

## LOAN GUARANTY ACCOMPLISHMENTS AND PLANS FOR THE FUTURE

### Lender Appraisal Processing Program (LAPP)

As a result of VA's promotion efforts and revisions to make the program more effective and efficient, lender participation in LAPP has increased dramatically over the past four years. LAPP provides improved customer service to veterans and lenders by reducing the time needed to close VA loans. The percentage of loans guaranteed under LAPP in comparison with all other eligible loans guaranteed is shown below.

FY 92	FY 93	FY 94	FY 95	FY 96	10/96
1.3%	3.7%	16.5%	35.3%	47.1%	54%

### Re-engineered Processes

Existing Planned Unit Developments - lenders delegated determination of acceptability of those project types. Eliminated the staff resource intensive review of legal documents by both Loan Guaranty and Regional Counsel personnel while speeding processing time for veterans and other program participants.

### C&V in the Next Four Years

The real estate valuation industry is continuing to change and VA looks forward to improving its business operations to appropriately accommodate many of those changes as they become common industry practice. Some of the changes that VA will be looking to implement are:

- Electronic Data Interchange (EDI) - electronic transmission of appraisal reports from appraisers to both VA and lender participants. Eliminates paper handling and speeds processing times.
- Automated Valuation Models (AVMs) - in certain locations, abbreviated appraisals that utilize software programs to analyze property databases will reduce appraisal processing times and costs and still render reliable value estimates.

### Loan Prospector Pilot Program

VA has entered into a pilot program with the Federal Home Loan Mortgage Corporation (Freddie Mac) to determine whether their Loan Prospector automated underwriting system could be modified to accommodate VA guaranteed loans.

Under this pilot, Freddie Mac has developed a VA specific mortgage scorecard for use by lenders. The scorecard was based on an analysis of the loan characteristics of a number of recent VA loans. The pilot will test the model's ability to provide risk assessments for VA loans. Four lenders were chosen to participate. They will process a total of approximately 4,000 loans, using Freddie Mac's automated Loan Prospector underwriting system with the VA module. If this pilot establishes that the use of a mortgage credit scorecard can reduce the underwriting risk of a mortgage loan, VA will be able to consider waiving certain underwriting requirements that apply to loans processed in the traditional manner.

The increased use of automated systems by the mortgage industry is designed to take advantage of the advances in computer technology. Loan Guaranty Service intends to participate in this new environment.

### **Native American Veteran Pilot Program**

Under the Native American Veteran Direct Loan Program, VA is authorized to make direct loans to Native American veterans to purchase, construct, or improve homes located on trust lands. Since the inception of the Native American Veteran Direct Loan Program in 1992, VA has entered into 44 Memorandums of Understanding (MOUs). Forty-one of these have been with Indian Tribes, three with Pacific Island Native Governing Bodies. A total of 112 loans have been made under this program. In addition, VA continues to work as a partner with the Department of Housing and Urban Development (HUD) and local Native American Groups. In Hawaii, for example, VA will soon begin working with HUD and the Department of Hawaiian Homelands to develop a Native Hawaiian subdivision on the Island of Maui which will provide housing to over 300 Native Hawaiian families.

VBA has recommended that this pilot program be extended for two years, until September 30, 1999. Currently there is a sunset date of September 30, 1997.

### **Loan Management**

Accomplishments over the last four years include:

- The Servicer Loss Mitigation Program (SLMP): Letting loan servicers approve certain default resolutions--voluntary conveyances and compromise sales--on behalf of VA, when there is no likelihood the veteran can afford to keep the home, results in significant savings to VA and veteran borrowers. Initiated in FY 95 with four authorized servicers, the program has grown to include 125 authorized servicers.

- Increase in alternatives to foreclosure. Our main line of business is finding ways to avoid foreclosure of seriously delinquent home loans. In FY 93 alternatives to foreclosure which required VA involvement numbered 9,534 cases and there were 26,914 VA loan foreclosures. Use of alternatives expressed as a percentage of possible foreclosures amounted to 26%. In FY 96 there were 12,796 alternatives and 20,728 foreclosures. The ratio of alternatives to foreclosure increased to 38%.
- Consolidation of Loan Service and Claims: To enhance VA's ability to meet mission requirements with fewer resources, VBA began consolidating servicing functions from 45 Regional Offices (ROs) to eight Regional Loan Centers (RLCs). Denver and Cleveland are on schedule to complete conversion to RLCs and assimilate 16 (eight each) RO's servicing functions by the end of FY 97.

Projected to be accomplished in the next four years:

- Increase in alternatives to foreclosure. Increase the ratio of alternatives to foreclosure to 45%.
- Complete LS&C consolidation. The consolidation of LS&C will be completed by the end of FY 2000, or sooner.
- Sub servicing contract for portfolio loans. VA currently holds and services a portfolio of approximately 25,000 home loans, which are not readily salable. To reduce operating costs, Loan Guaranty will contract with a private company to assume the loan servicing duties on our portfolio.

#### **Property Management Accomplishments in Last Four Years**

- Inventory. The number of acquired properties on-hand has been reduced from 13,755 to 8,624, a 37 percent decrease.
- Properties Over 12-months. The number of properties on-hand over 12 months has been reduced from 758 to 597, a 21 percent decrease.
- Advertising. To improve the exposure of VA properties to the public, many stations have started placing their sales listings on their local electronic bulletin boards and the Internet.

#### **Property Management Goals for Next Four Years**

- Inventory. Property acquisitions are projected to increase due to higher numbers of loan defaults. Our goal is to control the increase in inventory by continuing to improve our property sales program.

- Modernization. VA acts as a lender to finance the sale of acquired properties. Over the next 4 years we plan to update our lending processes to more closely resemble those of private sector lenders in order to compete more effectively with other sellers of acquired properties.
- Properties Over 12 Months. Our goal is to reduce the number of properties which have been in inventory for more than 12 months without a valid excuse--such as adverse occupancy--to zero.

### **Monitoring Unit**

During the last four fiscal years, the Loan Guaranty Service Monitoring Unit completed 352 on-site audits of lenders/servicers. As a result of these audits, Loan Guaranty has recovered losses (cash) in the amount of \$7,067,766; accepted indemnification agreements in the amount of \$7,250,500; and denied liability on loans with potential claim and acquisition costs totaling \$836,350, resulting in a total liability avoidance of \$15,154,616.

The high priority placed on monitoring and controlling program participant compliance has resulted in significant recovery of program losses due to unacceptable underwriting and servicing practices, and has helped to substantially strengthen the effectiveness of our credit program operations, thus minimizing VA's risk. These benefits are expected to continue to be realized during the next four fiscal years as the Monitoring Unit continues to conduct audits of lenders/servicers.

### **Technician Training**

In the last four years, Loan Guaranty Service has offered a wide range of training opportunities to its field technical staff. Over 1,000 technicians have had centralized training courses in their area of responsibility. Five self-paced computer based training programs have been disseminated, and several more are in production. (One, for lenders, was made available on the Loan Guaranty internet home page.) Finally, Loan Guaranty Service has pioneered in offering technical training over the interactive televised Veterans Benefits Network (VBN). In the past year, Loan Guaranty broadcast a 10 hour course for Construction and Valuation employees in 21 regional offices and a 14 hour course for over 200 Loan Processing technicians in over 40 locations across the country.

In the next four years Loan Guaranty plans to emphasize the cost-effective training available through the Veterans Benefits Network with more interactive televised training and computer based instruction programs.

### **Automation**

During the last four years Loan Guaranty has totally automated the processing of the home loan benefit, eliminating time consuming reviews of paper forms and hand written documents. In the next four years VA will automate the servicing of delinquent loans to

better assist veterans experiencing financial problems. We will also develop systems to manage and dispose of acquired properties to reduce costs of providing the home loan benefit.

## Lutes, Bill, VBAVACO

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**From:** Pedigo, Keith, VBAVACO  
**Sent:** Tuesday, December 03, 1996 11:36AM  
**To:** Lutes, Bill, VBAVACO  
**Subject:** FW: Accomplishments  
**Importance:** High

Bill: Just found this request in my MS-Exchange mailbox and see that it was due noon today. Please coordinate our response with other Asst. Dirs. kp

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**From:** Timko, Judy, VBAVACO  
**Sent:** Monday, December 02, 1996 9:30AM  
**To:** Jones, Sandy, VBAVACO; Patton, Karen, VBAVACO; Pedigo, Keith, VBAVACO; Goetz, Jeff, VBAVACO; KOONS, PAUL; Soto, Isabel, VBAVACO; Laganas, Linda, VBAVACO  
**Cc:** Moffitt, Kris, VBAVACO; Slagle, Matilda, VBAVACO; Dollarhide, Celia, VBAVACO; Savorias, Myrtle, VBAVACO; Saunders-Smith, Ramona, VBAVACO; BRADY, MARYANN; Quinton, Newell, VBAVACO; Beagles, Charles, VBAVACO  
**Subject:** Accomplishments  
**Importance:** High

The Secretary's office has requested a list of our accomplishments over the last four years and where we are headed in the next four. Examples of the types of things they are looking for are: Voc Rehab's increase in rehabed vets of 19 percent; consolidation of Education claims processing (what has the effect been); how many vets enrolled in education programs; how many in voc rehab; a reduction in the number of LGy properties; insurance claims and payouts; C&P issues (PG, Mustard gas, Agent Orange). While we want to emphasize the positive I realize that it may not be possible to put a positive spin on everything. Please do your best.

We have been requested to have this by noon tomorrow, Tuesday, December 3. I'm sorry for the very short deadline. You can e-mail the information to me.

If you have any questions please give me a call on 273-7478.

Thank you once again for your assistance.

Judy T.