

GAO

Briefing Report to Congressional Requesters

November 1986

HOUSING PROGRAMS

Information on HUD's Decision to Close Its Springfield, Illinois, Office



131756



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Resources, Community, and
Economic Development Division

B-224974

November 10, 1986

The Honorable Alan J. Dixon
United States Senate

The Honorable Paul Simon
United States Senate

The Honorable Richard J. Durbin
House of Representatives

Your May 7, 1986, letter requested us to review the Department of Housing and Urban Development's (HUD) decision to close its field office in Springfield, Illinois, effective August 2, 1986. Specifically, we agreed with your offices to determine how HUD decided which offices to close, assess the completeness and accuracy of the information on which the decision to close the Springfield office was based, and determine what impact the closing will have on borrowers obtaining HUD-insured loans. On September 10, 1986, we briefed you on the results of our work. This briefing report summarizes the information that we provided during our meeting.

In summary, we found that:

- HUD had no written procedures for determining which offices to close. In making its decision, HUD considered the number of applications received by the offices in fiscal years 1984 and 1985, the average distance that lenders would have to travel to the next closest alternate office, whether the office had any excess employees, and the recommendations of the respective HUD regional managers and program officials. HUD did not consider increasing the efficiency of the offices by eliminating excessive positions while keeping the offices open.
- Based on our analysis, the cost-benefit analysis HUD published in the Federal Register understated the potential cost of closing the Springfield office by over \$37,000. The benefits HUD claimed in the analysis are uncertain because of inadequacies in HUD's estimate of salary savings and travel costs.
- We were told by lenders that regular processing time for loans could increase from an average of 30 days in

Springfield to over 120 days in Chicago because the Chicago Regional Office gives priority to loans made under HUD's Direct Endorsement Program, which is not used extensively by lenders in the Springfield area. Under the Direct Endorsement Program, lenders, not HUD staff, process loan applications and endorse these loans for the federal government. As a result of the increased processing times, lenders who previously used the Springfield office stated that they have decreased their use of HUD-insured loans, and a few told us that they do not plan to make HUD-insured loans in the future.

In addition, we found that HUD realized its original cost-benefit analysis was in error because it did not include several Chicago Regional Office employees permanently assigned to the Springfield office. As a result, HUD revised its cost estimates as depicted in table 2.1. However, it did not publish the revised estimates in the Federal Register. While we do not believe that HUD was legally required to publish the revised estimate, by not doing so, the Congress and public were not as fully informed as they could have been.

Section 1 of this briefing report discusses HUD's methodology for determining which offices to close. Section 2 discusses HUD's cost-benefit analysis and includes our opinion on the legality of HUD's failure to publish its revised cost-benefit analysis in the Federal Register. Section 3 discusses the workload and available staff years for the Chicago Regional Office. Section 4 discusses the amount of loan processing time required by the Springfield and Chicago offices before the closing and shows the trend of HUD loan activity in the southern Illinois area over the period from January through August 1986.

We conducted our study between June and October 1986. In performing our work, we obtained information from HUD headquarters officials on the methodology HUD used to determine whether offices should be closed. To determine the accuracy and completeness of the information HUD used in a cost-benefit analysis of the office's closing, we analyzed HUD's supporting documentation and interviewed officials representing its headquarters, Chicago, and Springfield offices. We also interviewed six southern Illinois lenders, four realtors and one realty association to determine the impact the office's closing would have on them and their geographic area. We judgmentally selected these lenders and officials from among those who commented in letters to HUD opposing the Springfield closing. Also, during our work we obtained the views of HUD employee union officials on the closing and determined whether there was a legal requirement for HUD to publish its revised cost-benefit analysis in the Federal Register. Publication of cost-benefit analyses

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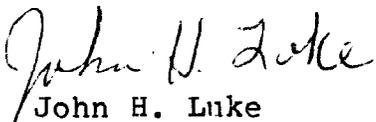
for office closings is required to show the estimated savings and impact on quality of service that will result from the closing.

The views of directly responsible officials were sought during the course of our work and are incorporated in the report where appropriate. In accordance with your wishes, we did not request HUD to review and comment officially on a draft of this report.

We are sending a copy of this report today to Congressman Robert H. Michel, who also asked us to look into the Springfield office closing. As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from the date of this letter. At that time we will send copies to interested parties and make copies available upon request.

Should you need additional information on the contents of this briefing report, please call me at (202) 275-6111.

Sincerely yours,


John H. Luke
Associate Director

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ABBREVIATIONS

FHA	Federal Housing Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

SECTION 1

METHODOLOGY USED BY HUD TO DETERMINE
WHICH FIELD OFFICES TO CLOSE

Table 1.1: Methodology Used by HUD to Determine Which Offices to Close

Office	Current status	Applications received		Average Increase (decrease) in distance to next nearest office ^a	At least one position in excess?
		FY 84	FY 85		
Fargo, ND	Open	1,958	3,575	228	Yes
Sioux Falls, SD	Open	2,496	3,128	131	Yes
Topeka, KS	Closed	1,084	2,606	59	Yes
Springfield, IL	Closed	1,154	2,361	(1)	Yes
Casper, WY	Open	2,139	2,141	57	Yes
Bangor, ME	Closed	1,146	1,980	131	Yes
Wilmington, DE	Closed	518	741	21	Yes
Burlington, VT	Closed	38	185	7	Yes

^aIn computing the average increased distance to the next nearest HUD office, HUD assumed that lenders will use the "lender option." Under this option, lenders can submit single-family applications to the HUD office nearest the property, rather than observing the jurisdictional boundaries of HUD field offices. For example, in the Springfield calculation, HUD assumed that lenders who previously used the Springfield office could use the St. Louis, MO, Indianapolis, IN, or Chicago, IL, offices. HUD calculated the average distance that lenders in 23 Illinois cities would have to travel to the closest of the alternate offices. HUD arbitrarily chose the 23 cities from an atlas of the state of Illinois. HUD compared this distance to the average distance that lenders in these cities traveled to the Springfield office and determined that the average distance to the alternate offices was 1 mile less than the average distance to Springfield.

Source: HUD data.

METHODOLOGY USED BY HUD TO DETERMINE
WHICH FIELD OFFICES TO CLOSE

In 1985, HUD decided to close five of its eight field offices that primarily issue HUD-insured single-family housing loans through HUD's Federal Housing Administration (FHA). As of October 1986, HUD had closed its Springfield, Illinois; Topeka, Kansas; Bangor, Maine; Burlington, Vermont; and Wilmington, Delaware, offices. HUD decided not to close the Fargo, North Dakota; Sioux Falls, South Dakota; and Casper, Wyoming, offices.

HUD officials told us that they considered several factors to determine which offices to close. However, HUD had no written procedures for determining which offices to close. HUD used the number of FHA loan applications received by each field office as the primary factor for determining the offices to close. HUD also considered the distance that lenders who previously used an office would have to travel to the next nearest HUD office as well as the recommendations of the affected regional managers and program officials. Further, an office was not considered for closing unless it had at least one position that HUD considered to be excessive.

- HUD considered the workload of the eight offices in deciding which ones to close. The Fargo, Sioux Falls, and Casper offices that were kept open were the three offices that received the greatest number of loan applications for fiscal years 1984 and 1985 combined.
- When HUD originally considered the workload of the Springfield office, it did not include the additional work performed in the office by several outstationed employees. The outstationed staff were employees of the Chicago Regional Office who were located in the Springfield office. The outstationed staff performed work related to multifamily loan management, home improvement loan insurance (title I), and single-family property disposition for the southern Illinois area. The seven other offices considered for closing did not perform these functions.
- Another factor used was the distance that lenders would have to travel to the next nearest HUD office. According to a HUD official, the Casper office was kept open because HUD believed there was an inadequate transportation system in Wyoming and surrounding areas, which would make travel to the next nearest HUD office difficult for lenders. The HUD official, however, was not able to provide us any details or documentation on

why the transportation system was inadequate or how it compared to transportation systems in other areas in which HUD offices were closed.

- A HUD headquarters official also told us that HUD considered recommendations from HUD regional managers of HUD's affected offices. HUD could provide us with no documentation on these recommendations but told us that the Chicago Regional Manager favored the Springfield office closing. HUD also said that the Denver Regional Manager, who oversees the Fargo, Sioux Falls, and Casper offices, strongly opposed the closing of these offices because of the high quality of service they provided and their distance from the next nearest HUD office.
- According to a HUD official, all field offices considered for closing had at least one position which was excessive on the basis of the office's workload.

HUD did not consider increasing the efficiency of the offices by eliminating excessive positions while keeping the offices open. A HUD official stated that the decision to close offices was based on the assumption that an office that required more staff than justified by its workload should be considered for closing.

SECTION 2

HUD'S COST-BENEFIT ANALYSIS ON THE CLOSING
OF THE SPRINGFIELD OFFICE

Table 2.1: Cost-Benefit Analysis: Costs of Closing
the Springfield Office

	HUD's original estimate ^a	HUD's revised estimate	GAO's estimate of actual costs
Relocation	\$ 75,000	\$ 25,000	\$ 21,845
Severance	2,600	87,750	39,502 ^b
Unemployment compensation	3,200	25,155	20,644 ^b
Accumulated leave	2,750	25,350	35,445
Furniture/ equipment movement	2,025	675	5,463
Toll-free phone service	<u>13,200</u>	<u>13,200</u>	<u>13,468</u>
Total costs	<u>\$ 98,775</u>	<u>\$ 177,130</u>	<u>\$ 136,367</u>

^aCosts estimated as of December 16, 1985.

^bIf the Springfield employees receive all of the payments for which they are eligible, the total amount of the severance payments to the employees would be \$39,502. The total amount of the unemployment compensation payments would be \$20,644.

Source: HUD data.

HUD'S COST-BENEFIT ANALYSIS ON THE CLOSING
OF THE SPRINGFIELD OFFICE

HUD's original estimate

In the December 16, 1985, Federal Register notice (December 16, 1985, Vol. 50, No. 241, p. 51310), HUD estimated the one-time cost of closing the Springfield office to be \$98,775. In the cost-benefit analysis included in the notice, HUD assumed that three of the eight Springfield employees would relocate to Chicago, two would separate from HUD, and three would retire.

- HUD assumed that the relocation costs for the three employees relocating to Chicago would be approximately \$25,000 each.
- HUD assumed that two employees separating from HUD would each receive severance pay of about \$1,300 and unemployment compensation of about \$1,600 each.
- HUD assumed that five employees would receive approximately \$550 each in payments for their accumulated leave.
- HUD's estimates for furniture/equipment movement and phone service totaled \$15,225.

Severance and unemployment compensation are partially based on the individual employees' salaries. However, HUD did not use the Springfield employees' actual salaries to determine its estimates. Instead, HUD used the national averages from its study of a 1983 HUD nationwide reduction-in-force, which monitored payments for severance, unemployment compensation, and accumulated leave to 40 individuals who had been released by HUD. A HUD official told us that HUD used these averages because it wanted to avoid the appearance of "targeting" individual Springfield employees as those who would be the ones to receive severance and unemployment compensation, rather than the ones who would transfer to the Chicago Regional Office.

HUD's revised estimate

Several individuals made written responses to HUD's cost-benefit analysis in the Federal Register. They said that HUD had neglected to include in its analysis several outstationed employees who worked in the Springfield office. HUD then revised its original cost-benefit analysis to include these outstationed employees and revised its estimates of relocation, severance, unemployment compensation, and accumulated leave costs.

- HUD revised its relocation cost estimate to reflect that one Springfield employee, rather than three, would relocate to Chicago.
- HUD also increased its severance, unemployment compensation, and accumulated leave estimates to reflect what it believed to be the maximum possible costs to HUD. HUD used a higher estimate of what each employee would receive in severance, unemployment compensation, and accumulated leave payments and assumed that a higher number of Springfield employees would receive these benefits. These higher estimates increased the total one-time estimated cost of closing the office from \$98,775 to \$177,130.
- HUD officials notified the Secretary of HUD of the revised estimates before he made his final decision to close the offices. However, HUD did not publish its revised cost-benefit analysis in the Federal Register for public comment because it believed that a second publishing was unnecessary. (See p. 17 for a discussion of the legality of HUD's decision not to publish its revised estimates.)

GAO's estimate of actual costs

GAO collected the actual costs for relocation, accumulated leave, furniture/equipment movement, and phone service. We also obtained the maximum severance and unemployment compensation payments that could occur. Table 2.1 shows that HUD's original estimates of severance, unemployment compensation, and accumulated leave payments were lower than our estimate of the costs but that HUD overestimated relocation costs. Severance payments were underestimated by \$36,902. In HUD's original calculation of severance payments, it assumed that the two employees receiving the payments would be lower-graded employees. HUD used the study data from HUD's 1983 reduction-in-force to compute the average severance payment liability of GS-7s (salary approximately \$17,800) and below who had been included in the study. However, the average salary of the Springfield employees was over \$25,000 and the average years of service was over 23 years, which would result in these employees receiving a larger severance pay.

HUD officials told us that they also used the study to obtain their original estimates of the unemployment compensation and accumulated leave payments. However, they were unable to explain how they used the study to arrive at their estimates. HUD's original analysis underestimated unemployment compensation payments by \$17,444 and underestimated leave payments by \$32,695. Since one Springfield employee rather than three transferred to

the Chicago Regional Office, HUD overestimated relocation costs by \$53,155. GAO's estimate of the total cost of closing the Springfield office was \$136,367, which was \$37,592 more than HUD's original estimate published in the Federal Register.

By comparing GAO's estimate of the actual cost of closing the office to HUD's revised estimates, the table shows that HUD's revision overestimated severance and unemployment compensation payments and underestimated accumulated leave payments. HUD overestimated severance payments by \$48,248 and unemployment compensation by \$4,511 and underestimated the leave payments by \$10,095. HUD's revised estimate of the total costs of closing the office was \$40,763 higher than GAO's estimate of the actual total costs.

Table 2.2: Cost-Benefit Analysis: Annual Savings From Closing the Springfield Office

	HUD's original estimate	HUD's revised estimate	GAO's estimate of actual savings
Salary/benefits ^a	\$160,500	\$160,500	\$0 to 160,500
Space rental	20,470	20,470	20,470
Communication and ADP services	13,516	13,516	14,709
Equipment rental	4,800	4,800	4,800
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total savings	\$204,286	\$204,286	\$44,979 to \$205,479
Less:			
Increased travel costs	<u>(1,500)</u>	<u>(1,500)</u>	<u>(0 to 60,000)</u>
SUMMARY			
Net savings	<u>\$202,786</u>	<u>\$202,786</u>	<u>\$205,479 to</u> <u>(\$15,021)^b</u>
Recovery period (months)	5.85	10.48	7.96 to no recovery

^aBased on eliminating five positions. Estimates are based on an annual salary cost per position of \$32,100, which was the fiscal year 1985 national average salary for field employees.

^bThe actual net annual savings will depend on the actual salary savings and increase in costs due to travel.

Source: HUD data.

ANNUAL SAVINGS FROM CLOSING THE SPRINGFIELD OFFICE

In the Federal Register, HUD originally estimated that it would save \$202,786 annually from closing the Springfield office and that it would recover these costs in 5.85 months. Most of the annual savings were attributed to eliminating five of the eight positions in the Springfield office, since HUD determined earlier that it would need only three of the Springfield positions in Chicago to handle the Springfield workload. HUD calculated that eliminating these five positions would save \$160,500 annually. HUD also estimated that \$1,500 would be needed annually for necessary on-site visits to cities in the southern Illinois area.

In HUD's revised analysis, the annual savings figure remained at \$202,786 because including the outstationed employees in the cost analysis did not alter the fact that HUD planned to eliminate five positions. However, since one-time costs of closing the office increased from \$98,775 to \$177,130, the number of months needed to recover the costs nearly doubled, from 5.85 months to 10.48 months.

The actual annual savings is greatly affected by the five positions that HUD says will be eliminated and the costs related to travel to the southern Illinois area.

- Although HUD says it will save \$160,500 annually by eliminating 5 of the 14 Springfield positions, HUD headquarters officials could not document that these positions were actually eliminated. They stated that the elimination of the positions will not be documented until HUD receives its staff-year allocation from the Office of Management and Budget in late 1986. Further, HUD did not consider increasing the efficiency of the office by eliminating the 5 positions while keeping the office in Springfield.
- HUD may have significantly understated operating cost increases related to additional travel to the southern Illinois area. HUD headquarters staff told us that they arbitrarily determined travel-related expenses without contacting either the Chicago or Springfield HUD offices. We were unable to obtain documented travel cost estimates, but estimates obtained from Chicago Regional Office officials ranged from no increase to \$60,000 per year in additional costs.
- A main reason for this difference in estimates relates to the level of service to be provided. Some Chicago HUD

officials said that if Chicago continues to provide the same level of service that the Springfield office provided, travel costs will increase substantially more than HUD's original estimate of \$1,500 per year. Likewise, they said that the quality of service to the southern Illinois area will decrease if travel costs are kept at \$1,500 per year or less.

- Other Chicago HUD officials said that the Chicago HUD office will not incur additional travel costs associated with the Springfield office closing. These officials believed that the Springfield staff made unnecessary trips which the Chicago staff would avoid. These officials contend that this decrease in service will decrease only the level of personalized service to southern Illinois lenders. These officials also contend the Chicago office will provide service through telephone calls and not through site visits as were made by the Springfield office.
- HUD plans to contract out services previously performed by the Springfield staff but did not include these contracting costs in its cost-benefit studies. These services include reviewing contracted-out appraisals, contracting out the post-endorsement desk reviews of direct endorsement applications submitted to HUD, and contracting with realtors to oversee HUD-foreclosed property.

LEGAL OPINION ON HUD'S FAILURE TO PUBLISH
ITS REVISED COST-BENEFIT ANALYSIS
OF THE SPRINGFIELD OFFICE

In a December 16, 1985, Federal Register article, HUD published its local economy impact study and cost-benefit analysis of the Springfield office closing.

Several individuals responded to the Federal Register article by writing to HUD that it had neglected to include in its analysis six outstationed employees who worked in the Springfield office. HUD then revised its original cost-benefit analysis to include these outstationed employees and also revised its estimates of relocation, severance, unemployment compensation, and accumulated leave costs.

HUD officials notified the Secretary of HUD of the revised estimates before he made his final decision to close the offices. However, HUD did not publish its revised cost-benefit analysis in the Federal Register for public comment because it believed that a second publishing was unnecessary. Following is our opinion on HUD's actions.

Legal requirement

Title 42, section 3535(p) of the United States Code reads as follows:

"A plan for the reorganization of any regional, area, insuring, or other field office of the Department of Housing and Urban Development may take effect only upon the expiration of 90 days after publication in the Federal Register of a cost-benefit analysis of the effect of the plan on each office involved. Such cost-benefit analysis shall include, but not be limited to;

"(1) an estimate of cost savings supported by background information detailing the source and substantiating the amount of saving;

"(2) an estimate of the additional cost which will result from the reorganization;

"(3) a study of the impact on the local economy;

"(4) an estimate of the effect of the reorganization on the availability, accessibility and quality of services provided for recipients of those services.

"Where any of the above factors cannot be quantified, the Secretary shall provide a statement on the nature and extent of those factors in the cost-benefit analysis." (42 U.S.C. 3535(p) (1982).)

Two questions arise concerning HUD's cost-benefit analysis published in the Federal Register: first, was the agency's local economic impact study legally adequate to satisfy 42 U.S.C. 3535(p)(3) and second, despite the inaccurate cost assumptions, was the Department's analysis legally adequate to satisfy the requirements of 3535(p)(2)?

Local economic impact study

With respect to the first question, we think HUD satisfied the minimum legal requirements of 3535(p)(3) that the cost-benefit analysis include "a study of the impact on the local economy." The law establishes no standard against which to judge the adequacy of the required study; as a result, HUD is left with broad discretion.

Although the discussion in the Federal Register of the impact of the closures on local economy was brief, it nevertheless indicates an examination of the issue by the agency. In the agency's opinion, the reorganization would have "no measurable impact on any single locality" and specifically referenced consideration of several aspects of a local economy considered in reaching its conclusion. As a policy matter, one might wish to see greater discussion and analysis of the issues; as a legal matter, however, we cannot conclude that HUD was required to do more.

Cost-benefit analysis

With respect to the second question, the legislative history of the statute, 42 U.S.C. 3535(0), describes its purpose as to assure (1) that HUD considers the costs and benefits, as well as the impact on the local economy, of any proposal to transfer operations from one field office to another and (2) that the Congress and the public receive 90 days advance notice of the proposed transfer by publication of the cost-benefit analysis in the Federal Register. H.R. Rep. No. 1792, 95th Cong., 1st Sess. 105-106 (1978).

Both of these objectives have been met in this case. While HUD originally overlooked the cost-benefits of relocating the six outstationed personnel, the Department subsequently gave consideration to these factors by producing a second analysis. Furthermore, although the original analysis was flawed in its consideration of personnel costs, its publication provided the public and Congress with 90 days notice of the proposed reorganization.

The statute requires that HUD publish not only notice of a proposed reorganization but also a cost-benefit analysis and that the analysis include an estimate of resulting additional costs and a study of the reorganization's impact on the local economy. Furthermore, floor debate on the statute indicates an intent that the agency provide the Congress and the public with background information on a proposed reorganization and 90 days to respond before the reorganization is implemented. It is therefore necessary to evaluate HUD's original analysis in terms of the degree of accuracy and analytical detail required by the statute.

The statute does not articulate qualitative or methodological requirements, and we have found no judicial interpretation of the statute. However, in order to meet all of the purposes of the statute, an analysis published pursuant to section 3535(p) must at least include information that will permit the Congress and the public to make an independent judgment, i.e., to understand and consider meaningfully the economic factors involved in the proposed reorganization. Although more than proforma compliance is needed to meet the procedural requirements of the act, factual errors or flawed assumptions do not translate necessarily into violations of the statute. In discharging his duty under the statute, the Secretary enjoys considerable discretion in his choice of methodologies, as well as a margin of error in economic calculations; however, cost calculations that are so distorted as to impair fair consideration of the economic consequences of a reorganization may frustrate the legislative purpose.

While HUD's recalculations suggest that the Department's original cost figures were understated by 79 percent, the results of our audit indicate that HUD's estimate was 38 percent below the actual closing cost. On the basis of a cost distortion of this magnitude, and particularly in view of the Department's compliance with the other requirements of 3535(p), it is difficult to conclude that the Congress and the public were deprived of a meaningful opportunity to independently evaluate HUD's decision before the reorganization was put into effect. While the errors in the second part of HUD's analysis are not economically insignificant, they are not of sufficient magnitude to indicate noncompliance with section 3535(p).

We therefore conclude that, viewed as a whole, HUD's published analysis in this instance complied with the statute's minimal requirements.

SECTION 3

WORKLOAD AND STAFF YEARS
FOR THE CHICAGO REGIONAL OFFICE

**Table 3.1: Workload and Staff Years
for the Chicago Regional Office^a
(Fiscal Years 1984-86)**

	Fiscal year 1984		Fiscal year 1985		Fiscal year 1986 ^b	
	Non D.E. ^c	D.E.	Non D.E.	D.E.	Non D.E.	D.E.
Workload (Applications Received)	13,906	2,376	16,340	9,059	12,315	28,400
Total	16,282		25,399		40,715	
Staff Years ^d	30		30		34 ^e	

^aTable does not include the transferred Springfield workload.

^bFirst three quarters of fiscal year 1986.

^cD.E. = Direct Endorsement.

^dStaff years for single-family loan processing.

^eEstimated by HUD for fiscal year 1986.

Source: HUD data.

WORKLOAD AND STAFF YEARS FOR
THE CHICAGO REGIONAL OFFICE

The workload in the Chicago Regional Office increased from 16,282 loan applications in fiscal year 1984 to over 40,000 in the first three quarters of fiscal year 1986. However, the Chicago Regional Office increased its use of direct endorsement from about 15 percent in fiscal year 1984 to about 70 percent in the first three quarters of fiscal year 1986. Under the Direct Endorsement Program, lenders, not HUD staff, process FHA applications and endorse these loans for the federal government. HUD staff review the lender endorsement and can therefore complete more applications in less time. In fiscal year 1985, the national average in hours needed to process a case through regular processing was 4.52. The national average for direct endorsement processing was 1.82 hours. Staff years for the processing of HUD-insured loans increased by 4 staff years from fiscal year 1984 to fiscal year 1986.

SECTION 4

FHA APPLICATION PROCESSING TIMES
AND NUMBER OF APPLICATIONS SUBMITTED

TABLE 4.1: Estimated Average FHA Application Processing Times^a

<u>Office</u>	<u>Direct endorsement</u>	<u>Regular processing</u>
Springfield HUD Office	60 days	30-45 days
Chicago HUD Office	60 days	120-180 days

^aThe application processing times were provided to us by HUD Springfield and Chicago officials and lenders in southern Illinois. These processing times are estimates of the average FHA application processing times under the Direct Endorsement Program and regular FHA processing for the period January through June 1986. We obtained these estimates through interviews and generally they were consistent among sources. We did not verify the estimates by performing a case file review.

FHA PROCESSING TIMES AND NUMBER
OF APPLICATIONS SUBMITTED

FHA processing times

The lenders and realtors we visited told us that southern Illinois lenders, realtors, home buyers, and sellers have been adversely affected by the Springfield HUD office closing. They also told us that they have experienced increased FHA application processing times and decreased HUD services since the Chicago office assumed the Springfield workload.

HUD's Chicago office began processing all Illinois FHA applications as of June 23, 1986. Chicago HUD officials stated that since most southern Illinois lenders are not approved to participate in the Direct Endorsement Program, their applications will require regular HUD processing, which takes longer. HUD Springfield and Chicago officials predict that regular FHA processing time will increase from the estimated average of 30-45 days when it was performed by the Springfield office to an estimate of 120 to 180 days when it is performed by the Chicago office.

HUD gives direct endorsement applications priority processing, which usually expedites processing times. For example, the Chicago HUD office processes direct endorsement applications significantly quicker than regular HUD-processed applications. However, most southern Illinois lenders are not approved by HUD to participate in the Direct Endorsement Program.

Lenders that we spoke with gave two major reasons for not participating in the Direct Endorsement Program, although HUD's national policy strongly encourages such participation. First, these lenders claim that the Springfield HUD office did not encourage lenders to participate in the program. Second, lenders did not have an incentive to incur the additional costs associated with participating in the Direct Endorsement Program because the Springfield staff provided quick turnaround time for regular HUD-processed cases. Southern Illinois lenders stated that these costs relate to (1) incurring the extra expense of hiring or training an individual to be a direct endorsement underwriter and (2) performing the tasks being done by the Springfield HUD staff.

According to several of the southern Illinois lenders we spoke with, lenders that are currently not direct endorsement-approved will find it difficult to obtain this approval through the Chicago office for several months. Lenders need a 15 test case minimum to qualify as an approved direct endorsement lender. With regular FHA application processing time in the Chicago HUD office estimated to range from 120 to 180 days,

delays in approval may result. Some lenders estimate it may take several months for lenders to meet HUD's 15 test case minimum requirements.

According to the lenders we spoke with, the Chicago HUD office has different operating procedures than the Springfield office for submitting FHA applications. They told us southern Illinois lenders and fee appraisers were not informed of the different procedures when the Chicago office assumed the responsibility for the Springfield workload and learned of the different procedures only when the Chicago office began rejecting applications. These lenders said that rejected applications and appraisals were subsequently reviewed and resubmitted on the basis of Chicago's procedures, but that the need to do this delayed the application process. Increased application processing times also resulted from southern Illinois lenders now being required to make written requests for case numbers and appraisers from the Chicago office, which adds a minimum of one week to the processing time. Previously, southern Illinois lenders could call the Springfield office and receive a case number and be assigned an appraiser the same day.

The Illinois Attorney General has begun an investigation of the home mortgage industry, responding to over 11,000 telephone calls and 2,500 letters regarding the problems home loan applicants were having obtaining timely mortgage loans. According to the Office of the Attorney General, the investigation is attempting to determine the reasons for the excessively long time involved in processing the mortgage loan applications. An Assistant Attorney General told us that, in part, this investigation resulted from problems associated with the Springfield HUD office closing.

Table 4.2: FHA Applications Received by Five
Southern Illinois Lending Institutions
for the Period Jan.-Aug. 1986

Month	Total applications	FHA applications	Percent of FHA to total
Jan.	521	159	30.5
Feb.	700	221	31.6
Mar.	1,085	360	33.2
Apr.	1,071	342	31.9
May.	712	195	27.4
Jun.	362	69	19.1
Jul.	498	82	16.5
Aug.	<u>567</u>	<u>101</u>	<u>17.8</u>
Total	<u>5,516</u>	<u>1,529</u>	27.7

Number of FHA applications submitted

Most of the southern Illinois lenders that we spoke with stated that regular FHA processing times in the Chicago office are significantly higher than they were in the Springfield office. As a result, southern Illinois realtors are encouraging home buyers to seek alternative sources of financing.

- The southern Illinois lenders without direct endorsement approval that we spoke with are experiencing a significant decrease in the number and percent of FHA loans since the Chicago HUD office began processing southern Illinois FHA applications.
- One approved direct endorsement lender we met with told us that, although Springfield-approved direct endorsement lenders are not experiencing increases in processing times, they are experiencing a decrease in new FHA applications because southern Illinois realtors and lenders are encouraging home buyers to seek alternative sources of financing.

These lenders and realtors predict that very few new FHA applications will be submitted from southern Illinois until application processing times decrease to a more reasonable level--60 days or less.

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