

# **EVALUATION OF VA'S HOME LOAN GUARANTY PROGRAM**

**FINAL REPORT**

JULY 2004

**Economic Systems Inc.  
ORC Macro  
The Hay Group**



## Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>ES-1</b>
OVERVIEW OF VA HOME LOAN GUARANTY PROGRAM.....	ES-1
STUDY OBJECTIVE .....	ES-1
METHODOLOGY .....	ES-1
LEGISLATIVE INTENT .....	ES-2
PROGRAM OPERATIONS .....	ES-2
BENEFIT OUTCOMES FOR VETERANS.....	ES-3
<i>Home Ownership</i> .....	<i>ES-3</i>
<i>Financial Assistance</i> .....	<i>ES-4</i>
<i>Program Participation and Access</i> .....	<i>ES-4</i>
DEFAULTS AND FORECLOSURES.....	ES-6
<i>Default Assistance</i> .....	<i>ES-7</i>
SATISFACTION .....	ES-8
SPECIALTY PROGRAMS .....	ES-8
<i>Specially Adapted Housing Program</i> .....	<i>ES-8</i>
<i>Native American Direct Loan Program</i> .....	<i>ES-9</i>
RECOMMENDATIONS.....	ES-10
<i>Policy Recommendations</i> .....	<i>ES-10</i>
<i>Program Operations Recommendations</i> .....	<i>ES-12</i>
<i>Technical Recommendations for Outcome and Performance Measures</i> .....	<i>ES-13</i>
 <b>1. INTRODUCTION .....</b>	 <b>1-1</b>
OVERVIEW OF VA’S HOME LOAN GUARANTY PROGRAM.....	1-1
STUDY OBJECTIVE .....	1-2
STUDY METHODS.....	1-3
REPORT ORGANIZATION .....	1-4
 <b>2. PROGRAM GOALS, OUTCOMES, AND MEASURES.....</b>	 <b>2-1</b>
LEGISLATIVE INTENT .....	2-1
<i>Overview</i> .....	<i>2-1</i>
<i>History</i> .....	<i>2-1</i>
<i>Conclusion</i> .....	<i>2-6</i>
CURRENT GOALS, OUTCOMES, AND MEASURES .....	2-6
HOME OWNERSHIP.....	2-7
BENEFIT TO VETERANS .....	2-8
PROGRAM UTILIZATION.....	2-10
<i>Overall Utilization</i> .....	<i>2-10</i>
<i>Market Share of VA Loans</i> .....	<i>2-10</i>
<i>Multiple Use of The Loan Guaranty Benefit</i> .....	<i>2-11</i>
<i>Awareness</i> .....	<i>2-11</i>
DEFAULT ASSISTANCE.....	2-12
SPECIALLY ADAPTED HOUSING PROGRAM .....	2-13
COST EFFICIENCY OUTCOMES.....	2-14
RECOMMENDED GOALS, OUTCOMES, AND MEASURES .....	2-15
 <b>3. PROGRAM OPERATIONS.....</b>	 <b>3-1</b>
OVERVIEW OF OPERATIONS.....	3-1
<i>Loan Operations</i> .....	<i>3-1</i>
<i>Loan Servicing</i> .....	<i>3-2</i>
<i>VA Offices and Staffing</i> .....	<i>3-3</i>
CHANGES IN OPERATIONS OVER THE PAST 10 YEARS.....	3-4
<i>Determination of Eligibility</i> .....	<i>3-4</i>
<i>Loan Application and Production Process</i> .....	<i>3-5</i>

<i>Loan Appraisal Process</i> .....	3-5
<i>Electronic Loan Guaranty through EDI</i> .....	3-6
<i>Consolidation</i> .....	3-6
ONGOING AND FUTURE INITIATIVES .....	3-7
<i>Loan Production</i> .....	3-7
<i>Redesign Project for Loss Mitigation</i> .....	3-8
<i>Workload Distribution and Standardization</i> .....	3-9
<i>Systems</i> .....	3-9
<i>Communication</i> .....	3-11
PERFORMANCE MEASURES.....	3-11
<i>Cost Measures</i> .....	3-11
<i>Other Performance Measures</i> .....	3-17
SUMMARY .....	3-18
<b>4. PROFILE OF PROGRAM PARTICIPANTS.....</b>	<b>4-1</b>
PROFILE OF PROGRAM PARTICIPANTS—ADMINISTRATIVE DATA.....	4-1
<i>Profile of Purchase Loan Borrowers</i> .....	4-2
<i>Profile of Refinance Loan Borrowers</i> .....	4-3
PROFILE OF PROGRAM PARTICIPANTS—VA LOAN SURVEY DATA .....	4-5
<i>Demographic Characteristics</i> .....	4-5
<b>5. PROGRAM PARTICIPATION AND ACCESS.....</b>	<b>5-1</b>
PROGRAM UTILIZATION.....	5-1
<i>Overall Utilization</i> .....	5-1
<i>Multiple Use of the Loan Guaranty Benefit</i> .....	5-2
<i>Maximum Loan Amount</i> .....	5-4
AWARENESS AND ACCESS.....	5-7
FACTORS INFLUENCING ACCESS AND USE .....	5-16
<i>Funding Fee</i> .....	5-16
<i>Availability of Military Housing</i> .....	5-20
FINANCIAL ASSISTANCE .....	5-23
<b>6. HOME OWNERSHIP RATES .....</b>	<b>6-1</b>
COMPARISON OF HOME OWNERSHIP RATES.....	6-1
BARRIERS TO HOME OWNERSHIP .....	6-3
PROGRAMS TO OVERCOME LIQUIDITY AND LENDING CONSTRAINTS.....	6-4
FACTORS AFFECTING VA AND NON-VA HOME OWNERSHIP.....	6-6
<b>7. DEFAULTS AND FORECLOSURES.....</b>	<b>7-1</b>
LOSS MITIGATION PROGRAM .....	7-1
<i>Performance Measure for Loss Mitigation</i> .....	7-3
PROFILE OF DEFAULTED LOANS AND FORECLOSURES .....	7-3
<i>VA Loan Default Rates</i> .....	7-3
<i>Comparison of VA Loan Defaults and Foreclosures to Other Loans</i> .....	7-5
FACTORS AFFECTING DEFAULTS AND FORECLOSURES .....	7-7
<i>Previous Research</i> .....	7-7
<i>Results of Multivariate Analysis</i> .....	7-9
<i>Application of Statistical Analysis to Management</i> .....	7-12
ANALYSIS OF VA LOSS MITIGATION .....	7-12
<i>Analysis of the FATS Ratio</i> .....	7-13
SURVEY ANALYSIS OF BORROWERS WITH DEFAULTED LOANS .....	7-15
<i>Profile of Borrowers with Defaulted (Cured) Loans</i> .....	7-15
<i>Service Provided by Lenders and VA</i> .....	7-18
SATISFACTION WITH THE SERVICE PROVIDED BY LENDER AND VA.....	7-21
COMPARISON TO HUD PROGRAM FOR LOSS MITIGATION .....	7-22
CONCLUSIONS .....	7-23

<b>8. ROLE OF LENDERS, APPRAISERS, AND REAL ESTATE PROFESSIONALS .....</b>	<b>8-1</b>
RULES AND REGULATIONS .....	8-2
<i>Current Policy</i> .....	8-2
<i>Concerns about Loan Program Guidelines</i> .....	8-3
<i>Sources of Information</i> .....	8-4
<i>Awareness of VA Loan Rules and Guidelines</i> .....	8-5
<i>Compliance</i> .....	8-7
OBTAINING AND CERTIFYING APPRAISERS.....	8-8
<i>Appraisal Process</i> .....	8-8
<i>Appraisal Rules and Guidelines</i> .....	8-11
<i>VA Appraisal Standards Versus Conventional and FHA Loans</i> .....	8-11
<i>Barriers to the Approval of VA Loans</i> .....	8-12
ADJUSTABLE RATE MORTGAGES.....	8-13
<i>Historical Background</i> .....	8-13
<i>Fixed Rate Versus Adjustable Rate Mortgages</i> .....	8-15
<i>Origination Rates for ARM Loans</i> .....	8-17
<i>Effects of an ARM Option on the VA Loan Program</i> .....	8-17
ENERGY EFFICIENCY IMPROVEMENT LOANS.....	8-18
<i>Historical Background</i> .....	8-18
<i>Awareness of Energy Efficiency Improvement Loans</i> .....	8-19
<i>Best Practices and Recommendations</i> .....	8-21
CONCLUSION .....	8-22
<i>Rules and Regulations</i> .....	8-22
<i>Obtaining and Certifying Appraisers</i> .....	8-23
<i>Adjustable Rate Mortgages</i> .....	8-23
<i>Energy Efficiency Improvement Loans</i> .....	8-23
<i>Best Practices and Solutions</i> .....	8-23
<b>9. SATISFACTION.....</b>	<b>9-1</b>
AVERAGE SATISFACTION SCORES.....	9-2
WHO IS SATISFIED AND WHO IS NOT?.....	9-5
KEY DRIVERS OF SATISFACTION .....	9-7
SUMMARY .....	9-9
<b>10. SPECIALLY ADAPTED HOUSING PROGRAM .....</b>	<b>10-1</b>
LEGISLATIVE HISTORY .....	10-1
DISABLED VETERANS' AWARENESS OF THE SAH PROGRAM.....	10-3
ADEQUACY OF GRANT AMOUNTS.....	10-6
<i>Analysis of Construction Costs</i> .....	10-8
<i>Satisfaction with Grant Amount</i> .....	10-9
QUALITY OF LIFE .....	10-10
SUMMARY .....	10-13
<b>11. NATIVE AMERICAN DIRECT LOAN PROGRAM.....</b>	<b>11-1</b>
LEGISLATIVE HISTORY AND PROGRAM DESCRIPTION .....	11-1
NADL VOLUME .....	11-2
HOME OWNERSHIP RATES OF VETERANS LIVING ON TRUST LANDS.....	11-4
NADL VOLUME AS A PERCENT OF VETERANS LIVING ON TRUST LANDS .....	11-4
IMPEDIMENTS TO GREATER PROGRAM USAGE .....	11-5
APPROPRIATENESS OF \$80,000 CEILING .....	11-8
CONCLUSION .....	11-9

**APPENDIX A: SAMPLING AND NONRESPONSE ANALYSIS**

**APPENDIX B: VA LOAN SURVEY ITEM FREQUENCIES\***

**APPENDIX C: LEGISLATIVE HISTORY AND INTENT**

**APPENDIX D: SUMMARIES OF SYSTEMS**

**APPENDIX E: ANALYSIS OF MAXIMUM LOAN AMOUNT**

**APPENDIX F: EFFECTS OF FUNDING FEE ON PARTICIPATION – MULTIVARIATE ANALYSIS**

**APPENDIX G: ANALYSIS OF MILITARY HOUSING**

**APPENDIX H: HOME OWNERSHIP RATES**

**APPENDIX I: MULTIVARIATE ANALYSIS OF DEFAULTS AND FORECLOSURES**

**APPENDIX J: METHODOLOGY FOR LENDERS, REAL ESTATE PROFESSIONALS, AND APPRAISERS INTERVIEWS**

**APPENDIX K: NATIVE AMERICAN DIRECT LOAN PROGRAM—SUPPORTING INFORMATION**

**APPENDIX L: GLOSSARY OF ABBREVIATIONS**























































































































































































































































































































































































