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Accounting and Information
Management Division

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May 31, 1994

The Honorable Nicolas Retsinas
Assistant Secretary for Housing-
   Federal Housing Commissioner
Department of Housing and Urban Development

Dear Mr. Retsinas:

The purpose of this letter is to convey to you the results of
our survey of information systems support of the Department of
Housing and Urban Development's (HUD) Single Family Mortgage
Assignment Program. Our objectives were to ascertain whether
information systems substantially support application
processing and loan servicing processes and contain data that
may be useful in measuring the success of the Single Family
Mortgage Assignment Program (MAP). Our survey scope and
methodology are described in the enclosure.

The purpose of the MAP is to provide temporary relief from
mortgage payments to single family mortgagors who default on
HUD-insured mortgages. For qualified applicants, HUD acquires
defaulted mortgage notes from lenders and services the notes
throughout their remaining life.

Our preliminary work shows that the information systems used
in this program generally support major loan servicing
processes and contain data that can be used to measure the
program's success. We also identified some program aspects
for which information systems support could be enhanced. In
particular, the systems do not support many of the tasks for
processing application to the program, the loan servicing
system is difficult to use, loan servicers need additional
training, and HUD does not use a systematic process for
identifying users' information system support needs.

Systems Support MAP Activities

MAP's primary operations are supported by the automated
Assignment Log and the Single Family Mortgage Notes System
(SFMNS). The Assignment Log supports the processing of
applications for participation in MAP by maintaining a record

of the receipt and final disposition of individual applications. The SFMNS supports HUD's loan servicing processes. The SFMNS was enhanced in 1992 to further help HUD's loan servicers by automatically prompting them to take various actions on delinquent cases and preparing notification letters. According to the loan servicers and supervisors we interviewed, the system, as enhanced in 1992, supports their major loan servicing functions.

Our analysis of SFMNS shows that it contains data that could be used to assess the MAP program. For example, data on the status of actions on cases with delinquent payments could provide useful indications of the quality of loan servicing, while data on the extent to which cases are moving toward foreclosure versus moving toward successful payoff of delinquencies could help indicate program success.

Enhancing Application Processing Support

While the Assignment Log is used to record and report the receipt of and final decisions on MAP applications, field staff told us the Log does not support some assignment application tasks they perform and monitor. For example, it does not provide automated assistance for preparing standard notification letters, recording data for comparison with acceptance criteria, or summarizing data for supervisory monitoring. Some field offices use manual methods to accomplish these tasks and compile information that supervisors need to monitor the application process. Other field offices have developed software that automates various tasks and compiles information.

For example, field supervisors told us they must monitor the status of applications to ensure that all tasks are completed within HUD's 90-day application processing standard. At the Baltimore office, the supervisor manually extracts data from the Assignment Log and compiles the data to monitor the processing status of individual cases. Similarly, two supervisors at the Chicago field office also manually compile data extracted from the Assignment Log, while another uses spreadsheet software to tabulate these data. The Fort Worth field office uses locally developed software to extract and compile application processing data from the Assignment Log. At the time of our visit, the Fort Worth office was also planning to install and use software developed by the Fresno field office to expand its support to application processing activities.

A Fresno field office staff member told us that he developed software to improve the efficiency of application processing tasks. The software reminds loan servicers when actions on cases are due, creates a database for key decision data, and automates the preparation of letters and notices. According to the staff member, this software improves the efficiency and effectiveness of the MAP application process--reducing necessary staff time by 30 percent.

In response to informal requests, the Fresno field office has supplied this software to the six other field offices in the same region and to five offices in other regions. The staff member who developed the software told us that he sent the software to headquarters for evaluation and possible distribution to other offices. He said he was told that the software would not be distributed nationwide because HUD plans to modify SFMNS to automate application processing. The Government Technical Representative for the SFMNS contract told us that the planned SFMNS modification has not been funded and he did not know when the planned software would be developed or deployed.

Taking advantage of locally developed software, such as the one developed by the Fresno field office, can increase the efficiency of application processing and improve the ability of field office supervisors to monitor these activities, especially when improvements are not on the horizon. Even if HUD plans to automate application processing in the future, it could test the software and evaluate the benefits and costs of interim solutions to determine whether it would be advantageous to distribute interim software improvements until more permanent solutions are developed and deployed.

Loan Servicing System Difficult to Use

While most loan servicers and supervisors we interviewed stated that SFMNS supports their primary loan servicing tasks, they criticized the complexity of the user interface. They said SFMNS is difficult to operate because they must memorize and use seven-digit command codes. Some of the loan servicers told us that SFMNS would be easier to use if they could select the features they want from menus.

The loan servicers also said SFMNS screens are cluttered with data fields,[1] some of which are empty or are not applicable to HUD. In addition, they said the data they need on a regular basis are often inconveniently scattered across different screens. For instance, to prepare a letter to respond to a mortgagor's request for mortgage payoff information, a servicer must access three different screens to obtain the property address, the loan origination date, and the payoff amount. Some servicers feel the system would be more efficient and easier to use if data were better organized on the screens.

Our observations of loan servicers' use of the system confirmed the foregoing characterizations. Because SFMNS is the main tool for servicing loans, providing a less complex user interface could enhance the ease and efficiency of loan servicing activities.

Loan Servicers Provided Limited Training

Loan servicers and supervisors said the problems of a complex user interface are compounded because training on the operation and use of SFMNS has been lacking. Experienced loan servicers in three field offices told us that new users need 3 to 8 months to become proficient in using SFMNS. They said the training provided by headquarters has been minimal, leaving field offices to provide on-the-job training. While the on-the-job training is useful, some servicers and supervisors told us that they need more training to better understand and use the system. Some loan servicers told us they frequently cannot respond to questions from mortgagors about transactions because they do not understand how the transactions are processed and recorded in the system.

According to the Acting Director of HUD's Technical Training Institute, during fiscal years 1989 through 1993, only 111, or about 14 percent of all loan servicers at HUD, received formal training on the basic operations of SFMNS. Headquarters program officials told us that SFMNS training has been limited because of tight budgets and the relatively low priority given to this training. The Government Technical Manager and the Government Technical Representative for the SFMNS contract told us that developing an automated user guide, which could alleviate problems resulting from the lack of training, is a

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[1] Specific pieces of data related to the subject of a record, such as mortgagor name, address, payment amount, or loan origination date.

priority. However, they said the ability to develop an automated user guide depends on the availability of funds.

Because of the limited training budget, HUD could consider alternatives to classroom training, such as video instruction and computer tutorials, when developing future system enhancements.

Systematic Process to Identify Field Users' Needs Would Be Useful

Our discussions with headquarters and field supervisors have shown that there is no systematic process in place to identify the nature and extent of field office staff's needs for system improvements. Field office staff periodically request new types of reports, screen changes, and other minor system modifications. These requests are assessed and addressed at headquarters on an ad hoc basis. While this can surface some users' needs, without a systematic process in place, field office loan servicers and supervisors told us that some needs have not been identified and satisfied, thus adversely affecting the efficiency and effectiveness of MAP operations. For example:

- SFMNS produces letters requesting mortgagor information that include the loan servicer's name and phone number. Loan servicers said they must type in their names and phone numbers each time they send one of these letters. Because the loan servicers have logged on the system prior to taking these actions, they told us that SFMNS knows their identity and should be able to produce the letters without redundant data entry.

- Often mortgagors request copies of their payment histories. Loan servicers told us that SFMNS does not produce payment history reports. Therefore, loan servicers have to manually extract the payment data from the system's payment history screens and retype the payment data in correspondence to the mortgagors using word processing software. They believe the system should be able to produce the complete correspondence automatically.

- According to HUD procedures, mortgagors' payments are recorded in a separate suspense file until the Department settles lenders' claims. Thousands of payments made each month are recorded into the suspense file. Loan servicers told us they must browse through the suspense file every month to find out whether or not new MAP participants are making their mortgage payments. The loan servicers told us

that locating their cases in the suspense file is very
difficult because the file contains cases nationwide and is
not sorted by case identifiers. They said it would be
easier to identify their cases and service such loans if
the suspense file were sorted by key identifiers and field
office.

While each of the capabilities described above may appear to
be minor in nature, collectively they can significantly affect
the efficiency and effectiveness of MAP activities. Without a
process to systematically identify common user needs and the
potential benefit/cost impact of meeting those needs, it is
difficult to ensure that all needs are being considered and
the most important are being addressed.

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We conducted our preliminary survey from November 1993 through
April 1994, in accordance with generally accepted government
auditing standards. We discussed the facts contained in this
letter with officials from your office and they generally
agreed that the information presented is accurate.

We request that you inform us within 60 days of the actions
you have taken or intend to take on these matters. If you
have any questions or would like to discuss these issues
further, please contact me at (202) 512-6416 or David G. Gill,
Assistant Director, at (202) 512-6250.

Sincerely yours,

Joel C. Willemssen
Director, Information Resources Management/
    Resources, Community, and Economic Development

SCOPE AND METHODOLOGY

This preliminary survey was conducted as part of a larger effort
to determine whether the Mortgage Assignment Program is working
effectively to help borrowers avoid foreclosure and reduce losses
to the Federal Housing Administration insurance fund. We
conducted survey work at HUD headquarters in Washington, D.C.,
and field offices in Baltimore, Maryland; Chicago, Illinois; and
Fort Worth, Texas.

To determine whether information systems support MAP activities,
we (1) reviewed system documentation and interviewed program
managers at HUD headquarters to identify the capabilities of the
automated Assignment Log for supporting assignment application
processing and SFMNS for supporting loan servicing and (2)
interviewed all 6 loan servicing supervisors and 12 loan
servicers in the field offices to determine whether these
capabilities met their needs in performing application processing
and loan servicing activities. We selected the 12 loan
servicers, in consultation with their supervisors, to obtain
views from a mix of staff with long-term versus short-term
experience using SFMNS. We also reviewed prior GAO, HUD Office
of Inspector General, and independent Certified Public Accountant
audit reports to identify the systems' internal control
weaknesses and interviewed program officials to ascertain the
action taken to resolve the weaknesses.

To determine whether information systems provide information that
can be used to help measure the program's success, we reviewed
management reports produced by the systems and analyzed data
elements maintained by the systems to identify their capability
to produce data for measuring success of the program.

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