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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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MANPOWER AND WELFARE
DIVISION

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DEC 1972

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Dear Mr. Johnson: 16



The General Accounting Office has reviewed certain aspects of the Veterans Administration (VA) Mobile Home Loan Guaranty Program authorized by section 5 of the Veterans' Housing Act of 1970 (38 U.S.C. 1819), approved October 23, 1970.

The purpose of the program is to help promote an adequate supply of low-cost housing for veterans by authorizing VA to guarantee a portion of the mobile home loans made to them. Participation in the first 12 months of the program--2,401 loans have been guaranteed--has been very low in the light of your expectation in February 1971 that 20,000 veterans would use this opportunity to purchase mobile homes using VA guaranteed loans during the first year of the program.

We performed our review at the San Francisco, Denver, Indianapolis, and Houston VA regional offices (VAROs) and at the VA central office in Washington, D.C. We obtained information from three mobile home dealers and five lending institutions participating in the VA mobile home program and from one dealer and three lenders who were not participating. We also discussed the program with the Washington Affairs Associate of the Mobile Homes Manufacturers Association.

The majority of the officials we talked with regarding low participation stated that the excessive time to process VA mobile home loans is a major deterrent to greater participation in the VA Mobile Home Loan Guaranty Program.

DELAYS IN LOAN APPROVAL
DISCOURAGE PARTICIPATION

Most of the dealers we contacted indicated an unwillingness to wait an unduly long time to receive payment, and veterans were unwilling to wait a long time to obtain VA loans. A lender told us that to expedite loan processing dealers often

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attempt to persuade veterans to use conventional financing if they can make the larger downpayment required. When a veteran cannot meet the downpayment requirement, he must use the VA Mobile Home Loan Guaranty Program.

Our sample of loans processed at the San Francisco, Houston, Indianapolis, and Denver VAROs from February 1971 to June 1972 showed that an average of 51 days had elapsed between the veterans' initial contacts with mobile home dealers and VA's approval or disapproval of their loans. The forms required to be submitted to VA were burdensome and unnecessary and delayed the processing of loan applications, according to most dealers and lenders we contacted. VA officials, lenders, and an official of the Mobile Homes Manufacturers Association told us that conventional mobile home loans generally can be processed in only a few days.

VA's procedures require lenders to submit up to 10 documents before VA can issue its commitment to guarantee the loan. These documents include an updated written credit bureau report as well as written employment and bank deposit verifications from the veteran's employer and banker, respectively. In contrast, lenders have told us that they can approve conventional loans within 1 day after they receive notice of sale from the dealer by using the following three-step procedure.

1. The dealer phones the lender the details of the sale and furnishes any credit information obtained from the buyer.
2. The lender phones the cognizant credit bureau and obtains whatever information is contained in their files.
3. The lender phones the buyer's employer, banker, and creditors to orally verify and update the information obtained from the credit bureau and dealer.

The lender approves or rejects the loan application and notifies the dealer. Generally, the only delay in approval occurs when the buyer does not have local credit standing so that an out-of-town credit report must be obtained.

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WAYS VA CAN EXPEDITE LOANS

Several procedures available to VA can reduce the time required to process VA mobile home loan guaranty applications. These procedures have not been used in some VAROs.

Automatic approval of loans

Under the Veterans' Housing Act of 1970, VA can authorize lenders to make VA-guaranteed loans to eligible veterans without obtaining prior VA approval of the loan. VA reserves the right to review the loans and, if they do not meet VA's standards, to revoke the lender's automatic approval rights. These authorized lenders use conventional practices to process loan applications and approve loans before submitting the loan papers to VA. We found that, as of July 1972, lenders in only 26 of the 57 regional offices were authorized to make automatically approved loans.

Some VA regional offices required lenders to process a fixed minimum number of mobile home loans under usual approval procedures before the lender would be recommended to the central office for automatic loan approval privileges. For example, the VA San Francisco regional office required that a lender process 25 such loans.

In a letter to VA officials dated April 13, 1972, we questioned the need for 25 applications to be submitted before recommending a lender for automatic loan approval. In a circular dated July 27, 1972, the VA central office instructed its regional offices not to:

**** impose any arbitrary requirements for designation as an automatic mobile home lender (i.e. must have processed 25 cases on prior approval basis, *** etc.)."

They were to consider a lender's previous conventional and VA mobile home loan experience, VA home loan experience, and proposed area and method of operations. The instruction also

gave regional offices the authority, which only the central office had previously held, to authorize lenders for automatic loan approval.

When loans are automatically approved, the lender must submit the same documentation required under normal VA loan practices, but the lender is allowed up to 30 days to submit the documents after the loan has been closed and the funds have been disbursed.

Lenders we interviewed believed, and we agree, that the use of automatic loan approval would help reduce processing time for veterans' loan applications. In the Denver regional office, the first automatically approved loan was made in October 1971. Our sample of automatically approved loans closed from October 1971 to March 1972 showed that the average time between the initial dealer-veteran contact and the loan closing was about 28 days. In contrast, under procedures requiring VA's prior approval, an average of 55 days elapsed between the initial dealer-veteran contact and the loan closing.

During the 8 months from October 1971 through May 1972, the Denver regional office guaranteed 356 loans, 267 of which were approved automatically. During the 8 months before October 1971, only 122 loans were guaranteed. Although the increase in the number of guaranteed loans may be accounted for, in part, by a greater awareness of the program, we believe that the expeditious handling of the loans was also a major factor.

In San Francisco, where automatic approval had not been used as of June 1972, an average of 71 days was required for processing a loan application. Only 14 loans had been guaranteed in the San Francisco regional office during the 8-month period.

In-file credit reports

If automatic loan approval privileges are not granted to certain lenders, VA can still reduce processing time by allowing these lenders to use in-file credit reports rather than

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requiring updated written reports. VA's policy requires lenders seeking a VA guarantee for a mobile home loan to furnish an updated credit report on each veteran applying for the loan. Under this procedure, the credit bureau performs a credit investigation to update its information.

However, VA has allowed one lender which makes the majority of VA-guaranteed mobile home loans in the Denver area to use in-file credit reports. The lender orally obtains the credit bureau information and updates it by contacting credit information sources.

The lender is thus able to determine the loan applicant's credit standing in 1 day. The Denver VARO has randomly verified this lender's information by ordering updated credit reports directly from the credit bureaus. To date no significant differences have been noted.

CONCLUSIONS

One of the major reasons for low use of the VA Mobile Home Loan Guaranty Program appears to be the excessive time required to process veterans' loan applications. Although existing VA loan processing procedures--such as automatic approval and the use of in-file credit reports--could reduce processing time, lenders were authorized to make automatically approved loans in only 26 of the 57 VA regional offices and only one regional office had permitted a lender to use in-file credit reports.

Recent changes in VA procedures which permit regional offices to authorize lenders for automatic loan approval and remove arbitrary experience requirements should stimulate greater use of this technique. VA needs to review the VAROs' practices periodically to insure that these and such other possible time-saving techniques as the use of in-file credit reports are implemented whenever possible.

RECOMMENDATIONS

We recommend that the VA central office:

--Periodically review the use being made of automatic loan approvals by the regional offices.

--Analyze all its loan processing requirements to determine whether such techniques as the use of in-file credit reports could be used to further expedite loan processing.

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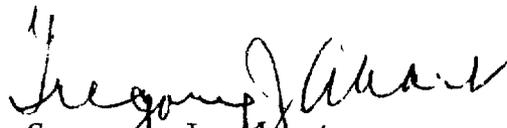
Copies of this report are being sent to the Senate and House Committees on Government Operations, the Senate and House Committees on Veterans Affairs, the Senate and House Committees on Appropriations, and the Director, Office of Management and Budget.

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We appreciate the cooperation and courtesy of VA employees.

Sincerely yours,



Gregory J. Hart
Director, Manpower and
Welfare Division

The Honorable Donald E. Johnson
Administrator of Veterans Affairs 16