VETERANS FARM AND HOME LOAN FUND OF 1943

REVIEW OF OPERATIONS

NOVEMBER 1973

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December 6, 1973

Honorable Newton R. Russell
Chairman, Assembly Committee on
Government Administration
Room 4144, State Capitol
Sacramento, California 95814

Dear Newton:

Transmitted herewith is a report on the Department of Veterans Affairs operation of the Cal-Vet loan program. The report discusses mainly the department's capability to process loans timely.

In October 1973, 1,055 loans totaling $23,769,000 were processed. This was 2-1/2 times the number of loans processed in November 1972. The present peak loan activity is possible because excess funds were accumulated during the preceding months of low loan activity.

The demand for loans increased sharply late in 1972 because of the increasing return of Vietnam veterans, high commercial interest rates, and an increase in the statutory maximum of loans from $20,000 to $25,000. Also, many older veterans were attempting to beat the statutory cutoff of loans to veterans who were discharged from service 20 or more years.

At November 1, 1973, 5,250 loan applications were on hand and in various stages of processing. Based on experience, 80 percent or 4,200 will qualify for Cal-Vet funding. This represents a four-month workload.

Continued processing of 1,000 loans using $23 million per month will exhaust 1973-74 loan funds and eliminate the backlog of unprocessed loans as of July 31, 1974. Then the present district office staff of 118 can process on a timely basis loans equal to the projected $230 million available for 1974-75.

Under these conditions, it was found that the department has 24 authorized staff positions in excess of its needs. It is recommended that 24 unneeded vacant positions be abolished immediately avoiding $400,000 of additional costs.

In June 1973, eight months after the peak loan activity began, the department requested and was authorized a staff augmentation of 47 positions. Between July and October 1973, district office staffs were increased by filling 22 positions. Because of this delay, it was found that the department has not demonstrated an ability to meet staffing needs in a timely manner.

Payment notices are mailed each month to Cal-Vet home purchasers. Many banks and other lending institutions mail 12 monthly payment notices once each year. It is recommended that the Department of Veterans Affairs follow such procedures and mail the 12 monthly payment notices once each year. Postage expenditures would be reduced by at least $70,000 per year.

With my warm best wishes,

Sincerely,

Vince

VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

In response to a legislative request, we have reviewed the operations of the Cal-Vet loan program administered by the Department of Veterans Affairs. The scope of this review was limited to a review of:

- The department's willingness and ability to plan for fluctuation in loan demand and the impact of such planning on staffing levels.
- The efficiency of district office operations
- Procedures in the management and handling of loan files and payment collections.

The Cal-Vet loan program was established in 1921 to provide veterans with long-term housing loans at low interest rates.

Veteran purchasers are charged interest on their loan at the lowest possible rate which will cover all costs of the program. During its existence of over 50 years, the program has operated without cost to the California taxpayer.

Between January 1971 and January 1973, the number of loans outstanding to veterans decreased by about 8,000. Early in 1973, due to an availability of loan funds accumulated during the preceding low-loan years and a continuing high demand caused by (1) the return of Vietnam veterans, (2) high commercial interest rates, and (3) an increase in the Cal-Vet loan maximum from $20,000 to $25,000, the loan activity of the program increased sharply. In October 1973, Cal-Vet was processing new loans at over 2-1/2 times the rate of November 1972.

The department is currently undergoing a peak period of loan activity. The increase in loan activity began approximately one year ago in October 1972. In November 1972, the department processed 411 loans with a loan value of $7.7 million. In October 1973, 1,055 loans were processed with a value of $23.7 million. The loan activity during the past year is shown in Table 1 below.

Table 1

Cal-Vet Loans Made
November 1972 Through October 1973

	Number of Loans Contracted	Dollar Amount of Loans Contracted
November 1972	411	$ 7,696,700
December 1972	376	6,975,000
January 1973	467	8,809,900
February 1973	558	10,677,500
March 1973	529	10,596,900
April 1973	669	14,032,700
May 1973	724	15,675,300
June 1973	763	16,687,700
July 1973	838	18,655,600
August 1973	1,044	23,057,800
September 1973	1,117	24,788,900
October 1973	1,055	23,769,000

In October 1973, the department required between 90 and 120 days to process a loan after receipt of an application. This is in contrast to an expected normal processing time of 30 to 60 days. On November 1, 1973, 5,250 loan applications were on hand and in various stages of processing. Approximately 80 percent or 4,200 will eventually qualify for Cal-Vet funding.

The department is currently able to process applications which result in loan funding at the approximate rate of 1,000 per month. Accordingly, the current backlog of applications represents approximately four months' workload.

Table 2, shown on the following page, shows the estimated funds available for loans for the fiscal years 1973-74 and 1974-75. For the fiscal year 1973-74, $100 million of veterans bonds were sold in October 1973, and the remaining $100 million of bonds authorized by the Veterans Bond Act of 1971 is planned to be sold in January 1974. For 1974-75, our table assumes that the voters will approve the 1974 Bond Act in the amount of $350 million and that one-half of this authorization ($175 million) will be sold during the fiscal year 1974-75. If these assumptions do not materialize, then the loan program would have to be reduced correspondingly and less staff would be required.

Table 2

Estimate of Funds Available for Loans
For Fiscal Year 1973-74 and 1974-75
(In Millions)

	1973-74	1974-75
Beginning Cash Balance, July 1	$133	$ 92[1]
Bond Sales	200	175
Receipts from Installments and Prepayments	170	175
Investment Earnings	6	6
Estimated Cash Receipts	$509	$448
Debt Service	138	143
Operating Costs	3	3
Estimated Cash Disbursements	$141	$146
Available Cash	$368	$302
Less: Contingency Reserve (Reserve maintained for one-half year debt service requirement)	69	72
Estimate of Funds Available for Loans	$299	$230
Estimated Loans	276[2]	230
Estimate of Funds Available for Additional Loans (June 30)	$ 23	$-0-

(1) Equals the contingency reserve of $69 million plus the amount available for additional loans from 1973-74 of $23 million.

(2) Estimated loans for 1973-74 based on a monthly rate of 1,000 loans at $23 million. Estimated loans for 1974-75 based on the estimated availability of funds.

FINDINGS

THE DEPARTMENT HAS 24 AUTHORIZED STAFF POSITIONS IN EXCESS OF ITS NEEDS FOR THE PURPOSE OF PROCESSING PROJECTED LOAN FUNDS

On October 1, 1973, the district offices had 24 vacancies out of an authorized staff of 142. The projected available loan funds for 1973-74 is $299 million. A continuation of the October 1973 workload of 1,000 loans totaling $23 million per month, by the currently filled district office staff of 118, will exhaust available loan funds and eliminate the backlog of unprocessed loans as of July 31, 1974.

Based on the current workload, the present district office staff of 118 can process, largely within the normal 30 to 60 day period, loans equal to the projected $230 million available for 1974-75. Such projected funds are contingent upon voter approval of a $350 million bond issue and our assumption that one half or $175 million of the bond issue will be sold in that year. Any amount less than the $175 million would force a curtailment of loan activity substantially below present levels. The projected available loan funds for 1974-75 is actually $69 million less than 1973-74. In fact, a continuation of the present workload by the 118 positions would exhaust the projected 1974-75 available loan funds over 10 months.

On September 26, 1973, the Assembly Committee on Government Administration sent a letter to each district office requesting, among other information, the capabilities of each district to meet its workload demand.

A compilation of the responses from each district revealed that they estimate a capability, when fully staffed at 142 positions, to handle 15,540 loan applications per year. Based on the present average loan amount of $23,000, the processing of 15,540 loans would require annual total available loan funds of over $357 million or $127 million in excess of the projected available loan funds for 1974-75.

The Director of the Department of Veterans Affairs stated that since many of the staff are near retirement age, the vacant positions should be filled in order that the department has more experienced personnel when employees retire. He stated that assuming the present facts are unchanged 24 vacancies resulting from retirements could then be eliminated.

In our judgment, a district office staff of 118 can adequately handle the projected future workload of the department.

RECOMMENDATION

- Abolish 24 unneeded vacant staff positions immediately.

SAVINGS

- At least $400,000 of additional costs could be avoided between December 1, 1973 and June 30, 1975 by abolishing 24 vacant staff positions.

THE DEPARTMENT HAS NOT DEMONSTRATED AN ABILITY
TO MEET STAFFING NEEDS IN A TIMELY MANNER

Cal-Vet loan applications during the period from October 1972 through June 1973 showed an increase of about 2-1/2 times over the preceding nine-month period.

According to department records, the intake of Cal-Vet loan applications in the first nine months of 1972 averaged 498 a month. Between October 1972 and June 1973 the intake of applications increased to an average of 1,297 per month.

During the nine-month period from October 1972 through June 1973, loan applications were being fully processed at the average rate of 548 per month. Due to the disparity between loan applications received (1,297 per month) and loan applications processed (548 per month), the inventory of applications on hand steadily increased. At June 30, 1973 more than 4,300 unprocessed loan applications were on hand. As a result, the processing time for loans took from 90 to 120 days instead of the expected normal time of 30 to 60 days.

The department did not address itself to the problem of a growing workload and its effects on staff needs until June 1973, almost eight months after the peak loan activity began. Finally, on June 7, 1973, the department requested and was authorized a staff augmentation of 47 positions to aid in administering the Cal-Vet loan program. District offices were allocated 35 of these positions. These 35 plus 11 existing vacant positions in the district offices made 46 positions available.

Between July 1, 1973 and October 1, 1973 district office staffs were increased by filling 22 positions. This staff increase, plus a temporary augmentation of appraisers from the Department of Transportation, has enabled the department to increase its output of new loans from 763 in June 1973, to 1,055 in October 1973.

The director of the department stated that the workload increased suddenly in November and December of 1972 due to veterans discharged from service 20 years or more attempting to beat the statutory cutoff date for loans and an increase in the maximum amount of loans from $20,000 to $25,000. He stated that the department then had significant personnel recruitment difficulties and that the Personnel Board did not furnish an eligible list for property agents until August 1973.

In our judgment, the department could have engaged temporary professional personnel as needed and selected clerical help from existing lists. Further, in our judgment, the delay in obtaining additional positions to keep up with the obviously increasing loan activity indicated the department's inability to meet its staffing needs in a timely manner.

Each district office is staffed with a Property Agent III who is the District Manager, a Property Agent II and, according to the department, "enough Property Agents I and either typists or stenographers to process applications for Cal-Vet loans and perform contract services on loans in force".

The filled staff positions of the district offices for January 1973, June 1973, and October 1973 are shown below.

	January 1973	June 1973	October 1973
Property Agent III	8	8	9
Property Agent II	8	8	9
Property Agent I	39	41	48
Clerical	36	39	52
Totals	91	96	118

At October 1, 1973, 14 Property Agents I and 10 clerical positions were still unfilled. As previously recommended, these 24 positions should be abolished.

Due to the fluctuations in workload, which in large part is caused by the constant changes in the availability of loan funds, the department should continue to transfer personnel between district offices, depending on the workload of each office, and should continue to obtain assistance of appraisers from other state agencies.

Further, the department should increase, to the extent possible, the use of compensating time off permitted by Title 2 of the California Administrative Code in order to enable employees to work in excess of their normal work week during periods of high loan activity.

PAYMENT NOTICES ARE MAILED EACH
MONTH INSTEAD OF ANNUALLY

Cal-Vet follows a procedure of mailing on a monthly basis statements, containing loan amounts due, to veteran home purchasers. Under this procedure, the division incurs postage costs of approximately $110,000 annually. It is estimated that a minimum annual savings of $70,000 in postage costs would be realized if 12 monthly statements were sent in one annual mailing. This annual mailing procedure is currently used by many banks and other private lending institutions.

While the Director of the Department of Veterans Affairs stated that the use of monthly mailings results in better records, prompt payments eliminating the need for late charges and statements which, if necessary, can be readily revised on a current basis, we believe the annual mailing procedure will not only accomplish these objectives but will also result in an annual reduction in expenditures.

RECOMMENDATION

- Mail the twelve monthly payment notices once each year.

SAVINGS

- Annual mailings of monthly payment notices would reduce postage expenditures by at least $70,000 per year.

DISTRICT OPERATIONS

Our review of district office operations was limited to a brief visit at three district offices and to a review of divisional work measurement and loan activity reports.

During the past year, the workload of the district offices has increased substantially over that of the preceding two years, as a result of increased loan applications and increased availability of loan funds.

This increased volume of loan activity has placed a heavy demand on the ability of the districts to meet workload commitments. In terms of new loan output, the districts have been able to increase productivity during the past year by almost 2-1/2 times. This increased loan activity was accomplished with only a 30 percent staff increase.

From March 1973 through September 1973 the average monthly loan output per property agent was about 21. This compares to a rate of seven per month in 1972. However, as more time has been devoted to loan activity functions, less time is being spent on other functions of the Cal-Vet program which the property agent would normally do. Some of these other functions, which are being neglected to some extent, include surveys of existing contract holders to determine adequacy of insurance coverage, inspections for determining home upkeep compliance, and insurance loss adjustment activities. These low priority functions can be resumed early in 1974 when the backlog of loan activity is eliminated.

Overall, property agents now spend about 60 percent of their time on home appraisals. In 1972, less than 25 percent of a property agent's time was spent on this activity.

There are nine district offices located throughout California. From March 1973 through September 1973 these district offices accepted 11,400 new loan applications, conducted 9,200 farm and home appraisals, and recommended the purchase of over 6,300 properties.

In terms of loan activity from March 1973 through September 1973, we found considerable disparity between district offices and between individual property agents as follows:

1. Four Southern California offices with only 42 percent of the total district office staff made 52 percent of the total loans and received 54 percent of the applications.

2. The monthly average of new loans per property agent is 21. The property agents at two district offices, however, were able to exceed this average by more than 40 percent, by averaging more than 30 new loans per month. The average of 30 new loans per month per property agent more than doubled the rate of two other districts.

3. The monthly number of appraisals per property agent per district varied from an average of 21 for one district to an average of 49 for another.

4. One district, with the highest volume of new loan applications has nine property agents. This is three

property agents less than another district whose volume of new loan applications is 25 percent less.

5. The backlog of unprocessed applications varies considerably between districts. Some districts have a backlog of unprocessed loan applications equal to two months more workload than other districts.

6. One district with 12 property agents processes less applications per month than another district with only eight property agents. The number of existing loans in force at both districts is about equal.

As previously noted, the department should continue to transfer personnel between district offices, depending on the workload of each office.

Harvey M. Rose
Auditor General

November 27, 1973

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