

Report To

# The Mississippi Legislature



## LIMITED FOLLOW-UP REVIEW OF THE VETERANS' HOME PURCHASE BOARD'S LOAN PROCESSING, LOAN SERVICING, AND MANAGEMENT

December 17, 1991

The Veterans' Home Purchase Board (VHPB) has taken positive steps to address loan processing, loan servicing, and management weaknesses identified in PEER's 1988 review.

The board computerized its mortgage processing system, improved the timeliness of loan processing, and increased publicity of its loan program--all badly needed improvements correcting long-standing weaknesses identified by PEER in 1974, 1980, and 1988.

## The PEER Committee

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The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

An extension of the Mississippi Legislature's constitutional prerogative to conduct examinations and investigations, PEER is authorized by law to review any entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

As an integral part of the Legislature, PEER provides a variety of services, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

**LIMITED FOLLOW-UP REVIEW OF THE VETERANS' HOME  
PURCHASE BOARD'S LOAN PROCESSING,  
LOAN SERVICING, AND MANAGEMENT**

**December 17, 1991**

**The PEER Committee  
Mississippi Legislature**

The Mississippi Legislature  
**Joint Committee on Performance Evaluation and Expenditure Review**  
PEER Committee



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DOUG ANDERSON  
Secretary  
ROBERT G. "BUNKY" HUGGINS  
CECIL E. MILLS  
ROGER WICKER

TELEPHONE:  
(601) 359-1226

FAX:  
(601) 359-1420

P. O. Box 1204  
Jackson, Mississippi 39215-1204

JOHN W. TURCOTTE  
Director

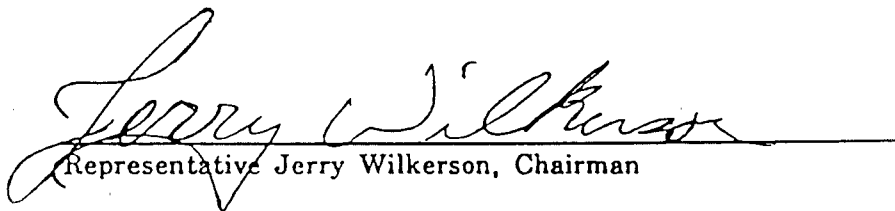
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OFFICES:  
Central High Legislative  
Service Building  
259 North West  
Jackson, Mississippi 39201

December 17, 1991

HONORABLE RAY MABUS, GOVERNOR  
HONORABLE BRAD DYE, LIEUTENANT GOVERNOR  
HONORABLE TIM FORD, SPEAKER OF THE HOUSE  
MEMBERS OF THE MISSISSIPPI STATE LEGISLATURE

At its meeting of December 17, 1991, the PEER Committee authorized release of the report entitled **Limited Follow-Up Review of the Veterans' Home Purchase Board's Loan Processing, Loan Servicing, and Management.**

  
Representative Jerry Wilkerson, Chairman

**This report does not recommend increased  
funding or additional staff.**

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# LIMITED FOLLOW-UP REVIEW OF THE VETERANS' HOME PURCHASE BOARD'S LOAN PROCESSING, LOAN SERVICING, AND MANAGEMENT

## INTRODUCTION

### Background and Authorization

In March 1991, the PEER Committee received a letter from the Veterans' Home Purchase Board (VHPB) chairman stating that the board had requested its Executive Director to prepare a written status report as to the board's implementation of recommendations contained in PEER's 1988 report entitled *An Evaluation of Loan Processing, Loan Servicing, and Management of the Veterans' Home Purchase Board*. (See Appendix A, page 7, for the chairman's letter and the board's status report.)

At its meeting of July 30, 1991, the PEER Committee authorized a limited follow-up of the board's actions. The Committee conducted the limited follow-up review pursuant to MISS. CODE ANN. Section 5-3-57 (1972).

### Method

In conducting this limited follow-up review, PEER performed the following tasks:

- analyzed the Executive Director's letter regarding the board's implementation of corrective action steps; and,
- interviewed the VHPB Executive Director.

### Overview

The Veterans' Home Purchase Board has taken positive steps to address loan processing, loan servicing, and management weaknesses identified by PEER in 1988. VHPB has computerized its mortgage processing system, improved the timeliness of loan processing, and increased the publicity of its loan program. The board has strengthened its internal accounting and processing controls, initiated requirements for escrow accounts for new loans, and improved the handling of delinquent loans. The board has also upgraded the minimum requirements and salary level of the Executive Director's position, filled that position accordingly, and employed other professionals with mortgage lending experience.

## ***PEER'S 1988 REPORT FINDINGS***

PEER's 1988 report reviewed the Veterans' Home Purchase Board's loan processing, loan servicing, and management functions. At that time, VHPB's loan processing system was unnecessarily long--six times longer than that of private lenders. The program was not adequately publicized, even though the law required all veterans to have equitable access to the program. VHPB's loan servicing system suffered from major internal control weaknesses. In addition, VHPB had failed to comply with its delinquency/collection policy, had not developed procedures for selling repossessed property, and had not accurately accounted for escrow payments. PEER noted that VHPB's weaknesses resulted primarily from the staff's lack of prior experience or training in mortgage lending. (See Appendix B, page 12, for the 1988 report's executive summary.)

## ***VHPB'S CORRECTIVE ACTION***

The Veterans' Home Purchase Board has taken positive steps to address loan processing, loan servicing, and management weaknesses identified by PEER in 1988.

### ***VHPB's Loan Processing Procedures***

The Veterans' Home Purchase Board has addressed loan processing weaknesses by computerizing its mortgage processing system, improving the timeliness of loan processing, and increasing the publicity of its loan program.

#### ***Computerized Mortgage Processing System***

The agency's primary loan processing improvement is the board's contract with Comac Financial Services, an on-line mortgage processing system located in Oklahoma City, Oklahoma. VHPB expends \$16,200 annually for its contract with Comac. The system provides VHPB with the capabilities of processing a mortgage loan from origination to final payoff through terminals located at the agency's offices. (Software for the system resides at Comac's offices.) The system generates all periodic, monthly, and annual reports necessary for VHPB's administrative handling and audit of all loans. The system also contains management and accounting controls to prevent misuse by agency personnel.

#### ***Loan Processing Timeliness***

According to VHPB's Executive Director, the agency does not utilize a borrower waiting list or pre-application step as it did in the past, unless there is a sudden inflow of veterans, such as those associated with the recent Operation Desert Storm, or in the case of the program's cash flow being less than the volume of applications. As of November 20, 1991, the agency did not have a waiting list. Because it usually does not have a waiting list, the agency analyzes and considers potential borrowers' applications for loans on a more timely basis. Because of the agency's recent mortgage processing and accounting computerization, the agency now processes routine loans within six to eight weeks, a time comparable to that of commercial lending institutions. Although VHPB's full membership continues to approve loan applications, the board now has a loan committee which considers loan applications requiring handling within short time constraints between monthly board meetings.



## *Publicity*

As part of its loan processing improvements, the board has increased its efforts to publicize the availability of loans. Specifically, the agency's Executive Director and individual board members have provided local boards of realtors with information, such as a descriptive brochure, relative to the agency's loan program for dissemination to potential borrowers. In addition, VHPB staff also participate with the federal Veterans Administration in planning and sponsoring veterans' expositions throughout the state. During such expos, veterans are made aware of benefits and programs designed especially to meet their needs. The board has also publicized the loan program through newspaper advertisements, one of which appeared as recently as November 11, 1991, in the *Clarion-Ledger*.

## **VHPB's Loan Servicing Procedures**

The Veterans' Home Purchase Board has addressed loan servicing weaknesses by strengthening its internal accounting and processing controls, requiring escrow accounts for new loans, and improving the handling of delinquent loans.

## *Internal Control Improvements*

Since PEER's 1988 report, VHPB has employed a certified public accountant to supervise its accounting staff and ensure the agency's adherence to generally accepted accounting principles. The employment of a CPA and the implementation of a computerized mortgage processing system help to assure that the agency's mortgage loan and escrow accounts are correctly recorded and reconciled on a regular basis.

## *Escrow Accounts*

According to VHPB's Executive Director, effective September 1990, all loans approved by the board contain a requirement that VHPB establish and manage an escrow account for each loan, primarily for the payment of taxes and insurance. Such a requirement will prevent situations of the past in which VHPB loans became delinquent in the payment of appropriate taxes without the knowledge of VHPB staff. The agency currently offers, at the borrower's option, to establish and manage tax escrow accounts for loans made prior to September 1990. However, the agency requires insurance escrow accounts for all loans. VHPB has also contracted with TransAmerica Real Estate Tax Service to monitor the payment of taxes for all loans, both escrowed and non-escrowed. VHPB's contract with TransAmerica costs \$53 for each new loan originated, for the

life of the loan. Because the seller pays the \$53, neither VHPB nor the purchaser incurs the expense for TransAmerica's services.

### *Delinquent Loans*

Since PEER's 1988 report, VHPB has employed an individual with mortgage institution experience to supervise the agency's collection of delinquent loan payments. The agency's computerized mortgage processing system produces an exception report each night which lists delinquent payments made the previous day. Comac furnishes VHPB staff with a complete listing of delinquent loans twice each month. The computer system also produces notices which are mailed to borrowers who are delinquent for one month. VHPB management sends a personal letter to all borrowers who remain delinquent after two months. VHPB refers loans which are delinquent for three months to the Veterans Administration for further collection efforts. For all delinquent loans, VHPB attempts to establish a payment schedule which will allow the borrower to continue making payments on the loan without defaulting entirely on the loan. Because of VHPB's improved collection efforts, the agency maintains that its 5.75% delinquency rate is approximately the same as the national average, 5%, for loans in excess of thirty days.

### **VHPB's Management**

The Veterans' Home Purchase Board has increased its level of management experience in mortgage lending. With VHPB input, the State Personnel Board upgraded the minimum requirements and salary level of the agency's Executive Director's position. After advertising the Executive Director's position in national and regional publications, the board selected and employed Ed Mittlestet as its Executive Director in February 1990. Mittlestet has bachelor's degrees in finance and accounting and twenty years of mortgage lending experience. As previously stated, the board has also employed other professionals with mortgage lending experience to direct its loan program. Reportedly, complaints from veterans have diminished significantly as a result of personnel and management improvements made by the board.

**APPENDIX A**

**LETTER FROM THE CHAIRMAN, VETERANS' HOME  
PURCHASE BOARD, CONCERNING STATUS OF THE  
BOARD'S RESPONSE TO PEER'S 1988 FINDINGS**

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**

P. O. BOX 115

JACKSON, MISSISSIPPI 39205-0115

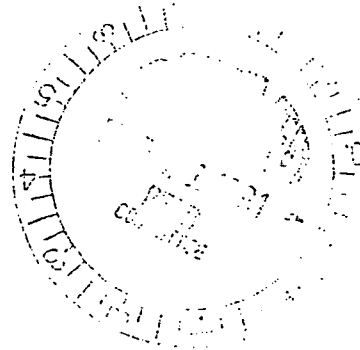
TEL. (601) 359-1070

ED MITTELSTET  
Executive Director

MEMBERS OF BOARD

SAM PROVENZA - Greenville, Chairman  
WILLIAM M. COOLEY - Jackson  
COLONEL KIRBY A. BERNICH - Biloxi  
WILLIAM L. (BILL) HENRY - Starkville  
COTTEN RUTHVEN - Jackson  
PRENTISS B. IRVING - Ackerman

March 8, 1991



Mr. John Turcotte  
Executive Director  
PEER Committee  
P. O. Box 1204  
Jackson, MS 39215-1204

Dear Mr. Turcotte:

The Board of Directors requested that the Executive Director prepare a written status report for the Board on the Veterans' Home Purchase Board from the time of the PEER Committee report of December 14, 1988 to the present time.

Enclosed is a copy of this report for your information and review.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sam Provenza".

Sam Provenza,  
Chairman

SP/eej

Encs.



STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD

P. O. BOX 115

JACKSON, MISSISSIPPI 39205-0115

TEL. (601) 359-1070

March 6, 1991

MEMBERS OF BOARD

SAM PROVENZA - Greenville, Chairman  
WILLIAM M. COOLEY - Jackson  
COLONEL KIRBY A. BERNICH - Biloxi  
WILLIAM L. (BILL) HENRY - Starkville  
COTTEN RUTHVEN - Jackson  
PRENTISS B. IRVING - Ackerman

ED MITTELSTET  
Executive Director

SUBJECT: STATUS REPORT ON VETERANS' HOME PURCHASE BOARD

PERIOD: FROM PEER COMMITTEE REPORT OF DECEMBER 14, 1988  
TO THE PRESENT (MARCH 8, 1991)

TO: BOARD OF DIRECTORS

FROM: EXECUTIVE DIRECTOR

As a result of a Peer Committee report in December, 1988 and other internally observed deficiencies, the Board of Directors on May 26, 1989 by resolution declared a state of emergency existed with regard to the operation of the board. The problem had arisen over a period of years primarily due to a succession of executive and acting executive directors who had little knowledge of banking and finance, accounting, and computer operations.

On the same date the board declared the emergency it requested the immediate help of other state government agencies in order to identify the specific problems and to resolve them. A committee was formed, consisting of the members of the board and key personnel from other state organizations, including the Peer Committee, Central Data Processing Authority, the State Personnel Board, and the State Auditor's office.

Because of the seriousness of the situation and the Board member's concern that the VHPB was not then able to function on a routine level, the committee in its first meeting recommended that a team of independent auditors be brought in immediately. The board agreed with the recommendation and for a temporary time placed the day to day management of the VHPB under the direction of the team of independent auditors. In addition to monitoring the routine functioning of the VHPB, the independent auditors were assigned the tasks of balancing the books and investigating the agency on a day to day basis to identify specific problems.

For a period of three to four months, the committee continued to meet and make further recommendations for resolving the problems. Among other things the board requested that the state audit department conduct an expedited audit

of VHPB to determine compliance with state audit procedures. Additionally, with the cooperation of the Central Data Processing Authority, the computer data processing system was thoroughly examined and outside computer consultants brought in to retrain and recertify employees on use of the equipment and programs.

Upon completion of the state and independent audit and implementation of their recommendations as to day to day functioning, the board made the determination that the VHPB had achieved the ability to operate on a day to day basis, and authorized the VHPB to do so under the direction of John Fulton as Acting Director.

In order to achieve more than just being able to function on a day to day basis and to insure that mistakes of the past would not recur, the board and the acting director with the help of the independent auditor team entered into discussion with the State Personnel Board to upgrade the requirements of the executive director position, to insure that any future director would be required to have a solid background in finance, banking, accounting and computers in addition to management and leadership ability. In addition, the discussions with the State Personnel Board resulted in approval of a reorganization which eliminated unneeded personnel and reclassified other personnel and job descriptions to reflect actual training and experience levels.

Immediately upon approval by the State Personnel Board of the upgraded requirements for executive director (and an increase in salary level to attract qualified applicants) the board began a search to fill the position. The search was extensive, but centered in the southern United States, with ads placed in newspapers in Jackson, Birmingham, Atlanta, Dallas, and Oklahoma City and in national employment and trade journals. Fifty-eight applications were reviewed and interviews were conducted with five persons considered most qualified. The new executive director who holds bachelor of science degrees in both accounting and banking and finance, and has an extensive background in mortgage banking began work in February of 1990.

Since that time, the following additional corrective procedures have been implemented:

In March of 1990 in light of the fact that few of the Board employees had any experience in loan collection or servicing (which had created severe problems in delinquencies and accounting) Bonnie Hemby was recruited from a local bank to take over the loan servicing duties. At present, she has succeeded in lowering the delinquency ratio on loans over 30 days delinquent from 18% to the 5% range. In addition, all VA reporting requirements are being met in a timely manner and the staff is complying with the boards delinquent loan policy and procedures. Claims have now been filed on over twenty loans with the VA that were foreclosed during 1988-89 and should have been filed then.

In July, 1990, Tom Boyles, a Certified Public Accountant with many years experience in mortgage loan accounting was hired. His hiring plus the addition of another person with an accounting degree, has enabled the agency to insure that generally accepted accounting principles are being followed and that mortgage loan accounts and escrow accounts are being reconciled on a regular basis.

Due to reorganization and elimination of unneeded personnel together with increased efficiency, the addition of the above mentioned highly qualified personnel has not increased the number of people employed by the board nor has it increased the expenditures of the board. For the first six months of FY 1991, the Board was 15.9% under budget. During the same time arrangements made in April of 1990 with the state treasurer to insure that all VHPB funds on deposit with the state draw interest as required by law, has produced an average of \$23,636 per month.

A concerted effort has been made to publicize and disseminate information about the VHPB program throughout the state in order to make all veterans aware of the benefits available to them. A brochure has been printed and thousands of copies have been made available through mailouts to all county veteran's service officers, distribution at each and every VFW, American Legion, and DAV state wide conference of the past year and through individual distribution by the staff and board members. In addition, a program has been developed where the regular board meetings have been held on a rotating basis at various cities throughout the state. Among those in the past year have been Starkville, Biloxi, Natchez, Oxford, and Southaven. At the Southaven and Natchez meetings, prior to the Board meeting, a meeting was held with local realtors to explain the program so they in turn can advise eligible veterans of the benefit. Additionally, brochures have been furnished to the Mississippi Board of Realtors, mailed to each member of the Jackson Board of Realtors (with plans to do likewise for other metropolitan areas in the future if the response in the Jackson area is significant) and made available through Keesler Air Force Base to all retirees and personnel being discharged. Future plans are to make the same available to Columbus Air Force Base and Meridian Naval Air Station. Finally, as recently as March 4, we have received a television spot filmed for us by the Governor which we intend to have aired on all television stations in Mississippi in time for the arrival home of all Mississippi Desert Storm veterans.

The accounting staff is currently evaluating bids on a mortgage loan data processing system to further enhance the agency ability to provide quality service and to enhance the ability to handle the increased number of loans we anticipate resulting from increased veteran eligibility as a result of desert storm.

According to the Peer review, dated December 14, 1988, the processing time for a VHPB loan averaged 281 days. The past year has seen a dramatic improvement in the time necessary to process a mortgage loan from date of application to actual closing. We currently have the ability to reduce the processing time to an average of 6-8 weeks for a typical loan. The Board also set up a loan committee that has the authority to approve loans in-between regular monthly board meetings.

Since August of 1990, the VHPB has had no "waiting list" for loan processing. Applications for home loans are being processed on an immediate basis.

As of February, 1991 all new loans are now required to have an escrow account for real estate taxes. Current plans anticipate that the remaining loans in the portfolio will be required to have and converted to tax escrows by January 1, 1992.

Last but far from least, there has been a 100% change for the better in the morale of the staff in the past year which is evidenced by mutual cooperation and respect. As a direct result, there has been a drastic drop in customer (veteran) complaints.

In conclusion, while there are always things we can do to improve our service to the veterans of Mississippi, I am satisfied that we are currently running the program as intended by the state legislature, with direction from the Board of Directors and strictly complying with state laws.

  
Ed Mittelstet  
Executive Director

## **APPENDIX B**

### **EXECUTIVE SUMMARY, PEER'S 1988 REPORT ON VETERANS' HOME PURCHASE BOARD**

#### **Background**

The Mississippi Legislature established the Veterans' Home Purchase Board (VHPB) in 1936 for the purpose of rehabilitating and rewarding the state's veterans by making available to them mortgage loan money at rates equal to or less than the rates on VA-guaranteed loans. Because of the constitutional prohibition against the state's loaning its credit in aid of any person (MISS. CONST. of 1890, art. 14, Section 258), VHPB purchases the property from the seller, then resells the property on credit to the purchaser. In all other respects, the agency operates a traditional loan business.

Prior to this review, the PEER Committee and its predecessor, the General Legislative Investigating Committee, released three reviews of VHPB. Accusations of unfairness in the loan approval process prompted each of these reviews. The PEER staff found that the board's lack of consistency and written policy in critical areas (e.g., when to open the application process, how to distribute the funds); the board's failure to make the program known to all veterans; and the board's approval of numerous loans to friends, relatives, and public officials created the appearance that the board and staff manipulate the program for the benefit of certain applicants.

The PEER Committee authorized this review of VHPB's loan process in response to a complaint that the application approval process takes too long and does not identify, on a timely basis, applicants who are ineligible to participate in the program.

#### **Overview**

While VHPB has made approximately 12,000 mortgage loans since its inception (i.e., served 5% of the state's veteran population of 234,500), it could have served many more veterans and could have better served those veterans who received VHPB mortgage loans.

Although VHPB's limited funding restricts the number of veterans that the agency can serve, VHPB

has not maximized the use of the limited funds that it does have nor aggressively pursued additional revenue sources available to the agency through its own statutes. The attitude of the VHPB board and staff, expressed to PEER on many occasions, is "we're in this to help the veteran, not to make a profit." This attitude, combined with poor program publicity, results in a few veterans obtaining an exceptionally good mortgage package (i.e., extremely competitive interest rates and no points), while the vast majority does not participate in the program.

VHPB could have better served those veterans who received mortgage loans by making loans to them on a more timely basis. Also, VHPB has a poor record of servicing loans, which has resulted in unnecessary client frustration and, in some cases, excessive loan payments.

The major factor affecting VHPB's performance in serving the state's veterans is the complete absence of management personnel experienced in mortgage lending. In the private sector, such lack of experience in a successful mortgage loan company rarely exists. In addition to the direct effects, lack of experience indirectly affects client service through the resulting poor morale evident throughout the agency.

#### **Evaluation of VHPB Loan Processing**

***VHPB takes an average of 281 days, over six times longer than private VA lenders, to process a mortgage loan.***

According to the Veterans' Administration and VA lenders in the Jackson area, private VA lenders average forty-three days to process and close a guaranteed home loan. Based on PEER's random sample of VHPB loans, PEER concludes that VHPB averages 281 days to process and close a mortgage loan (222 days for existing houses and 376 days for proposed construction). The primary reasons for delays in VHPB loan processing include: limited funding; reversal of the home buying process; lack of personal contact with the veteran during completion of the application form and loan closing; the requirement that the VHPB board approve all applications; liberal policies governing loan



closing deadlines; delayed group processing without verification of continued program interest; reserving funds for proposed homes; and failure to computerize the loan processing function.

***Because VHPB does not have a formal mechanism for updating its policies and procedures, in several instances the agency's policies contradict the statutes and policy changes recorded in the board minutes.***

On June 30, 1983, VHPB published its first set of written policies and procedures. Despite changes in statutes and policies, VHPB had not, until September 3, 1988, updated its written policies and procedures since they went into effect. PEER determined that the update was not comprehensive and in some cases resulted in conflicts between VHPB's statutes and policies.

***Inadequate oversight over the processing of non-guaranteed mortgage loans increases the potential for the approval of bad mortgage loans.***

At present, the only oversight over non-guaranteed loans is a cursory review of the loan analysis forms by the board at each of its meetings. The board does not review the applicant's file or re-order any of the documents contained therein; therefore, its review is a "rubber stamp" of the loan officer's recommended loan approval. As a result of this process, a greater potential exists for issuing a bad loan through misrepresentation or mistake.

***Because VHPB does not adequately publicize and disseminate information about its mortgage loan program, many eligible veterans do not know of the agency and, therefore, do not have an equal chance of obtaining a VHPB loan.***

Based on responses to PEER's survey of real estate agents and veteran service officers and contact with veterans and the state's Veterans' Affairs Board, VHPB's publicity efforts are not sufficient. Of the respondents to PEER's survey, forty-nine percent of the realtors and twenty-seven percent of the veteran service officers had never heard of VHPB. Further, of those who had heard of VHPB, forty-three percent of the realtors and twenty-five percent of the veteran service officers specified the need for more information about VHPB's mortgage loan program.

***Although required to do so by statute, VHPB does not monitor mortgage loan application and purchase distribution throughout the state.***

MISS. CODE ANN. Section 35-7-15 requires VHPB to "monitor application and purchase distribution throughout the state." VHPB does not comply with this statutory mandate. VHPB keeps no record of the geographical distribution of applications. With regard to closed loans, VHPB staff keeps a record of approved loans by county, but does not use the data to analyze loan distribution.

### ***Recommendations***

1. VHPB should make efforts to equate mortgage loan money supply with mortgage loan money demand. The agency could accomplish this by increasing the supply of loan funds and/or decreasing the demand for loan funds based on methods recommended in this report (see pages 19 through 20).
2. VHPB should abolish group mailouts of loan applications without verification of continued program interest and develop a system whereby the agency earmarks future available funds for individuals currently applying for a loan.
3. VHPB should encumber future funds when financing a proposed construction mortgage loan rather than setting aside present funds for an average of 174 days.
4. VHPB should request CDPA's Bureau of Systems Policy and Planning to prepare a proposal for a bureau study of system requirements to automate its loan application /approval process.
5. In order to eliminate the delay in obtaining board approval of VHPB loan applications, the board should delegate loan approval authority to its Executive Director. The board should set general policy and criteria for loan approval and should function as an appeals body to hear grievances concerning the loan process. Periodically, as frequently as board policy requires, the board should post-audit approvals and denials for compliance by the Executive Director.
6. VHPB should designate staff to answer questions concerning completion of its mortgage loan application forms. VHPB should consider setting appointments with applicants who have difficulty in completing the forms.

7. VHPB should institute a formal procedure for updating its policies and procedures per changes in VHPB statutes and board policy. Also, the board should ensure that its policies do not contradict VHPB statutes.
8. VHPB should distribute copies of its "Operating Policies, Rules, and Criteria" to all board members and staff.
9. VHPB should audit its non-guaranteed loans by following VA's procedure for auditing guaranteed loans.
10. VHPB should publicize its program statewide through efforts such as media advertisements and periodic mailouts.
11. VHPB should monitor its loans as described in MISS. CODE ANN. Section 35-7-15 (1972).
12. VHPB should employ remedies authorized by MISS. CODE ANN. Section 35-7-15 (1972) to ensure statewide accessibility to VHPB loans.

### ***Evaluation of VHPB Loan Servicing***

#### ***VHPB's loan servicing procedures violate accepted internal accounting controls relative to recording, reconciling, and safeguarding of assets.***

Generally accepted accounting principles require an organization to properly record its transactions, reconcile its assets, and safeguard its assets. PEER concludes that VHPB has failed to comply with each of these principles. In interviews with VHPB staff, PEER determined that the agency's loan accounting personnel have periodically overridden the automatic features of VHPB's computerized mortgage loan accounting system on several occasions and have incorrectly posted payments in order to "help the veteran." In several instances, VHPB's failure to properly record loan transactions has, in effect, increased the outstanding loan balances of mortgagors' accounts. PEER also determined that the VHPB accounting staff does not reconcile on a periodic basis mortgagors' subsidiary loan records with the general ledger. By failing to reconcile these records, there is no assurance that VHPB accounting personnel have properly classified payments made by mortgagors (e.g., to principal, interest, and escrow accounts). During the fieldwork phase of this project, PEER located three checks from veterans totaling \$633.44 which the VHPB staff had not processed and deposited into the bank. One of the checks was dated December 7, 1984.

#### ***In violation of Section 35-7-31, VHPB has not established a separate account for escrow payments for mortgagor insurance premiums.***

State law requires VHPB to maintain an account separately for all escrow items such as insurance premiums, taxes, and appraisal fees. In violation of state law, VHPB has not established a separate state treasury account for these items. Instead, VHPB commingles escrowed funds with routine mortgagor payments in the agency's state treasury revolving fund.

#### ***Due to VHPB's failure to escrow for mortgagor property taxes payable, one mortgagor's property has been sold at a tax sale.***

Although authorized to do so in MISS. CODE ANN. Section 35-7-31, VHPB does not escrow for property taxes payable. PEER determined that VHPB does not have established policies or procedures to ensure that property tax payments for VHPB properties are current. According to VHPB records, at least one parcel of property financed by VHPB was sold for failure of the mortgagor to pay county taxes. The property was purchased at a tax sale held on April 7, 1986, and vested to the purchaser on April 7, 1988. At the time of the sale on April 7, 1986, the veteran was twenty-eight months delinquent in his loan payment with no action taken by VHPB to foreclose on the property. Currently, the Attorney General's office is working on VHPB's behalf to try and negotiate a settlement with the new owner for the return of the property to VHPB.

#### ***VHPB staff has failed to comply with the board's delinquent loan policies, thereby depriving the agency of funds to loan other veterans.***

According to VHPB's "Operating Policies, Rules, and Criteria," the agency follows VA guidelines regarding delinquent loans. The board's policies require foreclosure proceedings to begin when an account is in default for any reason for three or more regular payments. Based on an analysis of VHPB's delinquent loan printout and interviews with VHPB staff, PEER concludes that the VHPB does not comply with its foreclosure policies. VHPB's delinquent loan printout shows that the agency had 445 delinquent loans (eighteen percent of VHPB's 2,468 active loans) as of August 18, 1988. The agency had eighty-eight loans delinquent more than ninety days. One loan was delinquent fifty-six payments. PEER could not locate written documentation showing that the agency had made contact with delinquent mortgagors.

***VHPB does not place repossessed property on the market to be sold because it has no procedure for doing so.***

When the VA does not bid on a VA-guaranteed property that VHPB has foreclosed on, VHPB directs its attorney to take bids on the property starting at the amount due on the loan. If no one bids at this minimum amount, title to the property reverts to VHPB. VHPB has no procedure for selling such property. Currently, VHPB holds title to three foreclosed properties with outstanding mortgage loans totaling \$57,143.

### ***Recommendations***

1. VHPB should install features on its computer to prevent unauthorized overriding of the automatic payment distribution function. Only the Director of the Accounting Department should be allowed to override the automatic distribution.
2. VHPB should implement procedures to properly account for all loan subsidiary ledgers (e.g., escrow, principal, late fees) for each of the individual mortgagors' accounts. These amounts should then be reconciled to the general ledger as soon as possible in order to make an accurate determination of what is on the books. Furthermore, confirmation of all reconciled account balances to each individual with a VHPB loan should be made to ensure that VHPB has not altered the amounts.
3. A single individual with no other control functions (e.g., the receptionist) should open all mail. This individual should list all payments received, both checks and cash, before routing the mail to the various personnel. Each day, VHPB's Accounting Director should match the total bank deposit to receipt list in order to ensure that the staff deposits all payments received.
4. VHPB should establish a separate treasury account for escrow payments (e.g., mortgagor insurance premiums and appraisal fees).
5. VHPB should escrow for taxes and remit tax payments to appropriate collection agencies on a timely basis.
6. VHPB should strictly adhere to VA guidelines regarding servicing actions on all delinquent accounts.
7. VHPB should make a folder for all accounts over thirty days delinquent containing documentation of all collection efforts, including telephone calls.

8. VHPB should initiate foreclosure procedures for all non-VA-guaranteed properties over three payments delinquent, or in the case of a forbearance due to hardship, initiate foreclosure immediately upon determination that the mortgagor will not be able to meet the mortgage obligation.
9. VHPB should comply strictly with VA reporting requirements governing delinquent VA guaranteed loans.
10. VHPB should place repossessed properties on the market and use the funds generated from the sales to fund additional loans.

### ***Evaluation of VHPB Management***

***Although VHPB is in effect a mortgage loan company, none of its employees have prior experience or formal training in loan processing or servicing.***

The consequences of lack of experience and training among VHPB personnel are obvious accounting errors, failure to maximize revenues available for mortgage loans, and perception among some realtors and mortgage lenders that the VHPB staff does not know what it is doing. The reasons that VHPB personnel do not have appropriate experience are that the State Personnel Board's minimum qualifications for VHPB positions are too lax and the Veterans' Home Purchase Board (whose members have no mortgage lending experience themselves) has not been aggressive in recruiting and hiring individuals with backgrounds in mortgage lending.

***Although VHPB's statutes direct all interest earned on any investment of VHPB funds and funds escrowed by VHPB to accrue to VHPB's revolving fund, the agency has not ensured that the Treasurer comply with these provisions.***

VHPB has not requested the Treasurer to comply with MISS. CODE ANN. Sections 35-7-31 and 35-7-45, which direct all interest earned on VHPB's funds to accrue to its revolving fund. Therefore, the agency has earned no interest on its mortgage or escrow funds.

### ***Recommendations***

1. VHPB should request and the Personnel Board should provide technical assistance in the development of revised job descriptions and validated minimum qualifications for all VHPB state-service positions. The minimum qualifications should re-

flect the necessary level of education and experience required to effectively manage and operate a mortgage lending program.

2. The Legislature should amend MISS. CODE ANN. Section 35-7-7 to require that the Executive Director of VHPB have a minimum of nine years of experience in the field of mortgage lending.
3. The State Personnel Board should review VHPB salaries to bring them in line with the relevant labor market. During fiscal year 1988, VHPB had the legal authority to expend an additional \$121,792 on administration, which includes salaries.
4. The Veterans' Home Purchase Board should aggressively seek qualified job applicants by precisely defining "related experience," and specifically stating these minimum requirements in all position advertisements.
5. VHPB's Executive Director should develop an aggressive mortgage lending training program for existing personnel. For example, the director should investigate the possibility of employees attending training seminars conducted by local private mortgage lenders.
6. VHPB should immediately request the Treasurer to credit all interest earned on VHPB funds to the agency's account.

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## PEER Staff

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### Director

John W. Turcotte  
Janet Moore, Administrative  
Assistant

### Administrative Division

Steve Miller, General Counsel  
and Controller

Betty Heggy  
Ann Hutcherson  
Debbie Woods

### Planning and Support Division

Max Arinder, Chief  
Analyst

Sam Dawkins  
Patty Hassinger  
Larry Landrum  
Kathleen Sullivan  
Linda Triplett  
Ava Welborn

### Operations Division

James Barber, Chief  
Analyst

Aurora Baugh  
Ted Booth  
Barbara Hamilton  
Susan Harris  
Kelly Lockhart  
Danny Miller  
David Mitchell  
Angela Sallis  
Katherine Stark  
Larry Whiting

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