July 2, 2009

TO: Robert W. Young
Assistant Inspector General for Audit

ATTN: 04703-1-KC

FROM: Dallas Tonsager (*Signed by Dallas Tonsager*)
Under Secretary
Rural Development

THROUGH: Tammye H. Trevino (*Signed by Tammye H. Trevino*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Direct Loans Recovery Act Controls (1)

We are in receipt of your memorandum on the subject. The Single Family Housing Direct Loan Division and the Office of the Inspector General (OIG) have discussed existing and potential controls for Recovery Act funds.

In response to OIG concerns regarding performance measures, we agree that additional measures to track Rural Development's success in meeting the objectives of the Recovery Act will be beneficial for the program. The National Office will perform a system analysis to identify data that can be used to develop and quantify additional performance measures. Although OIG's suggestions for additional measures may provide for measuring economic recovery Rural Development's current financial and program systems do not provide the capacity to track all the suggested measures. The process to make system enhancements to capture data that is not currently stored in our computers could be costly and lengthy, and will prevent us from delivering Recovery Act funds in a timely and effective manner. In addition, we believe that the measures should be ones that the Agency could reasonably project. For example, the Agency has no control over whether our borrower purchases a new or existing home or whether the borrower moves from a rental property.

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We agree, however, that additional performance measures could be developed using existing resources and conforming with the Single Family Housing Direct Loan Program mission and Recovery Act objectives and we will begin working towards this to establish tracking and reporting at least two additional measures for Recovery Act loans separate from regular 502-direct loans.

We look forward to continuing to work with OIG towards meeting the goals and objectives of the Recovery Act.

If you have any questions regarding this memorandum, please contact the Single Family Housing Direct Loan Division at (202) 720-1474.

