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Briefing Report to Congressional
Requesters

January 1987

HOUSING PROGRAMS

Information on HUD's Decision to Close Its Bangor, Maine, Office

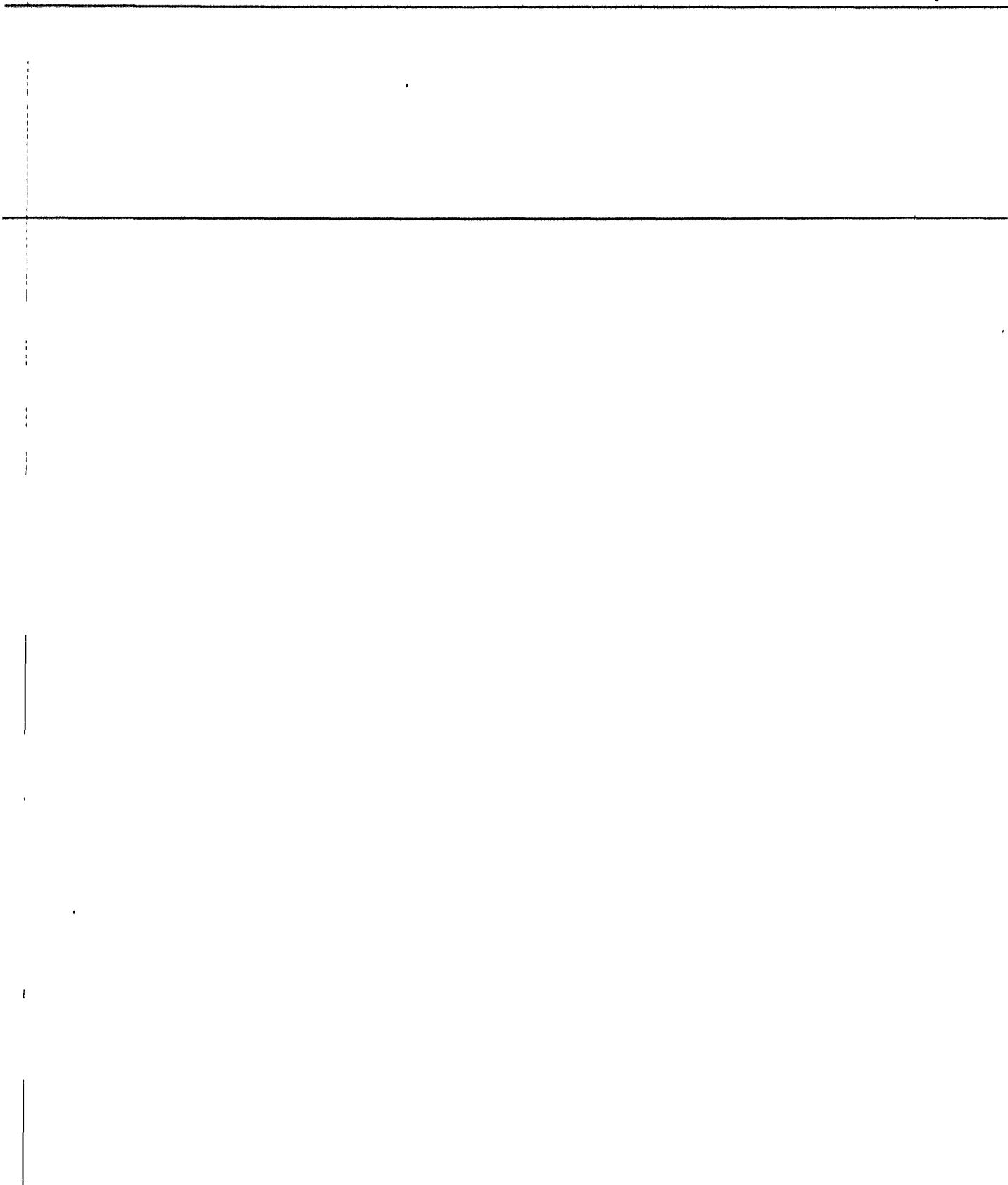


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Resources, Community, and
Economic Development Division

B-225172

January 23, 1987

The Honorable George J. Mitchell
United States Senate

The Honorable William S. Cohen
United States Senate

Your July 21, 1986, letter requested that we review the Department of Housing and Urban Development's (HUD's) decision to close its Bangor, Maine, field office effective July 15, 1986. The closing was part of a HUD effort to close five offices that primarily make HUD-insured single-family home loans. Specifically, we agreed with your office to determine (1) how HUD decided which offices to close and assess whether HUD's cost-benefit analysis is complete and accurate, (2) what impact the closing has had on lenders and borrowers obtaining HUD-insured loans, and (3) whether the Manchester, New Hampshire, office--to which the Bangor and Burlington, Vermont, caseloads have been transferred--is equipped to handle the increased work load.

On September 25, 1986, we briefed you on the results of our work. This report summarizes the information provided during our meeting. Since the meeting, HUD officials told us the agency is now planning to reopen the Bangor as well as the other four offices which were closed this year.

In summary,

-- HUD had no written procedures for determining which offices to close. In making its decision, HUD considered the number of applications received by the offices in fiscal years 1984 and 1985, the average distance that lenders would have to travel to the nearest alternate office, whether the office had an excess of employees, and the recommendations of the respective HUD regional managers and program officials. HUD did not consider increasing the efficiency of the offices by eliminating excessive positions while keeping the offices open.

- On the basis of our analysis, the cost-benefit analysis HUD published in the Federal Register, December 16, 1985, may have (1) understated the potential cost of closing the Bangor office by as much as \$18,000 and (2) overstated the benefits by over \$9,000. Given our estimate of actual costs, the cost recovery period could be 17.37 months, rather than the 6.51 months that HUD reported in the Federal Register.
- Although the Boston Regional Office, which oversees the Manchester office, has recommended some staffing adjustments to help service the increased workload, according to Manchester officials, the staffing level for processing single-family home loans in its Manchester office--which is absorbing the Bangor, Maine, and Burlington, Vermont, work load--is not sufficient to provide adequate service to Maine lenders and borrowers. According to the Federal Register notice, HUD designated three positions in Bangor for transfer to Manchester to handle the additional work. Manchester has received approval to fill only one of these positions; however, Manchester officials feel the remaining two positions need to be approved and filled to adequately handle the increased work load.
- Lenders estimated that the time required by Bangor HUD staff to process and endorse loans was 35-60 days before the Bangor office chief retired in March 1986; she was not replaced. A backlog of applications to be processed developed by July 15, 1986, when the office closed and the caseload was transferred to Manchester. As of late August, the lenders reported that application processing time ranged from 75-120 days. Since our work was performed during this transition period, we were unable to determine if the quality of service to lenders will improve with time or if staffing in Manchester, as discussed in section 3, will affect the quality of service to lenders in the future.

Section 1 of this report discusses HUD's methodology for determining which offices to close. Section 2 discusses HUD's cost-benefit analysis. Section 3 discusses the combined work load and staff years for the Manchester, Bangor, and Burlington offices. Section 4 discusses lenders' estimates of the loan application processing time of the Bangor and Manchester offices prior to and subsequent to the retirement of the Bangor office chief in March 1986.

We conducted our study between August and October 1986. In performing our work, we obtained information from HUD headquarters officials on the methodology used to determine whether offices should be closed. To determine the accuracy and completeness of the information HUD used in conducting its cost-benefit analysis of the office's closing, we analyzed HUD's supporting documentation and interviewed officials representing its headquarters; Boston, Massachusetts; and Manchester, New Hampshire; offices, as well as two former Bangor employees. Where possible, we obtained actual costs which had become available since the office closed. We also interviewed five Maine lenders from the Bangor and Portland areas to determine if the application-processing service has been affected by the office's closing. We judgmentally selected these lenders to obtain the views of a cross-section of individuals involved in HUD loan insurance activities on a small and large scale. We did not verify the estimates by performing a case file review.

The views of directly responsible officials were sought during the course of our work and are incorporated in the report where appropriate. In accordance with your wishes, we did not request HUD to review and comment officially on a draft of this report.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available upon request.

In response to a separate congressional request, we recently issued a report on another of the five HUD offices closed. That report, Information on HUD's Decision to Close Its Springfield, Illinois, Office (GAO/RCED-87-47BR, Nov. 10, 1986) may also be of interest to you.

Should you need additional information on the contents of this report, please call me at (202) 275-6111.

John H. Luke
John H. Luke
Associate Director

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ABBREVIATIONS

ADP	automatic data processing
FTS	federal telecommunications system
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

SECTION 1

METHODOLOGY USED BY HUD TO DETERMINE
WHICH FIELD OFFICES TO CLOSE

Table 1.1: Methodology Used by HUD to Determine which Offices to Close

Office	Current status	Applications received		Average increase (decrease) in distance to next nearest office ^a (miles)	At least one position in excess?
		FY 84	FY 85		
Fargo, ND	Open	1,958	3,575	228	Yes
Sioux Falls, SD	Open	2,496	3,128	131	Yes
Topeka, KS	Closed	1,084	2,606	59	Yes
Springfield, IL	Closed	1,154	2,361	(1)	Yes
Casper, WY	Open	2,139	2,141	57	Yes
Bangor, ME	Closed	1,146	1,980	131	Yes
Wilmington, DE	Closed	518	741	21	Yes
Burlington, VT	Closed	38	185	7	Yes

^aIn computing the average increased distance to the next nearest HUD office, HUD assumed that lenders will use the "lender option." Under this option, lenders can submit single-family applications to the HUD office nearest the property, rather than observing the jurisdictional boundaries of HUD field offices. For example, in the Bangor calculation, HUD assumed that lenders who previously used the Bangor office could use the Manchester or Boston offices. HUD calculated the average distance that lenders in 10 Maine cities would travel to these alternate offices. HUD arbitrarily chose the 10 cities from an atlas of the state of Maine. It compared this distance with the average distance that lenders in these cities traveled to the Bangor office and determined that the average distance to the alternate offices was 131 miles more than the average distance to Bangor.

Source. HUD data.

METHODOLOGY USED BY HUD TO DETERMINE
WHICH FIELD OFFICES TO CLOSE

In 1985, the Department of Housing and Urban Development (HUD) decided to close five of its eight field offices that primarily issue HUD-insured single-family housing loans through HUD's Federal Housing Administration. As of October 1986, HUD had closed its offices in Springfield, Illinois; Topeka, Kansas; Bangor, Maine; Burlington, Vermont; and Wilmington, Delaware. HUD decided not to close its offices in Fargo, North Dakota; Sioux Falls, South Dakota; and Casper, Wyoming.

According to HUD officials, they considered several factors in determining which offices to close. HUD had, however, no written procedures for making these determinations. It used the number of HUD loan applications received by each field office as the primary factor in determining the offices to close. HUD also considered the distance that lenders who previously used an office would have to travel to the next nearest HUD office, as well as the recommendations of the affected regional managers and program officials. Further, an office was not considered for closing unless it had at least one employee position that HUD considered to be excessive.

- HUD considered the work load of the eight offices in deciding which to close. The Fargo, Sioux Falls, and Casper offices, which were kept open, were the three that received the greatest number of applications for fiscal years 1984 and 1985 combined.
- Another factor used was the distance that lenders would have to travel to the next nearest HUD office. According to a HUD official, the Casper office was kept open because HUD believed there was an inadequate transportation system in Wyoming and surrounding areas, which would make travel to the next nearest HUD office difficult for lenders. This official was not, however, able to provide any details or documentation regarding why the transportation system was inadequate or how it compared with transportation systems in other areas in which HUD offices were closed.
- HUD also considered, according to a headquarters official, recommendations from regional managers of its affected offices. According to a February 1985 memorandum, the Boston Regional Administrator concluded that the Bangor and Burlington offices could be closed with minimum disruption to operations. HUD headquarters could provide no documentation, but told us that the Denver Regional Administrator, who oversees the Fargo, Sioux Falls, and Casper offices, strongly opposed the

closing of these offices because of the high quality of service they provided and their distance from the next nearest HUD office.

-- Also, according to a HUD official, all field offices considered for closing had at least one position considered to be excessive on the basis of the work load for the office. According to the December 16, 1985, Federal Register, one temporary employee would be separated from the Bangor office. Each of the other four offices closed had at least one permanent full-time position abolished; however, all three permanent Bangor positions were necessary to handle the additional caseload at the receiving office. The notice stated that one temporary employee would be separated.

HUD did not consider increasing the efficiency of the offices by eliminating excessive positions while keeping the offices open. A HUD official stated that the decision to close offices was based on the assumption that an office that required more staff than justified by its work load should be considered for closing.

SECTION 2

HUD'S COST-BENEFIT ANALYSIS ON THE CLOSING
OF THE BANGOR OFFICE

Table 2.1: Cost-Benefit Analysis:
One-Time Costs of Closing the Bangor Office

	HUD's estimate ^a	GAO's estimate of actual costs
Severance	\$1,300	\$19,157 ^b
Unemployment compensation	3,200	0
Accumulated leave	1,650	4,166
Furniture/ equipment movement	0	1,216
Toll-free phone service	<u>13,200</u>	<u>13,464</u>
Total	<u>\$19,350</u>	<u>\$38,003</u>

^aCosts estimated as of December 16, 1985.

^bSeverance payments are paid on a bi-weekly basis until the maximum amount is received. However, payments stop if employees obtain government jobs. If the two Bangor employees receive all of the payments for which they are eligible, the total amount of the severance payments would be \$19,157.

Source: HUD data.

HUD'S COST-BENEFIT ANALYSIS OF THE CLOSING
OF THE BANGOR OFFICE

HUD'S ESTIMATE OF COSTS OF CLOSING

In the December 16, 1985, Federal Register notice (Vol. 50, No. 241, p. 51310), HUD estimated the one-time cost of closing the Bangor office to be \$19,350. In the cost-benefit analysis included in this notice, HUD assumed that all three permanent Bangor employees would either separate from HUD or retire.

- HUD assumed that one employee would receive severance pay of approximately \$1,300 and two employees would receive unemployment compensation of about \$1,600 each.
- HUD assumed that the three employees would receive approximately \$550 each in payments for their accumulated leave.
- HUD estimated a one-time cost of \$13,200 for toll free telephone service for 1 year to service former Bangor clients.

Severance and unemployment compensation are partially based on the individual employees' salaries. However, HUD did not use the Bangor employees' actual salaries in preparing its estimates. Instead, it used the national averages from its study of a 1983 nationwide HUD reduction-in-force. This study monitored payments for severance, unemployment compensation, and accumulated leave to 40 individuals who had been released by HUD. A HUD official said that HUD used these averages because it wanted to avoid the appearance of "targeting" individual employees as those who would be the ones to receive severance and unemployment compensation payments.

GAO'S ESTIMATE OF ACTUAL COSTS

We determined the actual costs for accumulated leave, furniture/equipment movement, and telephone service. We also obtained figures for the maximum severance compensation payments that could occur. Since severance payments are made on a bi-weekly basis until a maximum amount is received or employees obtain a government job, we could not determine the actual cost for severance compensation at the time of our review.

Table 2.1 shows that HUD's estimates of severance, furniture/equipment movement, phone service, and accumulated leave payments were lower than our estimate of the actual costs

but that HUD's estimates for unemployment compensation were greater than our estimate of actual costs. Severance payments were underestimated by \$17,857. In HUD's calculation of severance payments, it assumed that only one employee would receive payment and this employee would be lower graded, with few years of service. According to the Deputy Director, Productivity and Management Improvement Staff, HUD used the study data from HUD's 1983 reduction-in-force to compute the average severance payment liability of GS-7s (salary approximately \$17,800 per year) and below who had been included in the study. However, two Bangor employees are receiving severance payments based on salaries that averaged over \$22,700 annually; they averaged 9 years of service, resulting in larger severance payments.

According to HUD officials, they also used the study to obtain their estimates of the unemployment compensation and accumulated leave payments. However, they were unable to explain how they used the study to arrive at their estimates. HUD's analysis underestimated accumulated leave payments by \$2,516. HUD estimated that a total of \$3,200 would be paid for unemployment compensation. However, the two former Bangor employees who were eligible told us they had not filed for unemployment compensation and did not intend to do so.

Our estimate of actual costs of closing the Bangor office is \$38,003, which is \$18,653 more than the HUD estimate published in the Federal Register.

Table 2.2: Cost-Benefit Analysis: Annual Savings From Closing the Bangor Office

	HUD's estimate	GAO's estimate of actual savings
Salary/benefits ^a	\$ 0	\$ 0
Space rental	8,885	8,952
Communication and ADP services	21,604	12,827
Equipment rental	2,700	1,974
Miscellaneous	<u>3,500</u>	<u>3,500</u>
Total	<u>36,689</u>	<u>27,253</u>
Minus: Increased travel costs	<u>(1,000)</u>	<u>(1,000)</u>
Net savings	<u>\$35,689</u>	<u>\$26,253</u>
Recovery period ^b (months)	6.51	17.37

^aThe actual net annual savings will depend on whether the remaining two Bangor positions are filled, as discussed in section 3.

^bRecovery period computation: costs/savings x 12 months.

Source: HUD documents and interviews with HUD officials.

ANNUAL SAVINGS FROM CLOSING THE BANGOR OFFICE

In the Federal Register, HUD estimated that it would save \$35,689 annually from closing the Bangor office and that it would recover the one-time costs of closing the office in 6.51 months. Over half of the total annual savings estimated by HUD was for Bangor office operating expenses included under communications and automatic data processing (ADP) services. These operating expenses consist of commercial/federal telecommunications system (FTS) telephone service and lines, circuits for ADP equipment, and interoffice message equipment.

Our savings estimates were made on the basis of documentation that HUD was able to provide in support of its savings estimates. Therefore, while HUD estimated the total savings to be \$35,689, annually, we estimate that actual annual savings could be \$26,253. We arrived at this figure by using available documentation. HUD estimated the costs of closing the office would be recovered in 6.51 months. However, the recovery period--on the basis of our estimate of actual costs--will be 17.37 months.

SECTION 3

COMBINED WORK LOAD AND STAFF YEARS FOR THE
MANCHESTER, BANGOR, AND BURLINGTON OFFICES

Table 3.1: Combined Single-Family Work Load and Staff Years for the Manchester, Bangor, and Burlington Offices

	Fiscal year 1984		Fiscal year 1985		Fiscal year 1986a	
	Non-D.E. ^b	D.E.	Non-D.E.	D.E.	Non-D.E.	D.E.
Work load (applications processed)	1,841	121	2,467	567	2,430	1,242
Total		1,962		3,034		3,672
Staff years ^c		8.8		10.4		7.4

^aFirst 3 quarters of fiscal year 1986.

^bD.E. = direct endorsement

^cStaff years for single-family loan processing.

Source: HUD data.

COMBINED WORK LOAD AND STAFF YEARS FOR THE
MANCHESTER, BANGOR, AND BURLINGTON OFFICES

The combined single-family work load for the Manchester, Bangor, and Burlington offices increased from 1,962 loan applications in fiscal year 1984 to 3,672 loan applications in the first 3 quarters of fiscal year 1986. The staff years available to handle the work load were 8.8 and 7.4, respectively. However, these offices also increased the use of direct endorsement from 6 percent in fiscal year 1984 to 34 percent in the first 3 quarters of fiscal year 1986. Under the direct endorsement program, lenders--not HUD staff--process applications and endorse these loans for the federal government. HUD staff only review the lender endorsements and can therefore complete more applications in less time. In fiscal year 1985, the national average in hours needed to process a case through regular processing was 4.52. The national average for direct endorsement processing was 1.82 hours.

Specifically:

- For its cost-benefit analysis in the Federal Register, HUD concluded that the three Bangor employees were not expected to transfer to Manchester. However, HUD considered the three full-time positions necessary to process the transferred work load. To date, the Manchester office has received approval to fill only one of the three Bangor positions. The Manchester office manager stated that when a vacancy occurs, he must request approval from the Boston Regional Office to begin the process of rehiring. The Deputy Director, Office of Housing, in Boston has made several recommendations concerning Manchester's overall staffing needs including reassigning staff, using a trainee to help process single-family loans, and reclassifying a position. These recommendations did not include approving the two remaining Bangor positions. The Deputy Director has recommended to the Office's Director that one of the two positions be transferred from another branch within Manchester. The third Bangor position was a secretarial position, which Manchester proposed be reclassified as a loan closing clerk. The Boston Regional Office has not approved this additional position; instead, the Deputy Director has stated that the loan closing clerk duties could be combined with another position in the branch. Officials at Manchester indicated that, overall, the above proposals are inadequate and they believe that the two remaining Bangor positions are needed to adequately handle the increased work load at Manchester.
- According to HUD officials, between fiscal year 1985 and mid-fiscal year 1986, Manchester's Housing Development Division--the office responsible for processing loan

applications--experienced about a 50-percent turnover in staff. In fact, this office was understaffed by at least seven positions, including the three from Bangor, when the caseload from the Bangor and Burlington offices was transferred and continued to operate with this number of vacancies as of late August 1986.

SECTION 4

LENDERS' ESTIMATES OF APPLICATION-
PROCESSING TIME

Table 4.1: Lenders' Estimates of Average Time Required for Processing Regular HUD-Insured Loan Applications^a

Lender	Bangor ^b	Manchester/ Bangor
A	35-40 days	90-120 days
BC	60 days	90-120 days
C	45 days	75 days
D	60 days	120 days
E	45 days	90 days

^aThe application time estimates were provided by the five lenders interviewed. We did not verify the estimates by performing a case file review.

^bProcessing times are for applications processed before March 1986. The office chief at Bangor retired effective March 1, 1986, and was not replaced. A backlog of application processing began to develop before the Bangor office closed on July 15 and this backlog was transferred to Manchester. Our field work was performed less than 2 months after the caseload from the Bangor and Burlington offices was transferred to Manchester. Since our work was performed during this transition period, we were unable to determine if the quality of service to lenders will improve with time or if staffing in Manchester, as discussed in section 3, will affect the quality of service to lenders in the future.

^cLender is not accepting applications for HUD-insured loans until processing time improves.

LENDERS' ESTIMATES OF APPLICATION PROCESSING TIME

According to five Maine lenders, the application processing service provided by the Bangor office was timely and efficient before March 1986. They estimated that processing time at Bangor ranged from 35-60 days. However, the Bangor office chief retired in March and was not replaced. A backlog of applications to be processed developed by July 15, 1986, when the office closed and the caseload was transferred to Manchester. As of late August, the lenders reported that application processing time ranged from 75-120 days, including the backlog transferred from Bangor, and overall service had declined. According to lenders, realtors are advising borrowers to seek alternative sources of loan insurance.

- One lender with limited HUD single-family loan activity is no longer accepting applications for HUD-insured loans until processing time improves, and another lender reported that its HUD-insured loans had declined from 59 percent of total loans made in January 1986 to 22 percent in August.
- As part of the transfer of work load to Manchester, the former Bangor clients were provided the opportunity to obtain the status of application processing at the Manchester office. However, 13 days before the Bangor office closed, the lenders were notified by Manchester that status information on HUD-insured loans would only be provided in an emergency because of limited resources and the increased application volume. In addition, emergency calls, which were not defined, could only be made by the head of the lender's office, who was required to explain the nature of the emergency. Several lenders we interviewed were dissatisfied with the telephone call arrangement and indicated that the failure to communicate caused misunderstandings, delays, and errors.
- Two lenders cited instances in which loan insurance applications were verbally reported by Manchester to be approved during a status call, but later were returned through the mail as disapproved. A visit to Manchester during the week of August 11, 1986, by the Boston Deputy Director, Office of Housing, revealed that the status of cases noted in the log, in some cases, had the wrong information recorded. According to the Deputy Director, closer supervision, monitoring, and training will resolve the problems.

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