California Legislature

Senate Advisory Commission on Cost Control in State Government

CalVet Home Loans Program

An Independent Program Evaluation

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Table of Contents

1. EXECUTIVE SUMMARY

This report is an independent review conducted by The USC Sol Price School of Public Policy Research Practicum 2014 Cohort, on the California Department of Veterans Affairs' Home and Farm Loan Program, which will be referred to as The CalVet Home Loans Program (CalVet). These findings have been collected and synthesized from American Community Survey estimates, academic journal articles, independent financial audits, state government reports and budgets, official government websites, internal program reports, and empirical/spatial data from the current loan portfolio and retroactive CalVet Mitas Loan Reservation Database. This research primarily examines the California veteran population and the current demand for CalVet's home loan services. Secondly, this report summarizes the administrative efficiency and risk management strategies within CalVet and compares similar services offered by the federal government and other states.

The CalVet Home Loans Program operates under the California Department of Veterans Affairs (CDVA), and its main objective is to assist eligible state veterans to acquire property by providing home loans. The program has recently suffered from a lack of demand from state veterans and non-competitive interest rates. From a review of the relevant data, it is unclear if CalVet is achieving this goal in the most administratively efficient and cost effective manner. Similarly, it is unclear if the program is necessary or desired by state veterans at this time.

This study has two tiers of evaluation and four main types of analyses. The primary tier is designed to assess if veterans need or want a state level veterans loan provider. The second tier is designed to measure how many veterans are receiving services from CalVet currently, the costs associated with those services, and it also aims to provide a context for veterans home loan services in general by exploring similar state and federal programs. To achieve these goals this study includes the following four main forms of analysis using the data sources previously mentioned:

1. Demographic & spatial analysis of the state veteran population
2. Comprehensive efficiency, accounting and staff allocation analysis
3. Comparative risk analysis
4. Contextual qualitative analysis

After conducting this two tiered analysis it is clear that CalVet Home Loans is currently serving about 2% of California veterans with home loans services, and that these loans and borrower services cost CalVet about $10 million dollars in the past 2012-2013 fiscal year. While CalVet poses no significant risk of program default, it does not seem to be serving a special needs or less qualified applicant on average. Secondly, a clear demand for CalVet's services cannot be ascertained from the needs assessment data. Demographic analysis reveals that there are only 265,000 California veterans below the age of 55 that currently rent and do not already own their homes. Therefore, CalVet's current target population is less than 18% of the total veteran population of roughly 1.86 million total veterans. In that vein, CalVet should seek new creative strategies to increase its services beyond its current portfolio of borrowers by marketing services to the under 55, non- home owning, potentially financially suitable target population of state veterans.

2. OVERVIEW

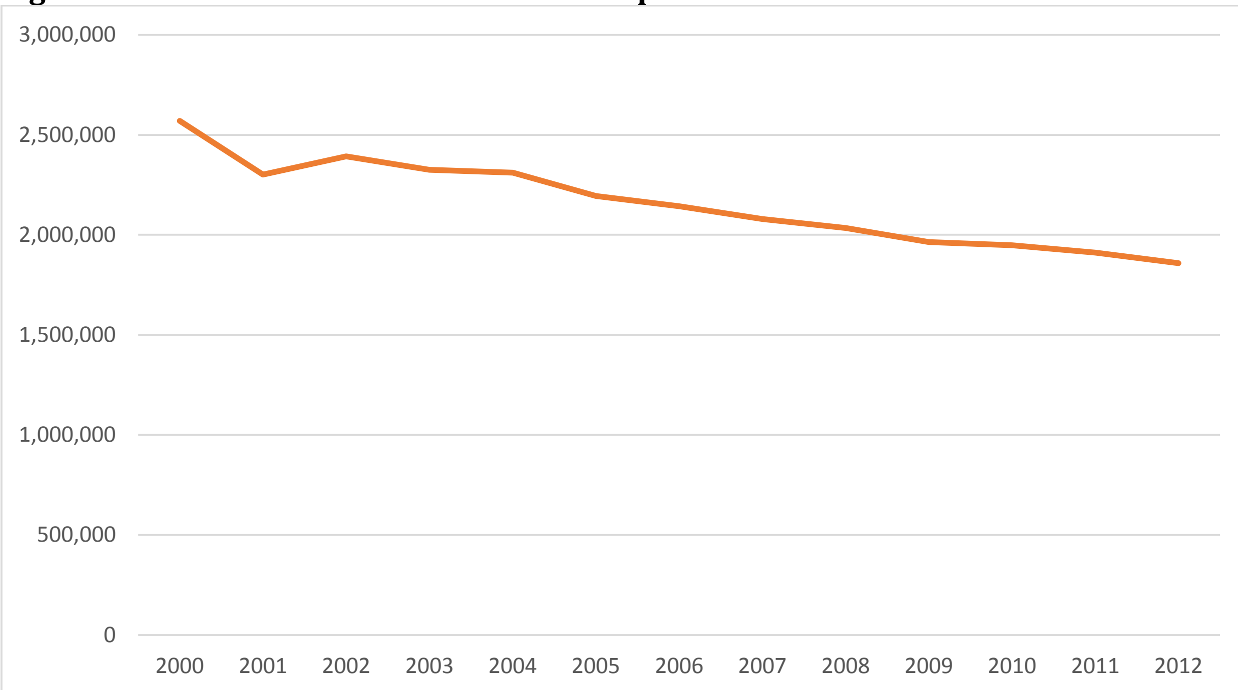
This research is provided as a resource to The California Senate Advisory Commission on Cost Control in State Government (SCCC). The SCCC is a State Senate body that seeks to increase efficiency, reduce costs, enhance administrative accountability and control, and apply modern program management techniques to state operations (Senate Advisory Commission on Cost Control in State Government Mission Statement [SCCC], 2014). The SCCC has commissioned a review of the CalVet Home Loans Program in order to provide the California State Senate with formal research implications on how to improve the program and its services. This section will discuss historical challenges and current issues facing the program, identify the scope of the research, and briefly describe the program structure.

2.1 Issue Statement

The CalVet Home Loans Program has provided 421,000 California veterans with the opportunity to purchase homes through state assistance over 93 years of operation. In recent years the program has suffered from a lack of veteran participation and a decline in fiscal health and operational efficiency. Today, it is unclear if CalVet home loans are helping enough veterans acquire property in the state, nor is it clear if a state level veterans home loan program is wanted or needed by the veteran population. There are several key indicators of this ambiguity.

The demand for CalVet's services and veterans home loans in California has decreased over the past 20 years due to several important trends. From 2000 to 2012, California's veteran population decreased by 28% to 1,857,748 (Figure 1) (U.S. Census Bureau, 2000; U.S. Census Bureau 2012c). In addition, approximately 69% of the state's veteran population is 55 years old or older and unlikely to seek a 30-year mortgage product offered by CalVet (U.S. Census Bureau, 2012c). Roughly 70% of all California veteran households have already purchased their homes either outright, or are in the process of paying off a current loan (U.S. Census Bureau, 2012a).

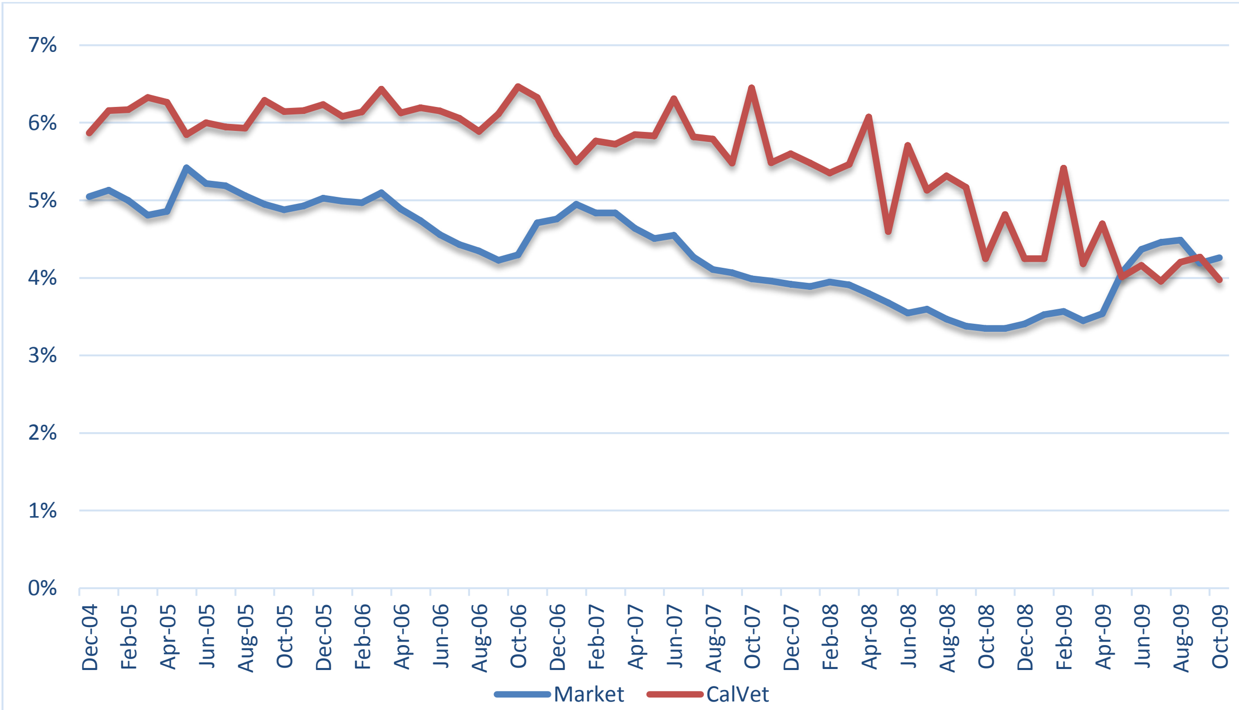
Figure 1.: Decline in California's Veteran Population from 2000-2012



Source: U.S. Census Bureau, 2000-2012

The second factor driving the decline in the use of CalVet's home loan services stems from offered interest rates struggling to compete with prevailing market rates. Recently the program has regained its competitive edge, but it is still unclear if CalVet is helping veterans to acquire property in the most efficient way and with the most desirable interest rates. CalVet's interest rates have been above competitive market interest rates in about 16 percent of months between December 1974 and November 2013, and the program is subject to direct competition from private lenders that participate in the Federal VA Home Loan Guaranty Program that may offer competitive or lower interest rates. This pattern was particularly evident between 2004 and 2009, as seen below in Figure 2, directly prior to the Subprime Mortgage Loan Crisis, when variable interest rates became more popular, and CalVet failed to offer comparable or lower interest rates on their 30 year fixed rate loans (Freddie Mac, 2013).

Figure 2.: Market Interest Rate Comparison to CalVet Interest Rates from 2004 to 2009



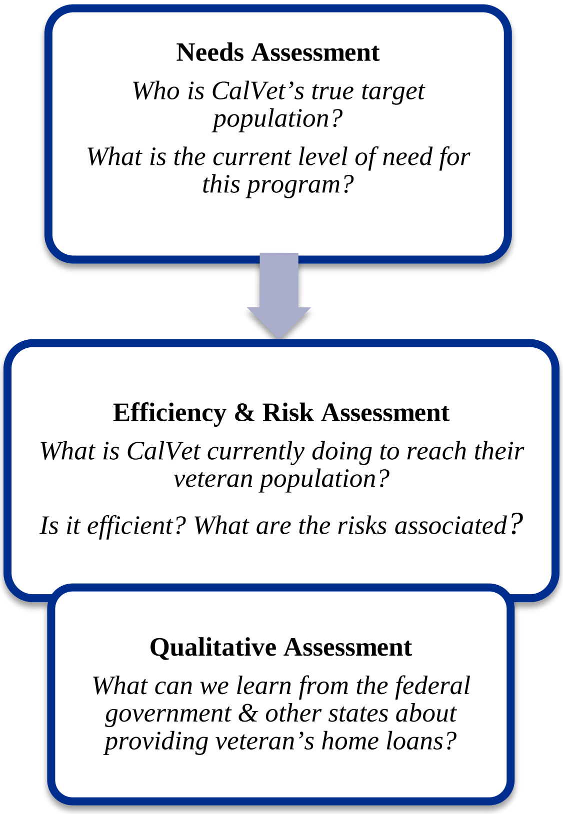
Source: CalVet Historical Loan Portfolio Data and Freddie Mac Private Mortgage Market Survey

As a result of these two main factors and several other smaller trends, veteran demand for new loans from CalVet has decreased significantly since 1990. New contracts of purchase (new loan originations) dropped by 98% from 1990 to 2013 (CalVet, Bond Finance Division, 2014). Recent program forecasts expect the program to write 250 loans for the fiscal year ending Jun 30, 2014, representing a 90% drop from 1990 (CalVet, 2014c). Additionally, a 1998 report by The California Legislative Analyst's Office and several current state legislators have questioned the necessity for, and the efficiency of the program. This statewide attention is focused around CalVet's funding structure, as the program is primarily funded through voter-approved General Obligation Bonds. Consequently, in the event of a large-scale program default, these bonds would be repaid from state General Fund revenues. Also, due to their veteran status, CalVet borrowers are neither required to take out Private Mortgage Insurance or Lenders Mortgage Insurance on CalVet loans, nor are they required to have a 20% down payment or an "industry standard" credit score as CalVet seeks to lend to a more financially diverse subset of veterans. This could expose the program to risk over time if borrowers are evaluated in a non-traditional format. In light of these trends and the program's financial structure, it is unclear as to whether or not CalVet Home Loans is helping veterans to acquire property in a desired or necessary format for veterans, and California as a whole.

2.2 Scope of Work

This analysis is divided into two tiers, the first level of analysis explores the current level demand for the program, and the second tier of analysis clarifies how many veterans are already being helped by the program and what could be done to improve the current services. To address the questions encompassed in the first tier, a comprehensive needs assessment is conducted, which examines the following questions:

Figure 3.: Analytic Framework



Who is CalVet's true target population, or more specifically how many veterans in the state would be at an appropriate home buying age to receive a CalVet home loan?

How do current CalVet home loan program efforts relate to California veteran spatial demographics?

The second tier of analysis includes a more detailed examination of how many veterans are currently utilizing CalVet's services and how CalVet is helping these veteran borrowers. This analysis also clarifies the cost of these services through a comprehensive overview of their accounting, risk management and loss mitigation strategies. This portion seeks to answer the following questions:

How efficiently is this program assisting veterans and what is the current financial health of CalVet central program funds?

How does CalVet allocate its funding and staff resources, and what are the true costs associated with offering home loans to veterans through the bond financing structure?

What are CalVet's quality control standards for measuring default, assessing risk, and mitigating loss and what are the industry standards for assessing these metrics?

This analysis will conclude with a qualitative overview of how the federal government and other states have chosen to assist veterans with home loans, and incorporate these comparisons amongst the opinions of industry experts and organizations experienced with veteran's housing issues. This two-tiered analytical framework and several different analyses aim to assess the true need for this program, the current impact of its services, and provide implications for future operations and further areas of research for CalVet's lending strategies going forward. The following section defines the program and reviews the funding structure.

2.3 CalVet Program Definition & Structure

Creation & Purpose

The CalVet Home Loans Program lends money to veterans for the purchase of property in the state with the central goal of helping veterans acquire property. This funding is authorized under the California Home and Farm Purchase Act of 1921, whose exact statutory purpose was to "provide veterans with the opportunity to acquire farms and homes." The 1921 Act was updated under the Home Purchase Acts of 1943 and 1974, neither of which explicitly mandates the use of the funding for below market rate loans (California State Constitution, Article XVI, Section 6, 1921). Since 1922, California voters have approved 27 additional funding allocations and currently the program has $538 million dollars available to help veterans acquire property (CA LegInfo, 2013).

Financial Structure

CalVet Home Loans is technically a home purchase program rather than a home loan program (Hill, Legislative Analyst's Office, 1998). The first step in the lending process occurs when the CalVet Home Loans Bond Finance Division purchases a residential property selected by an eligible veteran. CalVet originally purchases the home with the proceeds of bonds and commercial paper, including State of California Veterans General Obligation Bonds ("Veterans G.O. Bonds") and Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds ("Revenue Bonds"). CalVet may provide up to 100 percent of the financing required for the purchase, and the veterans typically need to provide a 5 percent down payment, which is significantly lower than the national average 15.78% down payment on a 30 year fixed rate mortgages (Lending Tree Lender Exchange Report, 2013).

In the next phase, the property is sold to the eligible veteran under a contract of purchase between the Department and the veterans. This is typically done with an interest rate lower than a market interest rate and on a thirty-year note. CalVet's ability to utilize tax-exempt municipal bonds generally produces below-market interest rate mortgage funds. An investor's interest income from municipal bonds is exempt from federal, state, and local taxes. Interest rates on "tax-exempt" municipal bonds, therefore, generally are lower than interest rates on comparable "taxable" bonds sold to investors at the same time. This spread between tax-exempt and taxable bond interest rates creates the interest rate subsidy that typically produces the below market mortgage interest rates provided to the veterans. The average annual interest rates on CalVet's current contracts of purchase range from 5.6% to 8% while the average coupon yields on CalVet's outstanding bond debt (both G.O. and Revenue Bonds) ranges from 1.3% to 5.7% (CalVet Bond Finance & Investor Division, 2013).

Eligibility Requirements

California veterans must satisfy certain eligibility requirements to be served by the CalVet program. In order to qualify for a CalVet loan, a veteran must have served on active duty for a minimum of 90 days during wartime or peacetime under honorable conditions. There is no specific formula to financially qualify for a CalVet loan, and borrowers are evaluated holistically on their credit report, income documentation, and asset documentation. (Report of Independent Auditors, Farm and Homebuilding Fund of 1943, Department of Veterans Affairs State of California, 2013).

3. METHODOLOGY

3.1 Overview

The first tier of this research is a comprehensive needs assessment of the current state veteran population and seeks to identify CalVet's true target population of young to middle aged, non-home owning, financially capable veterans. This research is guided by numerous demographic and spatial data sources. The second portion of this report summarizes and draws empirical conclusions about CalVet's efficiency and risk patterns by examining CalVet's financial, staffing and loan portfolio data. The loan data specifically was evaluated on the basis of several key indicators:

New Contracts of Purchase Per Year – this is the central metric for gauging CalVet's activity as a lender. Because CalVet acts as a home purchase program rather than a traditional home loan program, the contract of purchase variable is synonymous with the new loan originations that it does annually. This variable is evaluated on a calendar year and fiscal year basis and compared to the program's administrative costs. This variable was tracked against costs to measure efficiency, productivity and several risk metrics.

Loan Amount with Funding Fee Included – this is the original loan amount to the borrower and may include CalVet's mandatory funding fee for those veterans without a 20% down payment. This fee may be financed with the total loan. This variable was aggregated as one measure of portfolio value on an annual basis.

Contract Delinquencies, Average Delinquency, Intent to Cancel, or Cancellation **–** CalVet uses a Contract of Sale rather than a Deed of Trust for each property, therefore loans are not foreclosed upon but rather contracts are cancelled. Violations of Contract or late payments are recorded as Delinquencies. Contracts delinquent in excess of 30 days are considered late by private industry standards. These "risk" factors are recorded for each contract of purchase if they occur at any time, and measured as a proportion of the aggregate active and historical data.

Loss or Gain from Each Short Sale/REO Sale– the final amount that CalVet either gained or lost from selling properties from Cancelled Contracts. These losses and gains were tabulated annually and utilized for the forecast portion of the analysis.

Interest Rate on Each Loan **–** the original and final interest rate on each loan, these were summarized for measures of central tendency to cross reference against the Historical CalVet Interest Rate Fact Sheet, and utilized to construct the comparison of CalVet interest rates to standard market interest rates on 30 year fixed rate loans.

To provide a greater context the empirical findings of CalVet's population and lending practices, several qualitative semi-structured interviews were conducted with similar programs in other states, and veterans housing stakeholder organizations. These interviews were then compared to the internal organizational information received from CalVet, provided on a bi-weekly basis via email and verbal communication. From these communications a majority of the financial and operations data and several additional qualitative reports were generated by CalVet and distributed directly to our team.

3.2 Needs Assessment

The needs assessment consists of a demographic and spatial analysis. The demographic analysis draws on Census and Department of Housing and Urban Development (HUD) data to describe the California veteran population. Pre-tabulated 2012 American Community Survey (ACS) 1-year estimates include demographics separated by state and veteran status, resulting in 10 sets of descriptive statistics for four states and the entire U.S., including: adult civilian population; age; sex; median individual income; unemployment rate; poverty rate; and disability rate. The datasets include margins of error for each estimate, which are converted into standard errors using the 1.65 ACS 90% confidence interval multiplier (U.S. Census Bureau, 2013b). Pre-tabulated HUD homeless population reports provide both total and veteran homeless counts for each state and nationwide. However, they do not include measures of standard error.

The remaining portion of the demographic analysis is informed by the 2012 ACS 1-year Public Use Microdata Sample (PUMS). Each state's dataset and the national dataset is used to calculate the homeownership rates and average percentage of household income spent on housing in aggregate and among the 5 adult age brackets used by the ACS for both the general and veteran populations using STATA. The University of Minnesota's Integrated Public Use Microdata Series (IPUMS) releases PUMS datasets with 80 replicate weights calculated using the successive difference replication method, which STATA can process as balanced repeated replication weights (Minnesota Population Center, 2014). Survey setup parameters include a person-level sample weight and replicate weight identification. Dichotomous variables are then created to classify each observation among 6 total age groups and a group quarters residence group. A further detailed explanation of PUMS methodology is found in Appendix 1.

The spatial analysis portion of our needs assessment uses 2012 ACS 5-year estimates, Census Bureau shapefiles, and CalVet loan portfolio data to examine the distributions of California veterans and CalVet home loans using ArcGIS. Shapefiles from the Census Bureau's TIGER/Line database are used to identify California census tracts, ZIP codes, and urban areas. Census tracts whose polygon centroids are within urban areas are classified as urban tracts. Two selection methods are used to identify urban ZIP codes due to the extent to which they vary in size. The resulting census tract and ZIP code tables are joined with general and veteran population counts from the ACS 5-year estimates. ZIP codes are extracted from the CalVet active and inactive loan portfolios to compare against the list of urban ZIP codes.

3.2.1 Needs Assessment Data Sources

The needs assessment is informed by data sourced from the U.S. Census Bureau, HUD, and CalVet. The Census Bureau's 2012 ACS 1-year estimates are drawn from both pretabulated data and the PUMS for the U.S. and for four states: California, Texas, Oregon, and Wisconsin. Pretabulated ACS estimates are accessed through the Census Bureau's American FactFinder service and include demographic information regarding adult civilian population counts, veteran status, age, sex, income, unemployment, poverty, and disability rates. The PUMS datasets are sourced from IPUMS and include a representative sample of ACS individual responses used in both the population and housing unit records. All entries are assigned a unique serial number in lieu of personally identifiable information. The PUMS is used to calculate homeownership rates, group quarters residency, and average percentage of household income spent on housing costs.

ACS 5-year estimates provide veteran and nonveteran population estimates for each California census tract. Census Bureau shapefiles provide census tract, ZIP code, and urban area delineations. Census tract and urban area boundaries are based on their 2010 Census definitions and the ZIP codes data uses 2013 definitions. CalVet loan portfolio data is used to locate both active and inactive loans in California ZIP codes. Finally, Department of Housing and Urban Development Continuum of Care reports provide point-in-time veteran and nonveteran populations for each of the four states analyzed and nationwide counts. These estimates count the number of homeless in each state as reported by Continuum of Care applications to HUD.

3.3 Efficiency Analysis

3.3.1 General Efficiency Analysis

The efficiency exploration consists of several basic forms of analysis utilizing the loan data, the program audits and the internal payroll information. These analytics were then used to generate broad measurement metrics to gauge the program's effectiveness, spending patterns, and true impact on the current state veteran population.

3.3.2 Accounting & Fund Analysis

The starting point for the efficiency analysis is a comprehensive current accounting analysis of the current Moss Adams LLP, Report of Independent Auditor's and Financial Statements for The Veterans Farm and Home Building Fund of 1943 which measures program performance from 2010 through 2013. The first goal of this exercise is to calculate and understand CalVet's assets and liabilities, their net position, and their current asset coverage of existing liabilities. This program "Balance Sheet" and the resulting metrics help to clarify CalVet's fairly abstract "receivables under contracts of purchase" inflows and also contribute the understanding of general program financial management and long-term fund health.

This overhead view of the CalVet's financial position is followed by a closer look at the program operational costs and revenues. This includes a breakdown of program administration revenues and expenses, and examining the contributions to these expenses from the loss on the sale of repossessed properties and other potentially risk related factors. These administrative costs were also then examined against program productivity metrics such as new contracts of purchase.

In terms of the internal CalVet loan data, basic measures of portfolio health were conducted for each calendar and fiscal year in order to measure portfolio condition and percent change in loss, cancelled contracts, and new contracts of purchase on an annual basis.

3.3.3 Staff Efficiency Analysis

The aforementioned financials and Governor's Budget data were measured against all listed staff positions and then broken down by department, position, and level of management in order to measure how CalVet allocates its staff resources in terms of both time spent and pay scale. These figures were also utilized to calculate the average salary and measured against total administrative costs to gauge whether or not hiring was an increasing demand on CalVet's operational budget.

3.3.4 Interest Rate Comparison

CalVet loan portfolio data is used to calculate the average interest rate of home loans by month from December 1966 to November 2013. Where possible, only home loans are included, removing home improvement loans. However, because some historical data was maintained by a different loan processing software than is used currently, about 43 percent of loans included are not classified by loan type and are included in the analysis. Ultimately, 3,611 of the total 50,010 loans included in the portfolio are dropped for the interest rate comparison. The CalVet monthly averages are compared to national monthly average 30-year fixed-rate mortgage interest rates reported by Freddie Mac's Private Mortgage Market Survey archive. CalVet and market rates are compared from December 1974 to November 2013, as the CalVet portfolio data previous to December 1974 is scarce.

3.3.5 Risk & Loss Mitigation Analysis

As mentioned in the both the prior data sources, and efficiency analyses descriptions, the CalVet historical and current loan data was measured on several key variables in order to measure program risk. Cancellation, delinquencies and modifications were tabulated by year and measured as percent of total portfolio value. Similarly, bi-weekly in depth conference call interviews were conducted with CalVet in order to understand and document their internal risk mitigation strategies and to understand their internal risk metrics. The Mortgage Banker Association's (MBA) Quarterly Mortgage Bankers Performance in the Fourth Quarter of 2013 Recent Trends Report is utilized as a private sector comparison to CalVet's contract cancellation and loss mitigation outcomes. This private sector report reviews data from 41,000 properties held by private banks, credit unions and mortgage companies (National Mortgage Bankers Association, 2014).

3.3.6 Efficiency Analysis & Risk Analysis Data Sources

The various parts of the efficiency and risk analyses have been guided by the active and historical loan portfolio data from CalVet's internal Mitas Loan Reservation Database. The loan portfolio data was exported into an Excel workbook and includes information regarding individual loans (both active and inactive) from 1966 to 2013. The dataset includes each contract of purchase date, the loan amount, purchase price, down payment, funding fee, monthly payment, original principal, original and current interest rates, maturity date, paid in full date, repayment history, loan modifications, current principal balance, and contract cancellation status as well as applicant characteristics including credit scores, income, and obligations. All identifying information was redacted from the dataset.

Similarly, the program's operating costs, expenditures and administrative costs have been collected from the most recent 2012-2013 Fiscal Year Independent Financial Audit conducted by Moss Adams, LLP Certified Public Accountants and the annual Independent Financial Audits conducted by Deloitte & Touché, LLP ranging back to the 2000-2001 Fiscal Year. These were specially requested and received from CalVet's internal staff. In addition, all current pay ranges, departmental staff positions and staff allocations were acquired from CalVet's Human Resources Department in tandem with the 3-YR Expenditures and Positions Summary for Fund 8950, Section 10, of the Department of Veterans Affairs from The Governor's Budget of California.

In order to inform the interest rate comparison portion of the efficiency analysis this study also utilizes Freddie Mac's Private Mortgage Market Survey Archive, which provides a national average interest rate on 30-year fixed-rate mortgages. The dataset includes an average rate for each month from April 1971 to November 2013. CalVet's loan portfolio including both active and inactive loans is used to calculate the average interest rate of loans written for each month from December 1966 to November 2013. The Mortgage Banker Association's (MBA) Quarterly Mortgage Bankers Performance Report Fourth Quarter 2013 Recent Trends Report is utilized as a private sector comparison to CalVet's efficiency and production metrics.

3.4 Contextual Analysis

In order to evaluate CalVet as a specialized service provider, our qualitative analysis focused on creating a contextual understanding of the CalVet program in relation to what other states offer (if anything), as well as in comparison to the similar services of the Federal VA's home loan guaranty program. Primary sources from other states' home loan programs (specifically Oregon, Texas, and Wisconsin), The Department of Veterans Affairs offices, and the Federal VA provided information regarding the availability of veterans' home loan benefits in other states, how those benefits are offered, and the structure of any state run programs.

Interviews with California veterans advocacy and service organizations are conducted to understand the current policy context around the CalVet program. The organizations' definitions of their roles in the state's veterans service field, potential referrals to the CalVet program, and perception of overlap between the CalVet program and alternative services are the major focuses of the interview questions.

3.4.1 Qualitative Data

Stakeholder Interviews

In addition to the primary data sources, stakeholder interview data is retrieved directly from semi-structured interviews with California veterans stakeholder organizations. In total 6 interviews inform these results. The specific interviewees can be found in detail in Appendix 3. Interview participants were identified based on communication with the California Interagency Council on Veterans. In addition, several overviews and qualitative data reports were received from CalVet to detail their internal staffing, operational and current improvement efforts and strategies.

Assumptions for Methodology

Several years of CalVet's historical loan data is incomplete and may have incorrect values in several fields. This research assumes that due to the large volume of the loan data (50,000+ records), the measures of central tendency that were utilized for the risk analyses are largely accurate.

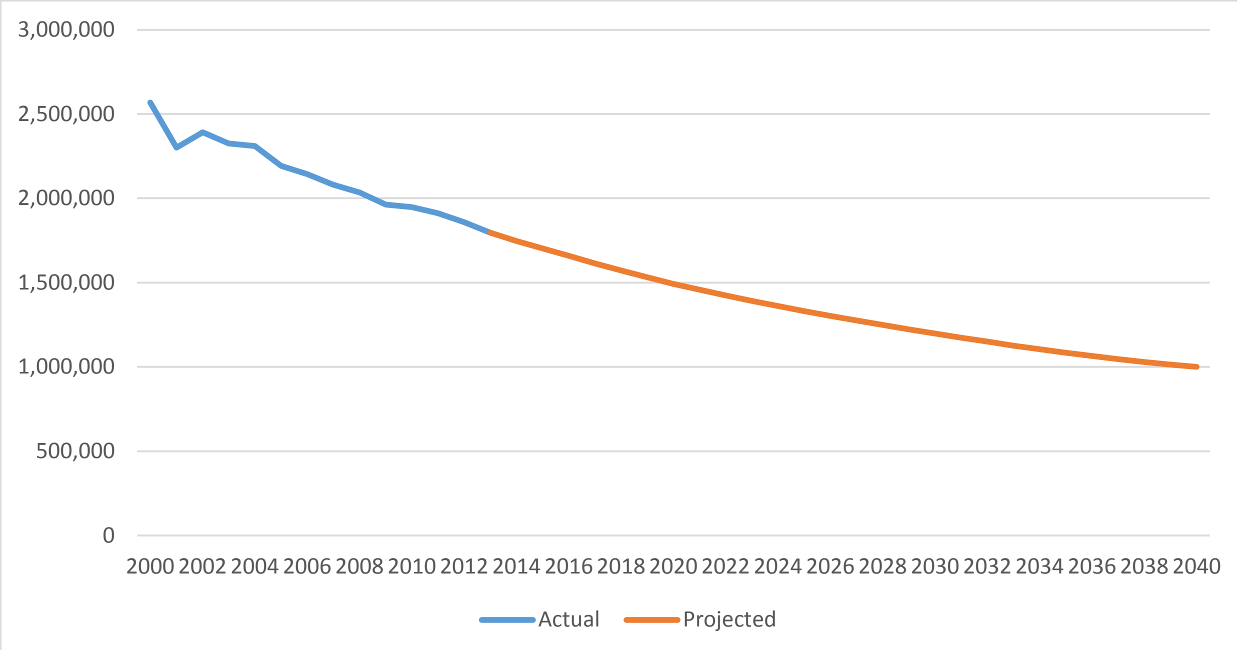
Additionally for the staff and efficiency analyses, projected figures for the Governor's Budget and CalVet productivity measures were assumed to be accurate measures of future expense and outcomes.

4. FINDINGS & ANALYSIS

4.1 Needs Assessment

The number of California veterans has steadily declined in recent years, with a 28% decrease from 2000 to 2012 (U.S. Census Bureau, 2000; U.S. Census Bureau, 2012c). The federal VA's Office of the Actuary's most recent Veteran Population Projection model indicates an expected 23% drop in California's veteran population over the next 10 years, as military separations and geographic relocations do not completely replenish the population each year (Figure 4) (VA, 2013).

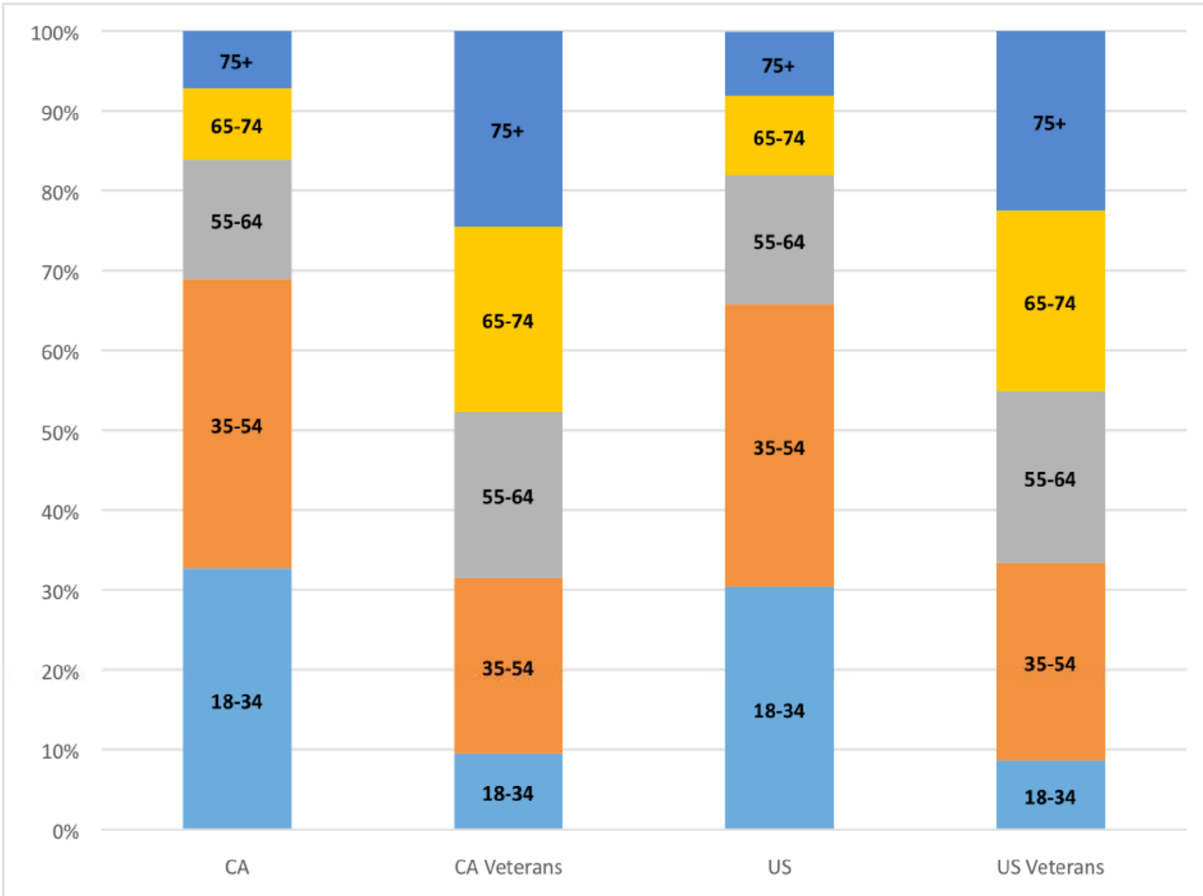
Figure 4.: California Veteran Actual and Projected Population



Source: 2012 American Community Survey and Department of Veterans Affairs, 2013

California's 1.86 million veterans differ from the general population in key demographic areas. Veterans are generally older than the larger population. Nearly 70% of California veterans are 55 years or older compared to just over 30% among the general population (Figure 5), a trend seen both in California and nationwide (U.S. Census Bureau, 2012c). The veteran population is more affected by homelessness: 2012 HUD data estimates that around 16,500 veterans remain homeless in California, representing 0.89% of the veteran population while the general population faces an estimated homelessness rate of about 0.46% (U.S. Department of Housing and Urban Development, 2012). However, veterans earn more on average, with a median individual income of about $40,500 compared to about $26,200 for the larger population. Correspondingly, 7.6% of California veterans are estimated to live in poverty as compared to 14.8% of the general population. More detailed demographic trends are found in Appendix 2.

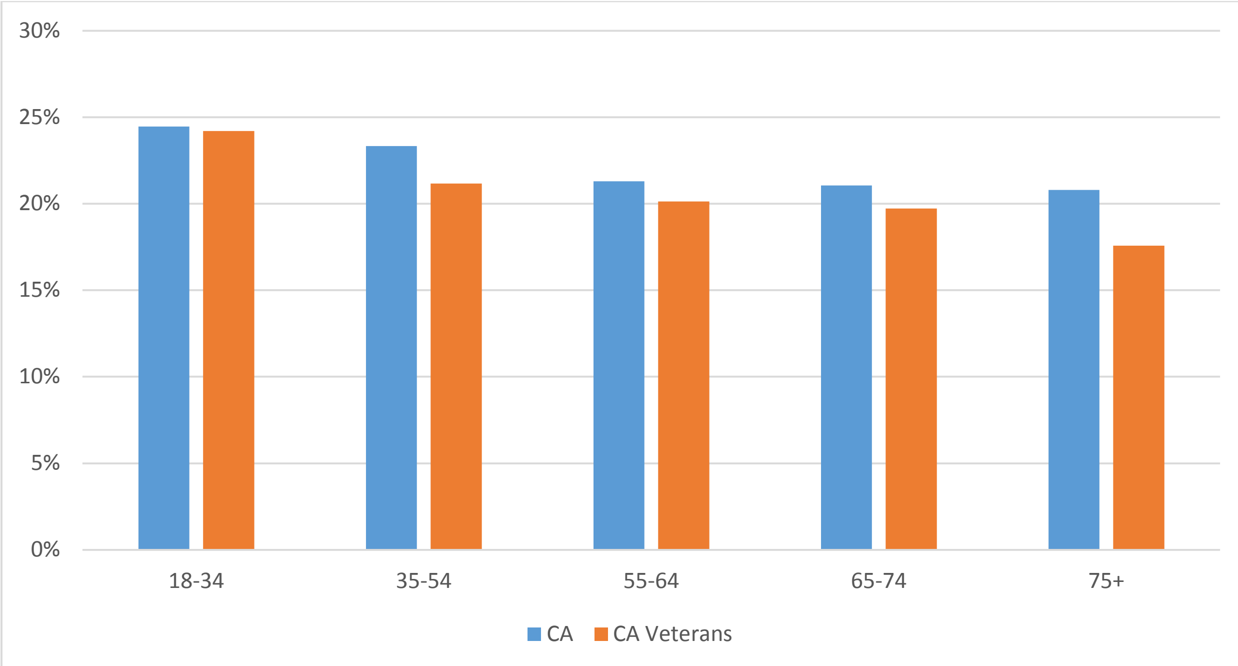
Figure 5.: Age of General and Veteran Populations in California and the U.S.



Source: 2012 American Community Survey

Housing costs appear to be slightly less of a burden on California veteran household incomes than those of the larger population. On average, about 20% of veteran household income is spent on either owner-related costs such as mortgage payments, utilities, and real estate taxes or renter-related costs such as rent and utilities. Statewide, nearly 24% of household income is devoted to these costs on average. This gap is most prevalent among older populations, where veterans 75 years or older devote about 3% less of their household income to housing costs compared to their counterparts in the general population (Figure 6). Younger age groups appear to face a similar housing cost burden on income. Among both statewide and veteran populations, the housing cost burden decreases with age, ranging from about 24.5% among those 18 to 34 years old to 20.8% among those 75 years old or older among the general population and from 24.2% to 17.6% among veterans (U.S. Census Bureau, 2012a).

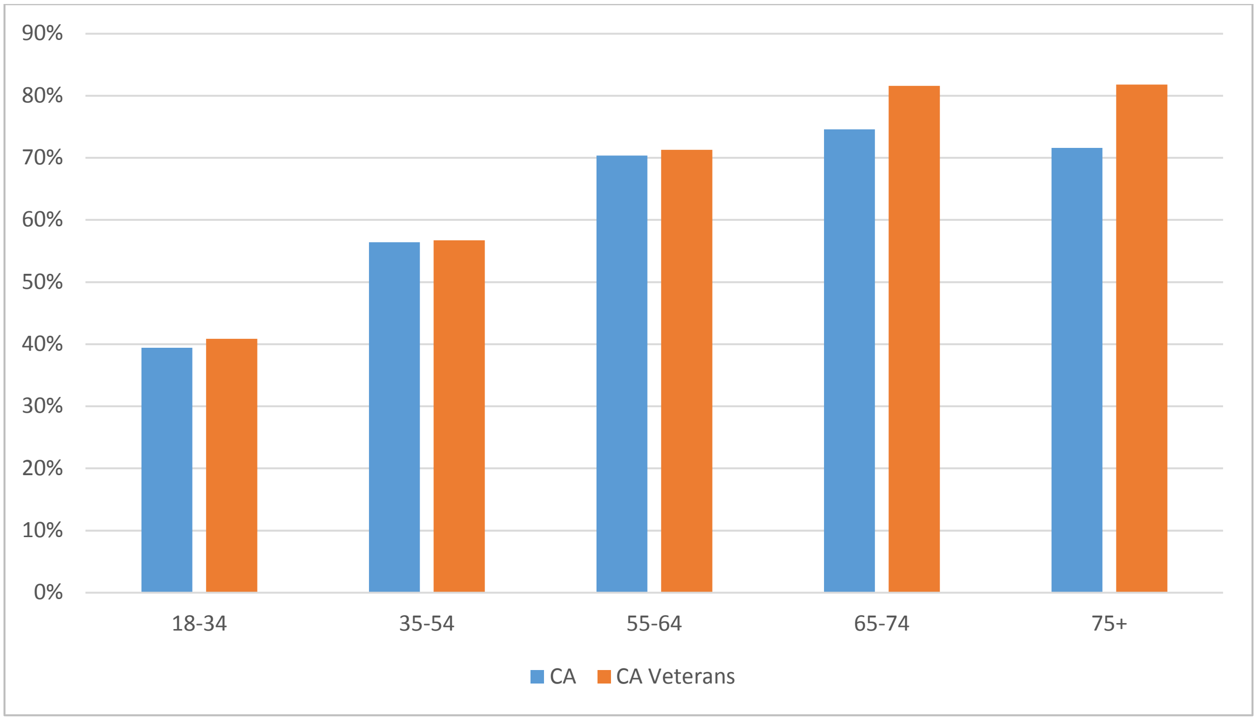
Figure 6.: Average Percentage of Household Income Spent on Housing by Age



Source: 2012 American Community Survey

Overall, veterans in California are more likely to own their homes as compared to the general population. About 70% of veterans in California own their homes either outright or through a loan, while statewide the homeownership rate is about 54%. Among both populations, homeownership rates generally rise with age. Rates range from 39.4% among the youngest age group to 71.6% among the oldest statewide and from 40.9% to 81.8% among veterans (Figure 7). Again, the gap between the general and veteran population is most apparent among older age groups. Among those 65 years or older, homeownership rates among veterans are about 7 to 10% higher than statewide trends, while there is little disparity between the two among the younger population. Among California veterans younger than 55 years old, about 45%, or about 265,000 veterans, rent their homes (U.S. Census Bureau, 2012a). Because CalVet offers 30-year mortgages, this estimation of veterans younger than 55 years old that do not own their homes is an indication of the size of the program's target population.

Figure 7.: California Homeownership Rate by Age

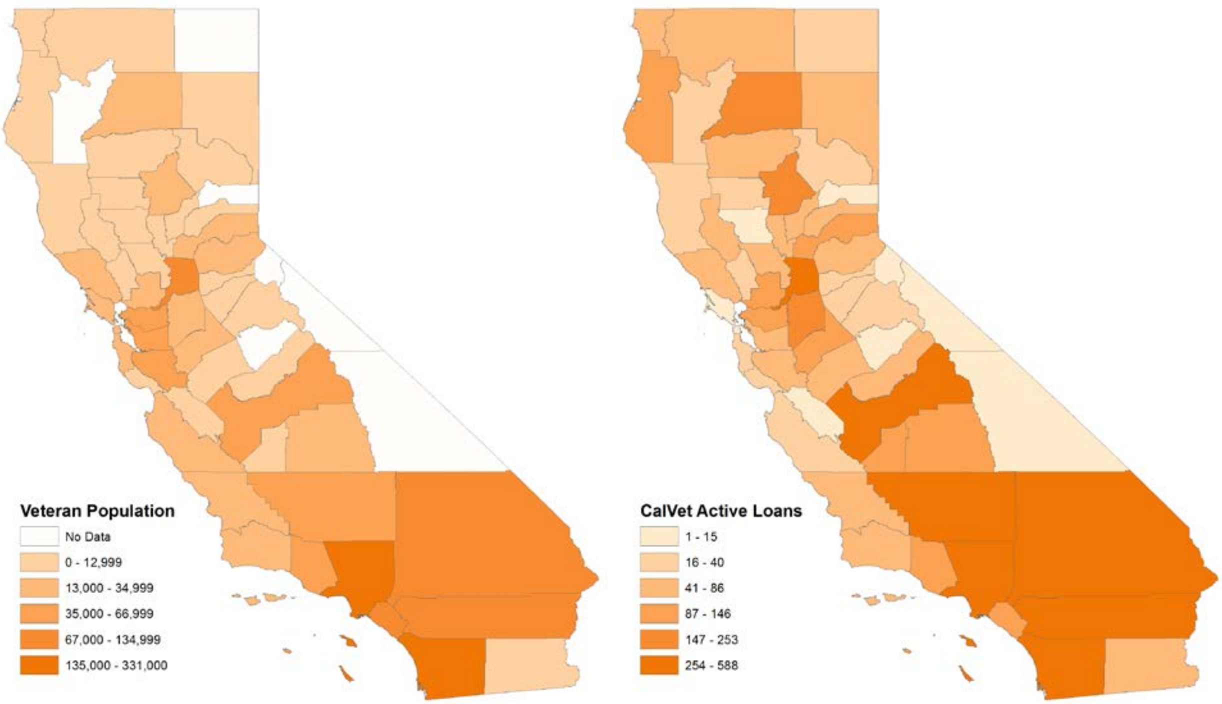


Source: 2012 American Community Survey

California veterans are also more likely to live in rural areas as compared to the statewide population. About 86% of the general population lives in one of the 6,916 census tracts that have been identified as within the urban areas defined by the 2010 Census. About 81% of the California veteran population lives in these urban census tracts. Because CalVet loan portfolio data describes individual loans using ZIP codes whose areas can vary greatly in size, two different methods are used to identify urban and rural ZIP codes. The first method identifies ZIP code areas that either contain or are within urban area delineations, resulting in 835 of the 1,769 ZIP codes classified as urban. This selection method suggests that about 47% of currently active CalVet loans and 49% of historical inactive loans belong or have belonged to veterans in urban ZIP codes. The second selection method uses the same criteria in addition to counting ZIP codes whose centers are within urban areas, resulting in 909 ZIP codes classified as urban. This method estimates that about 55% of active and 56% of inactive CalVet loans belong to veterans in urban ZIP codes. Both sets of estimates imply that the CalVet portfolio exhibits a higher proportion of rural veterans served than would be expected considering approximately 81% of California veterans live in urban census tracts.

The largest concentrations of veterans are found in Los Angeles and San Diego Counties, which account for around 555,000 veterans, or about 30% of the state's veteran population (U.S. Census Bureau, 2013d). Counties that are home to large veteran populations typically hold the largest amount of CalVet active loans. However, some counties including Orange and Santa Clara Counties have a significant number of veterans, but a relatively low number of active CalVet loans (Figure 8).

Figure 8.: Distribution of California Veterans and CalVet Active Loans by County



Source: 2012 American Community Survey and CalVet Historical Loan Portfolio Data

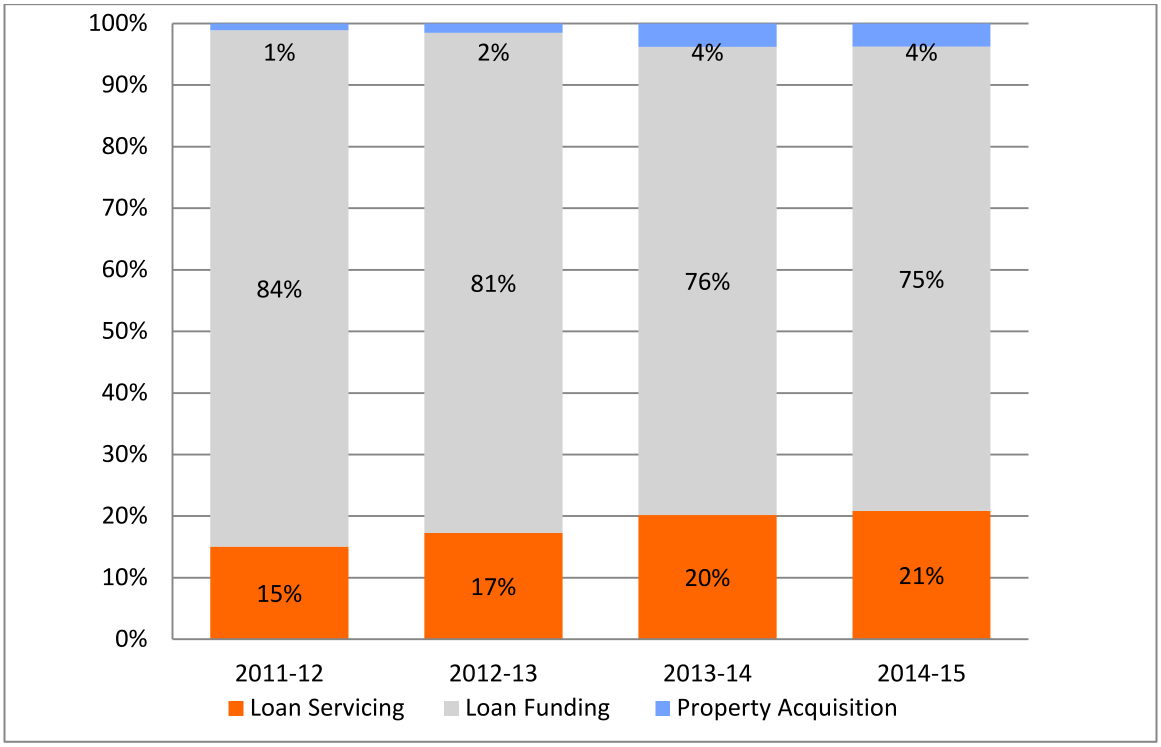
4.2 Financial Efficiency Analysis

Program Expenditures & Allocation Overview

According to updated figures from California's Governor's Proposed Budget Detail, for General Government, Department 8950, Department of Veterans Affairs The Farm and Home to Veterans Division has spent an average of $62.7 million each year since the 2011-12 fiscal year. When examining these expenditures from the 2011-12 fiscal year through the projected 2014-15 fiscal year, total state expenditures for this department have decreased by 14%, with a compound average decrease of approximately 5%. These costs are comprised of three main operational activities: property acquisition, loan funding and loan servicing (California Governor's Budget, Detailed Expenditures by Department, 2014).

From the 2011-12 fiscal year through the projected 2014-15 fiscal year, seen in Figure 9 below, property acquisition expenditures are expected to increase by almost 200%, with a compound average growth rate of about 42% while loan funding expenditures are projected to decrease by 23%, with a compound average decrease of approximately 8%, and loan servicing costs are projected to increase by 19%, with a compound average growth rate of approximately 6%. Appendix 5 presents these figures in more detail.

Figure 9.: CalVet Farm and Homes Veteran's Division State Expenditures

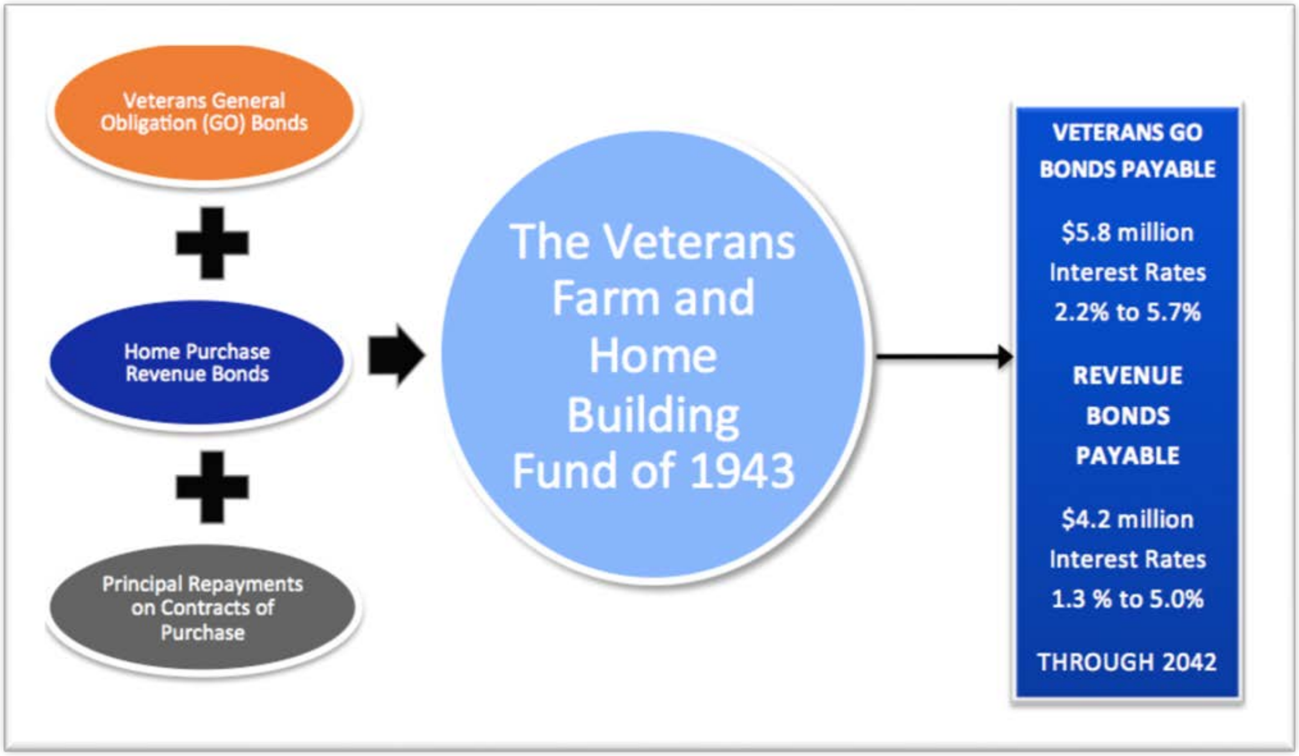


Source: Detailed Expenditures by Program 2014-15 Estimates, California Governor's Budget, 2014

When examining the breakdown of these operational activities, it is clear that the CalVet Farm and Homes Veteran's Division spends the vast majority of its available funds on funding home and farm loans, followed by servicing expenditures and then property acquisition operational activities (California Governor's Budget, 2014). However, it is complex to evaluate these costs on "true dollars spent" basis, as all state program expenditures are not true costs. Over time all loan funding costs are repaid through program repayment inflows, and the other costs are covered by interest returns on these inflows.

As mentioned in the Program Structure discussion, the Veterans Farm and Home Building Fund of 1943 is the primary fund used for the CalVet Farm and Home Program. Financing for Contracts of Purchase (new loan originations) are derived from: the sales of Home Purchase Revenue Bonds, Veterans General Obligations Bonds, principal prepayments of Contracts of Purchase, and other Program revenues not needed to meet Fund operating costs and debt service requirements of the bond portfolio (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013).

Figure 10.: CalVet Financial Structure and Bonds Payable



Source: Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013

The interest payments that CalVet collects on these Contracts of Purchase or mortgages, along with the payouts from several other investments in the portfolio repay the servicing costs and administrative costs associated with the program. In practice, the CalVet Home Loans Program does not cost the state of California anything, but in theory the opportunity costs of utilizing the bond funds for this program, as opposed to other types of services for veterans to acquire property remains unknown. In order to evaluate for the true "opportunity costs" of using these bonds, they would need to be compared on the basis of what other programs could be available, this discussion will be revisited in the discussion section that follows the analysis section.

Expenditures & Fund Outflows

As shown in Figure 10 above, "true expenditures" are primarily for loan servicing/debt servicing and property acquisition, which encompasses administrative costs related to the program. Other than $16.9 million from the Pooled Self Insurance Fund (a little over 7% of the total fiscal expenditures) that were allocated to cover a small portion of loan funding operational expenditures, all of the funds for these activities were obtained from The Veterans Home Building Fund of 1943 discussed above (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013).

Fund Inflows & Outstanding Bond Debt

In terms of the 1943 main program fund principal repayments of contracts of purchase for the years ended June 30 2013, and 2012 are $228.7 million and $179.7 million, respectively, while special and optional redemption over the same period were $195.6 million and $391.3 million, respectively. Special and optional redemption in 2012 specifically related to an opportunity for the department to refinance $321.6 million of the outstanding bond portfolio at significantly reduced rates. According to recent communications with CalVet's financial oversight team, "The Department will continue to look for strategic opportunities to issue additional Veterans G.O. Bonds or Revenue Bonds" (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013; personal communication: Eric Tiche, April 25, 2014). Additionally, the fact that CalVet was able to refinance high interest rate callable bonds has had a profound effect on general fund health and the program's ability to offer lower interest rates on its mortgage products.

Additional Relevant Funds

CalVet also operates a Pooled Self-Insurance Fund ("PIF"), which separates insurance risk from program inflows. They are required by state law to pay all insurance claims from this separate fund. California state law further provides that each of the Department's insurance reserves be "self-sufficient and adequately maintained." The main program 1943 Fund audits discussed below include an asset that was the original cash advance of seed capital transferred to the PIF years ago. According to the 2012–13 Moss Adams Independent Financial Audit, The PIF has a combined reserve of $27.2 million, which is divided into the following sub accounts:

a. The Disaster Indemnity Fund, covering earthquake and flood risks
b. The Fire and Hazard Insurance Fund
c. The CalVet Legacy Self-Insurance and Disability Fund
d. The CalVet Primary Mortgage Insurance Fund

CalVet's Revenue Bonds also require a reserve fund in an amount equal to no less than 3% of the aggregate outstanding principal of all revenue bonds with interest rates fixed to maturity. The Veterans Debenture Revenue Fund ("VDRF") was established to segregate the bond reserve requirements. At June 30, 2013 and 2012, the total assets of the Veterans Debenture Revenue Fund are shown as a receivable of the Fund. Complete financial statements of the VDRF can be obtained by contacting the Department (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013).

Accounting Analysis

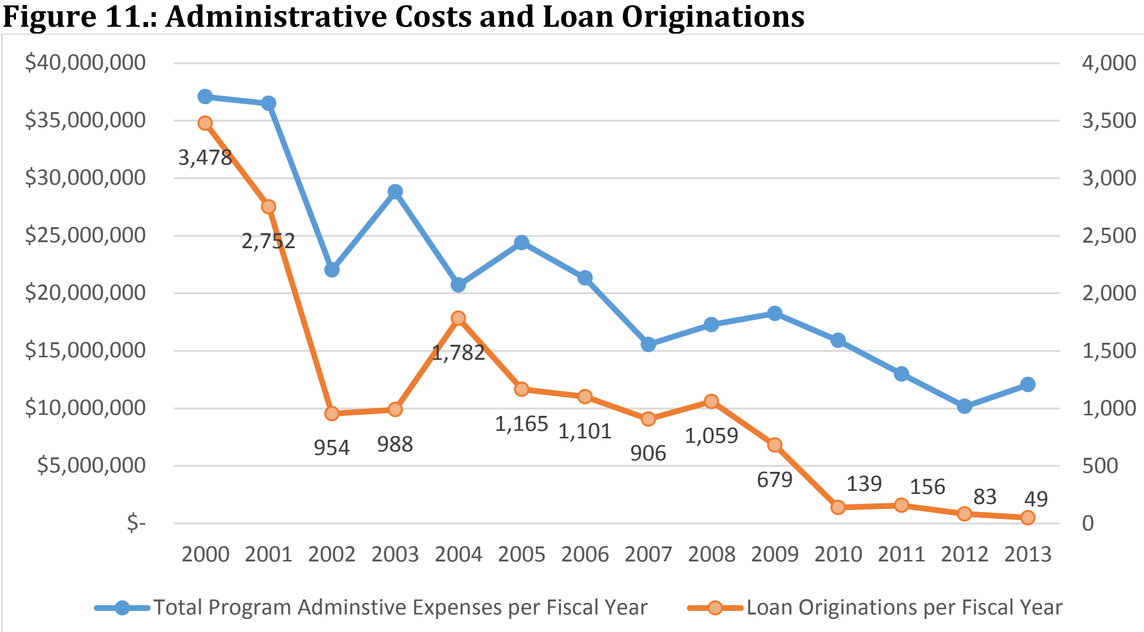
The Summarized Statement of Revenues and Expenses in Appendix 5 shows that CalVet is losing some money each year, and anywhere from $12.9 million to $4.3 million on losses from the sales of Real Estate Owned (REO) properties. In 2010, the organization used to provide more funding towards potential program losses. The percent of funds allocated for this purpose started at 1.4% of total program liabilities, and in 2013 was only .4% of total program liabilities, these trends are most likely driven by macroeconomic factors.

After creating and examining a Summarized Statement of Net Position, the main program fund's Assets over Liabilities, which can be seen in Appendix 6, the most prevalent characteristic seen in the balance sheet is the sharp reduction in the value of loans outstanding to veterans – or what is called "receivables under contracts of purchase, net." The organization's loan principal outstanding has fallen 39% since 2010. In the "Management Discussion and Analysis" section of the Moss Adams audit, this reduction is categorized as "a function of repayments of contracts of purchase outpacing the origination of new contracts of purchase due to limited demand stemming from the interest rate environment during the fiscal year ended June 30, 2013" (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013). In other words, fewer veterans want to borrow from CalVet due to non-competitive interest rates. Despite the fact that CalVet's rates are now competitive at 3.9%, they were higher than market rates for much of the time since 2004.

In any case, CalVet has decreased their lending activity since 2010, and if they are operating efficiently, their operating expenses should decrease proportionally according to traditional theories of organizational efficiency. In other words, if CalVet is making fewer loans, the expenses associated with those loans should decrease as well. Figure 11 tracks administrative spending against new loan originations.

In terms of administrative program costs, figures from 2000 onwards were recorded from the annual program audits and measured them against CalVet "activity," or new loan originations per year. Several initial conclusions can be drawn from the information below. Despite the fact that loan originations have decreased sharply since 2000, administrative costs have only declined somewhat. Essentially, CalVet has become less productive as a lending agency and this failure to lend has resulted in a serious deficiency of outflows over net assets paid as can be seen from the analysis of the Moss Adams 2012-13 1943 Home and Farm Loan Fund Balance Sheet in Appendix 6.

Figure 11.: Administrative Costs and Loan Originations



Source: Financial Audits & CalVet Loan Origination Reports

What this figure cannot show is the important difference between fixed and variable expenses, which is an important distinction for a smaller lending organization like CalVet. While their variable expenses operating margins should remain flat regardless of productivity, their fixed expenses operating margin will increase as they deliver (or payoff) existing fixed costs against declining revenues.

Basic Efficiency Metrics
In the previous 2012-13 fiscal year, CalVet spent a total of $10.08 million on total net program administrative expenses, which includes the payroll and the cost of servicing loans and excludes the loan funding expenses, as these are repaid through program inflows. According the current active loan portfolio data, CalVet issued 72 new contracts of purchase in the 2012-13 fiscal year, in addition to maintaining and servicing a total of 48,915 existing loans, resulting in expenditures of $205.67 dollars per participating veteran. Consequently, in one fiscal year, CalVet spent approximately $10 million originating, servicing and providing home loan customer support services to a total population of 48,987 veterans. This is roughly 2.6% percent of the current state veteran population of approximately 1.8 million veterans.

Efficiency Metrics & Comparison to Industry Standard
CalVet's current loan production efficiency exhibits slightly worse performance than seen in the private sector. In the current 2013-2014 fiscal year, CalVet has funded 199 loans as of April 30 and expects to write a total of 250 loans by June 30, 2014, the end of the fiscal year. Using CalVet's loan production and cost projections for the remainder of the 2013-2014 fiscal year, the program's net cost to originate ratio, or total loan production operating costs excluding fee income divided by loans written, is expected to amount to $6,097 (CalVet, 2014d). The Mortgage Banker Association's (MBA) Quarterly Mortgage Bankers Performance Report indicates that in the fourth quarter of 2013, the national average net cost to originate ratio among mortgage lenders was $5,171 (National Mortgage Professional, 2014). CalVet's net cost to originate ratio, 18% higher based on current fiscal year projections, would match the market average if expenses were maintained and an additional 45 loans were written. CalVet forecasts 400 loans written for the 2014-2015 fiscal year which, if expenses were held constant, would result in a net cost to originate ratio of $3,811, 26% lower than the national average (CalVet, 2014d).

Interest Rate Comparison
Historically, CalVet loan interest rates have been very competitive with rates offered in the broader lending market (Figure 12). An analysis of interest rates, beginning in December 1974, indicates that the average CalVet loan interest rates have been consistently lower than average lending market rates in almost every month leading up to the mid-2000s. Until the early 1990s, average CalVet interest rates were significantly lower than those offered in the traditional lending market, reaching gaps as large as 11.48 percentage points in October 1981. In recent years, however, the average CalVet home loan interest rate has been less competitive, especially beginning around 2009 when market rates began to dip below CalVet rates. After May 2013, however, the two rates have been within 0.5 percentage points of one another. The closing of this gap may be attributed to CalVet efforts

to refinance some of its outstanding bond debt at lower interest rates through special redemptions (Farm and Home Building Fund of 1943 Independent Audit, Moss Adams LLP, 2013). In total, CalVet loan interest rates have been lower than lending market rates in approximately 84% of the 468 months considered.

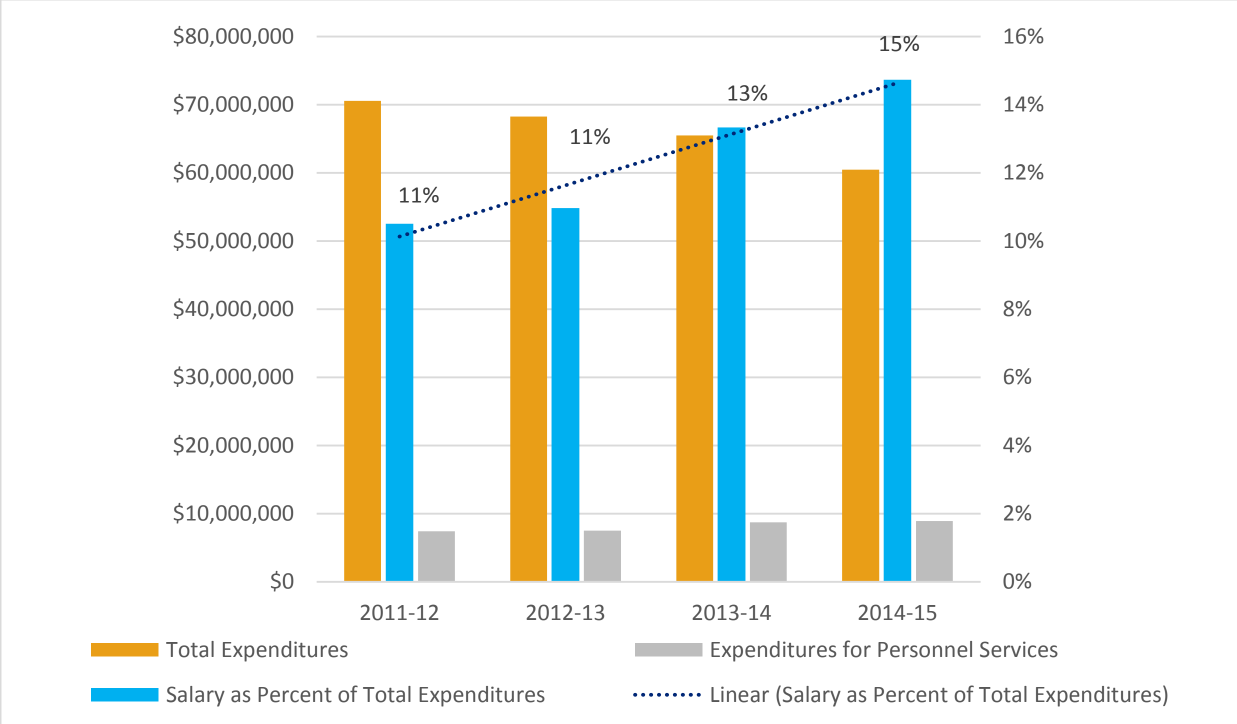
Figure 12.: Market vs. CalVet Portfolio Interest Rate

Source: Freddie Mac Private Mortgage Market Survey and CalVet Historical Loan Portfolio Data

Staff Analysis Results

CalVet Home Loans staff allocation and expenditures are broadly summarized and projected in the Three Year Expenditures and Poisitons Summary of The 2014-2015 California Governor's Budget. As of the January 10, 2014 projections, CalVet staff was reported at 104 full time postions, representing an increase of 20 percent from the prior fiscal year's staffing levels. The average salary within the organization stayed fairly constant at around $85,000 annually.

Figure 13.: Salary Expenditures as Porportion of Adminstrative Costs



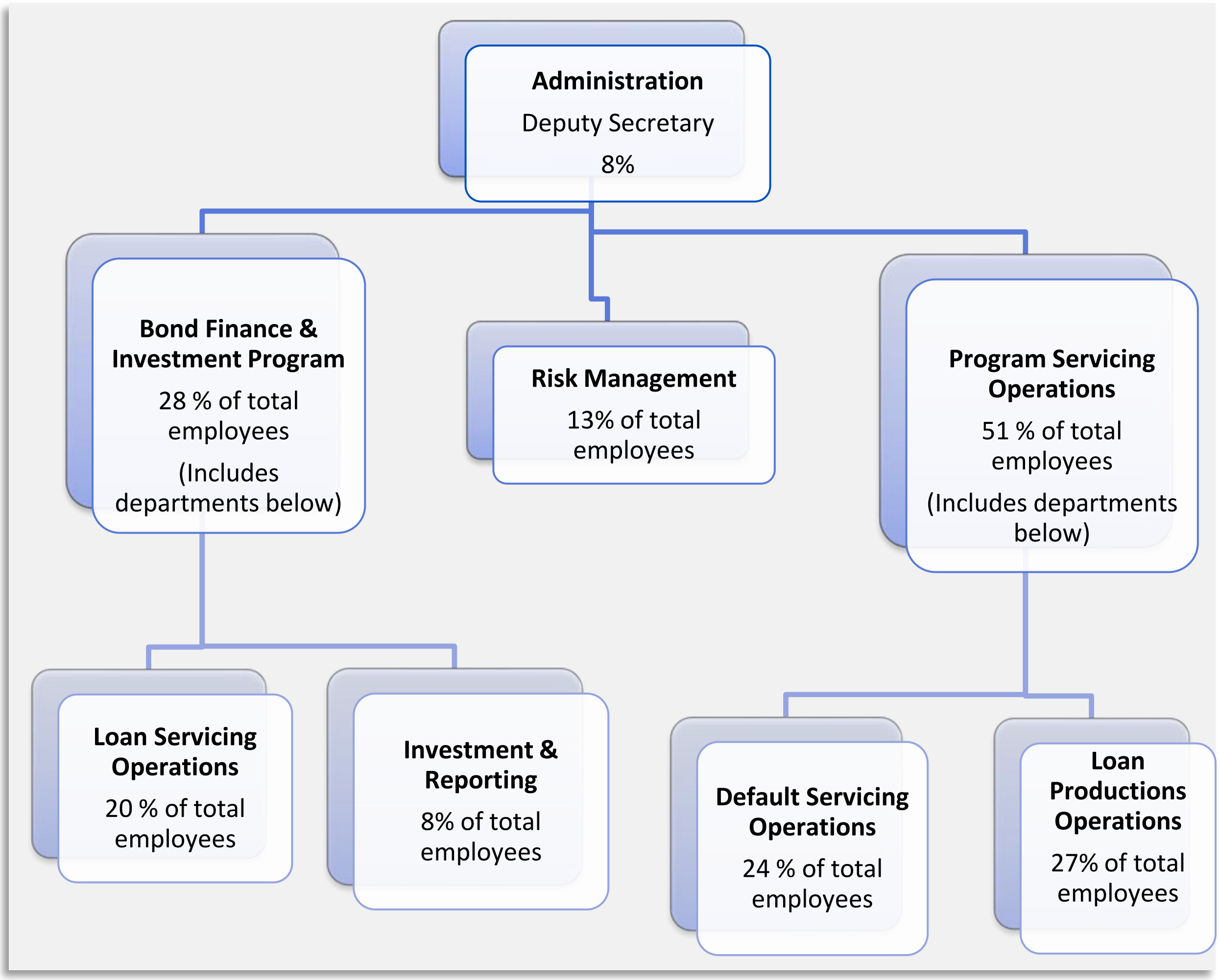
Source: 2014-2015 California Governor's Budget, 3 Year Expenditures and Positions Estimates, Department of Veterans Affairs, Fund 8950, Farm and Home Loans to Veterans, Classification 10

Despite the fact that Total Program Expenditures decreased by approximately $1 million between the 11-12 and 14-15 fiscal years, adminstrative costs increased from 11% to 15% of the total program expenditures according to the Governor's Budget figures.

Staff Classifications & Salaries

According to The CDVA Internal Salary and Staff Classifications, The Farm and Home Division has 67 positions, and 7 of these are currently vacant. The discrepancy between these figures and Governer's Budget Figures of 104 departmental positions, is due to the fact that 37 of those 104 positions are support roles including but not limited to: Information Services, Human Resources, Accounting, Procurement and Legal.

Figure 14.: Department of Veterans Affairs Division of Farm and Home Purchases



Source: Division of Farm and Home Purchases Organizational Chart, 2014

These 67 "direct" CalVet staff positions can be seen more clearly in the organizational chart in Appendix 7, however the division of labor is summarized by department and position allocation below. Roughly 30% of employee time and salary is allocated toward Bond Financing and Investment while about 50% of staff is concentrated towards Program Servicing Operations. Similarly, less than 30% of the employees at CalVet actually work towards originating new loans. The vast focus of their effort goes towards serviving loans and managing existing debt and realtioships with current borrowers. In addition to the Deputy Secretary, there are upper level management positions for Loan Production Operations, Servicing Operations, Default Servicing Operations, and Risk Management. In order to further explore the organization, salary ranges were obtained for each position. Each position and the relevant salary ranges were analyzed in from minimum to median and median to high points, to assess how low, medium and high end pay might be driving the aforementioned recent spike in administrative cost.

Table 1.: Salary Sensitivity Analysis by Department

Department	Minimum	%	Median	%	Maximum	%	Range from Max to Min
Administration	$21,205	8 %	$32,956	10%	$44,708	12%	$23,503
Loan Servicing Operations	$55,185	20 %	$61,983	19%	$68,781	19%	$13,596
Investment & Reporting for Financing	$22,353	8 %	$25,242.50	8%	$28,132	8%	$5,779
Risk Management	$36,407	13 %	$40,592.50	13%	$44,778	12%	$8,371
Default Servicing Operations	$68,424	24 %	$76,622.50	24%	$84,821	23%	$16,397
Loan Processing Operations	$76,311	27 %	$85,499.00	26%	$94,687	26%	$18,376
Total	$279,885	100%	$322,896.00	100%	$365,907	100%	$86,022

It is clear from Table 1 above that the difference from a high to low salary scenario could mean annual difference or savings of about $80,000. Also it is important to note that CalVet positions are primarily State Civil Service Positions, which would mean potential flexibility in terms of options to negotiate these salaries.

Taking a closer look at staff positions, it is clear that the mid-level Associate Property Agent position is the most common, followed by the lower level Program Technician II position. It is apparent from a detailed review of the position titles and a review of the position descriptions of state of California government position descriptions that most CalVet workers engage in skilled labor (California Position Descriptions, 2014).

Table 2.: Salary Sensitivity Analysis by Position

Class Title	Total Positions	Min Scenario	Median Scenario	Max Scenario
Office Technician Typing	1	$2,686	$3,024	$3,362
Office Assistant Typing	2	$4,286	$5,054	$5,822
Financing Associate	1	$4,400	$4,954	$5,508
Financing Specialist	2	$9,666	$10,883	$12,100
Financing Officer	1	$6,144	$6,879	$7,613
Assistant Property Agent	2	$7,316	$8,237	$9,158
Associate Property Agent	27	$118,800	$133,758	$148,716
Senior Prop Agent	6	$31,872	$35,739	$39,606
Supervising Prop Agent	4	$25,828	$27,578	$29,328
Associate Govt. Program Analyst	2	$8,800	$9,908	$11,016
C.E.A. (Management)	3	$18,519	$29,933	$41,346
Supervising Program Technician II	2	$5,906	$6,651	$7,396
Program Technician	1	$2,280	$2,672	$3,064
Program Technician II	13	$34,294	$38,630	$42,965
Total Positions	67	$280,797	$323,899	$367,000

4.3 Risk Analysis

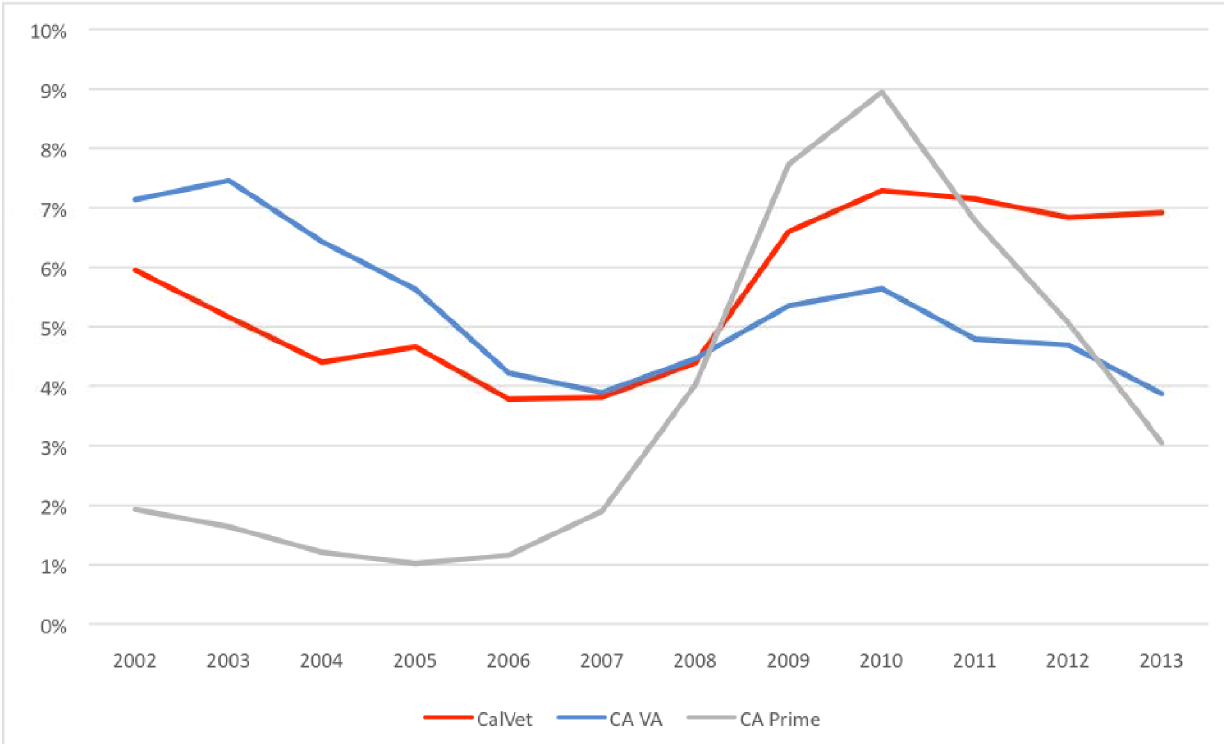
Fund Insurance & Backing Summary

In terms of Loan Portfolio Insurance, 68% of the CalVet's current loan balance is insured. Among these insured loans, 27.5% is guaranteed by the Federal VA, 33.4% is covered by Radian private insurance, and 6.7% is insured by the CalVet Private Mortgage Fund Insurance. Currently only 32% of the balance is not insured and of these 28.2% are 80/20 products, which include 20% down payment to hedge against default. An additional 4.2% of these uninsured loans include low-balance loans such as home improvement loans.

Delinquencies and Cancellations

Over the last 12 years, CalVet loans have exhibited comparable performance with respect to delinquency and contract cancellation (foreclosure) rates. The percentage of CalVet loans delinquent by 30 or more days has varied between 3.8% and 7.3%. In 2013, 6.9% of CalVet loans were 30 or more days delinquent compared to a reported 3.9% among California VA guaranteed loans and 3.1% among California prime loans as classified by the MBA's National Delinquency Survey (Figure 15).

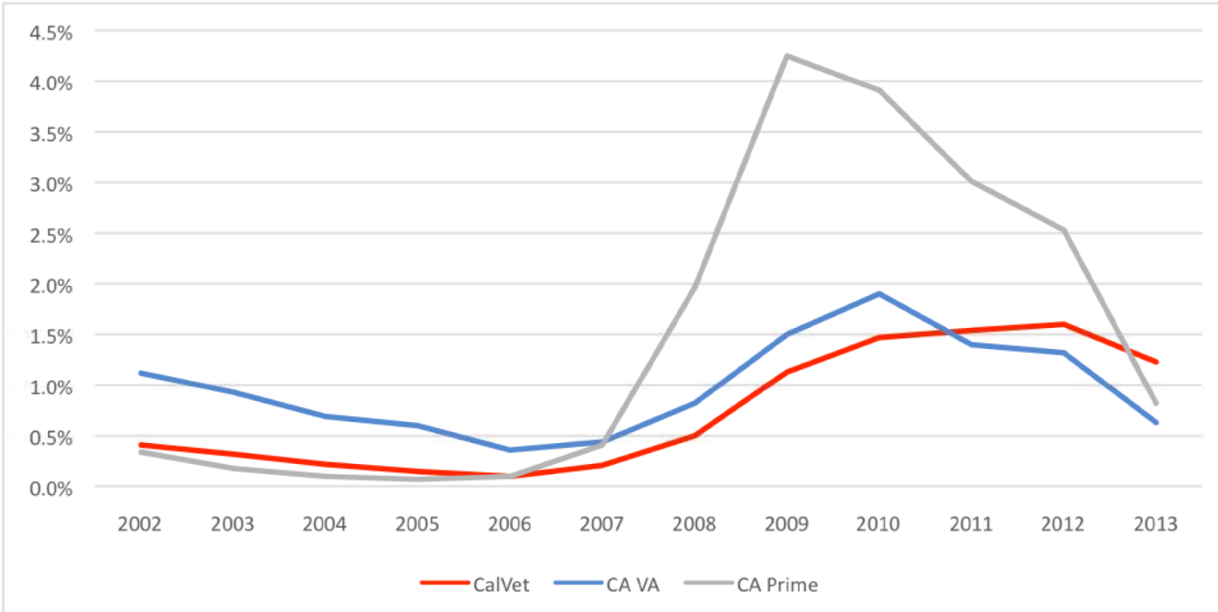
Figure 15.: Percentage of Loans 30 or More Days Delinquent



Source: Mortgage Bankers Association of America's National Delinquency Survey and CalVet Department Financial Information and Operating Data

Over the same time period, the percentage of CalVet contract cancellations (foreclosures) and real estate in inventory has followed the same trends as the wider California market (Figure 16). Until recently, CalVet has outperformed California VA guaranteed loan performance in this regard and did not experience an increase in foreclosures of the magnitude seen among California prime loans following 2007. In 2013, 1.2% of CalVet loans were cancelled or real estate in inventory, compared to 0.6% of California VA guaranteed loans and 0.8% of California prime loans being foreclosures in inventory.

Figure 16.: Percentage of Loans in Foreclosure or Inventory



Source: Mortgage Bankers Association of America's National Delinquency Survey and CalVet Department Financial Information and Operating Data

Loan Modifications

Of the 50,010 active and inactive loans included in the CalVet loan portfolio data sourced in November 2013, 961, or 1.92%, had been modified at least once (Table 3). This data reports only the most recent modification date and thus does not indicate whether a loan has been modified more than once. The most common modification across the portfolio is a contract term extension, which accounted for about half of the loan modifications. Military deployment and hardship deferrals of principal and interest payments account for about one third of loan modifications. Modifications under the Servicemembers Civil Relief and Keep Your Home California Acts represent the remaining portion of the modifications.

Table 3.: Historical Portfolio Data Loan Modifications

	Number	Percent
Extensions of Contract	482	0.96%
Loans Modified Under the Servicemembers Civil Relief Act	7	0.01%
Loans Modified Under the Keep Your Home California Act	8	0.02%
Loans Modified Under the Keep Your Home California Act - Principal Reduction Program	140	0.28%
Hardship Principal Deferrals	2	0.00%
Military Principal Deferrals	25	0.05%
Hardship Interest Deferrals	257	0.51%
Military Interest Deferrals	40	0.08%
Total Loans Modified	961	1.92%
Total Loan Originations	50010	100.00 %

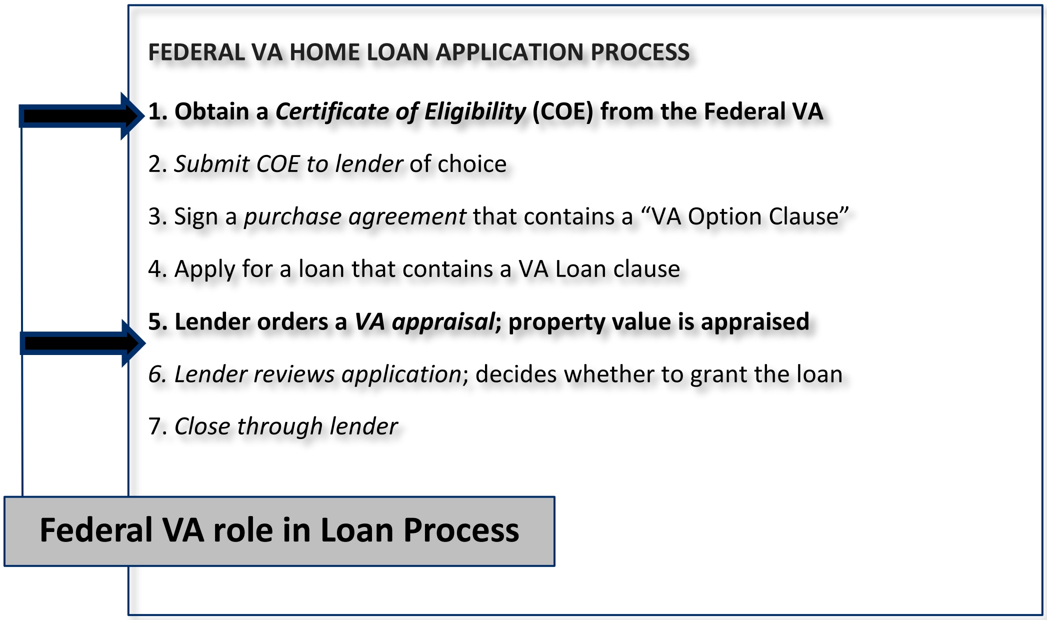
Source: CalVet Historical Loan Portfolio

4.4 Qualitative Findings

The Federal VA Home Loan Guaranty Program

The Federal VA program does not provide loans to veterans – it offers a loan-backing guaranty on VA home loans that are processed and serviced by third-party lenders. The applicant must submit a Certificate of Eligibility (COE) and work with his/her lender of choice in order to apply for a VA Home Loan. After completing the loan application, a VA Appraiser provides an estimate of the market value of the selected property. The lender then reviews the veteran's profile of credit, income, and assets in a comprehensive manner, with no minimum credit score required. Following the loan approval, the veteran closes on the loan with the lender. All servicing responsibilities fall to the owner of the loan, whether that is the original lender or a servicer who has subsequently purchased the loan.

Figure 17.: Federal VA Home Loan Application Process



Source: Department of Veterans Affairs, 2014

A VA Home Loan allows for a number of benefits. As with CalVet, the veteran receives a competitive interest rate. Additionally, the veteran typically does not need to purchase private mortgage insurance (PMI) or provide a down payment. A down payment is only necessary if the sale price exceeds the appraised value. There is no minimum credit score condition – the lender training guide requires a consideration of the applicant's entire profile. The VA allows for a 41% debt-to-income ratio, which is more relaxed compared to a traditional ratio of 36%. In terms of negotiable costs and fees, the Federal VA limits on closing costs, prohibits prepayment penalties, and requires forbearance for temporary financial difficulty.

In terms of customer service, the Federal VA does offer assistance through their Regional Loan Centers when lenders cannot answer questions sufficiently during the loan application process. During the loan, the loan servicer is responsible for all customer service issues and assisting the veteran when repayment issues arise. In the event that a loan is delinquent and the veteran cannot get assistance from her or her servicer, trained VA Loan Technicians at the VA Regional Loan Centers can intercede on the veteran's behalf to get help from the servicer.

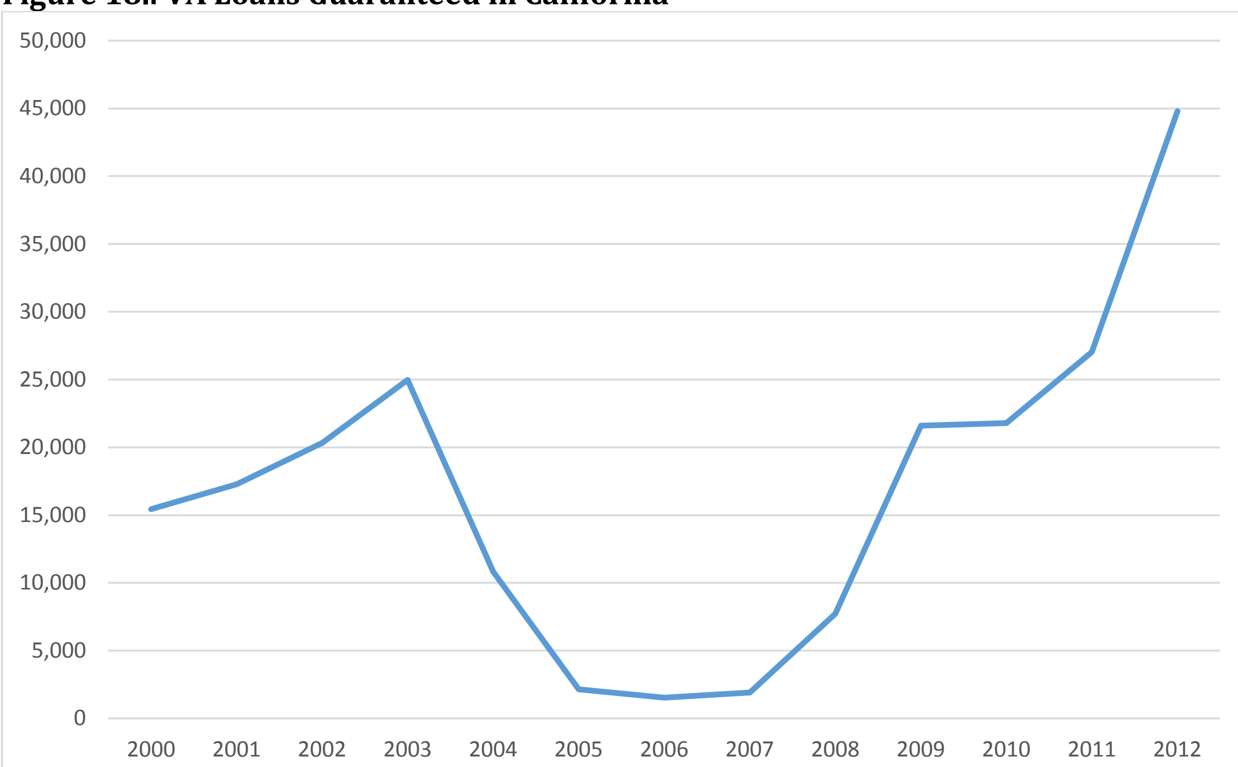
Eligibility requirements are slightly different from the CalVet requirements (see Appendix 8 for a full comparison). A veteran who has served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard after Sept. 15, 1940, discharged under conditions other than dishonorable, is eligible after either at least 90 days wherein at least part occurred during wartime, or at least 181 continuous days in peace time. For veterans who enlisted and began service after September 7, 1980, or entered service as an officer after October 16, 1981 – veterans must have completed either 24 months of continuous service

OR the full period for which they were called or ordered to active duty (no less than 90 days in wartime, 181 in peacetime).

VA Home Loan Guaranty Program Activity

The VA's Veterans Benefits Administration (VBA) reports an increase in VA Guaranty Program activity in California in recent years (Figure 18). Although the VA guaranteed less than 2,500 loans in California between 2005 and 2007, loans guaranteed have risen to about 44,800 in 2012 (Department of Veterans Affairs, 2014). It must be noted that these figures are not directly comparable to CalVet loan originations. First, and most apparent, the VA program figures include loans guaranteed through every participating lender in California, whereas CalVet is a single lending institution. In addition, the VBA's Annual Benefits Reports do not differentiate state data by loan type, meaning these figures account for interest rate reduction and other refinancing loans in addition to home purchase loans. In 2008, refinancing loans accounted for about 63% of total VA loans guaranteed nationwide and 19% in 2012 (Department of Veterans Affairs, 2014).

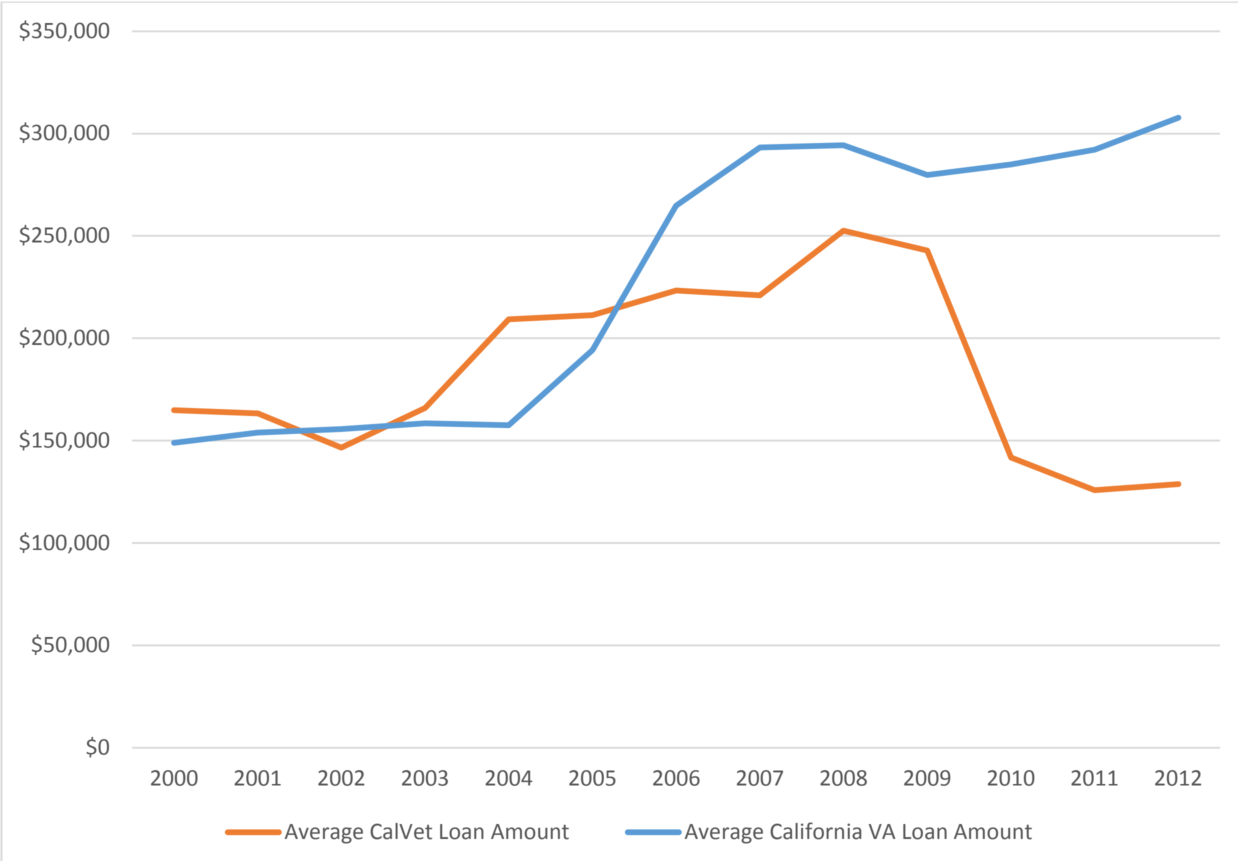
Figure 18.: VA Loans Guaranteed in California



Source: Veterans Benefits Administration Annual Benefits Reports

Comparing the average loan amounts written by CalVet or guaranteed by the VA reveals a widening gap between the two programs (Figure 19). Since 2006, the average loan amount guaranteed by the VA in California has exceeded that of loans written by CalVet. This may be an indication that, especially recently, the two programs may be serving different segments of the veteran population. Specifically, it could indicate that the CalVet program is succeeding in serving veterans that are in more need than those served by the VA program.

Figure 19.: Average California VA and CalVet Loan Amounts by Fiscal Year



Source: Veterans Benefits Administration Annual Benefits Reports and CalVet Historical Loan Portfolio Data

Other State Programs

Two states that have programs which offer state veteran home loan services beyond the Federal VA loan are Oregon and Texas. Wisconsin previously offered a program as well, but it is now under an indefinite moratorium. All other states have the Federal VA loan available to their veterans through the federal program or through third-party housing services organizations.

Oregon – ORVET Home Loan is the Oregon Department of Veterans' Affairs' (ODVA) home loan program. This program is comparable to the CalVet program: ORVET provides competitively low interest rate home loans up to $417,000, which it funds and services in-house. ORVET home loans are restricted to single-family, owner-occupied home purchases only. Condominiums and townhouses may be funded for up to 95% of the purchase price. Ineligible loans include farm, rental property, and construction loans. Restrictions on home improvement loans leave most veterans ineligible to receive them. Private Mortgage Insurance (PMI) is required on initial mortgage refinance transactions if the borrower provides less than 20 percent down payment. Mortgage insurance is also required when more than 80 percent of the borrower's equity is in the property being refinanced.

Texas – The Texas Veterans Land Board (VLB) is a department of the Texas General Land Office established in 1946 to provide land to veterans returning from World War II. The VLB offers a competitive rate home loan program for veterans, in addition to land and home improvement loans, funded through a voter-approved bond program. Home purchase loans for up to $417,000 are offered at fixed rates for 15 to 30 years. While the VLB funds the loans, the application process originates with a participating lender. An interest rate reduction of one-half of one percent the available VLB interest rate is offered only to disabled veterans with a verified service-related disability at least 30 percent or greater. This reduced rate is also available to eligible unmarried surviving spouses of service members killed in the line of duty.

Wisconsin – The Wisconsin Department of Veterans Affairs (WDVA) enacted an indefinite moratorium on its Housing and Home Improvement Loans Program, effective December 1, 2011 (Wisconsin Legislative Council, 2013). Under this moratorium, the department continues to service existing loans; however, all new loan inquiries are now directed to the Wisconsin Housing and Economic Development Authority Advantage Program (WHEDA), an independent agency that operates separately from the state. Veteran home loan benefits include a waiver of the first-time home buyer requirement and potential eligibility for a tax credit of up to $2,000 per year under the WHEDA Tax Advantage mortgage credit certificate program initiated in 2013 (Wisconsin Housing and Economic Development Authority, 2014).

In a November 2011 memo to county veterans service officers and authorized private lenders (State of Wisconsin, 2011), the WDVA cites an inability to maintain a competitive interest rate as the primary reason for the moratorium. The WDVA program financed its primary mortgage and home improvement loans with general obligation bonds and was designed to be self-amortizing. Consequently, the interest rate needed to keep the program solvent surpassed the average conventional market rate, and no new loans had been issued since November 2009 due to all program funds having been fully committed. Additionally, a decrease in demand for the program reinforced the decision of the department to refocus its efforts on other veterans' services.

California Veteran Needs in Comparison to Texas, Oregon, and Wisconsin

ACS demographic data suggests that Texas and Oregon closely correlate with California's veteran housing context. Texas is home to about 1.6 million veterans, a population similar in size to California's 1.86 million veterans. California, Texas, and Oregon exhibit similar veteran homeownership rates (70.2%, 72.9%, and 73.3% respectively) and have a similar proportion of veterans younger than 55 years old. Veteran median individual income varies from about $40,500 in California to $33,400 in Oregon, but the average percentage of household income spent on housing, a more relative measure of housing cost burden, ranges from 15.4% in Texas to 20.1% in California. In Oregon specifically, veteran housing cost burden is very similar to California, varying at most by about 2.7% between age groups. Wisconsin exhibits the highest veteran homeownership rate at about 78.1% and an average percentage of veteran household income spent on housing of 17.6%. More detailed information about these trends in each state and nationwide is found in Appendix 2.

Stakeholder Interviews

In an effort to better understand the program's quality of service delivery and program enhancements, interviews were conducted with administrative staff in three stakeholder groups: the California Interagency Council on Veterans (ICV), New Directions, and Veterans United Home Loans. The ICV was created by Governor Jerry Brown in 2011 as a coordinating agency to connect all government activities to identify and prioritize the needs of California Veterans. The ICV was interviewed to further understand veterans' real housing demands as it has taken numerous efforts to survey veterans and build collaboration and conversation between stakeholders. To explore the perspective of another veterans service provider, we interviewed two program supervisors at New Directions, a local veterans nonprofit organization that conducts a Housing Placement Assistance Service intended to identify subsidized or otherwise affordable housing appropriate for veterans' needs. Finally, two mortgage specialists from Veterans United Home Loans were interviewed to explore the perspective of a nationwide service provider familiar with the federal VA Guaranty Program.

The interviews conducted indicate a limited awareness of the CalVet Home Loan program among veterans and service providers. Specifically, mortgage specialists from Veterans United Home Loans suggest that few colleagues or customers are familiar with CalVet's loan program, largely due to its nature as a nationwide organization. When directing their clients to different loan programs, the first priority for first-time homebuyers is always locating a federal VA guaranteed loan, and only when the client cannot meet the federal eligibility they will be directed towards CalVet. The number of cases directed to CalVet from United Home Loan is very low; no more than 5 cases per year (B. Wulff, personal communication, April 12, 2014). Similarly, a program supervisor at New Directions, a Los Angeles based organization, estimates that one out of ten of his colleagues are familiar with the CalVet program and few veterans request information about the program (Meraz, Personal Communication, April 2014).

ICV administrators also express concern regarding CalVet's current outreach channels. They suggest that current CalVet outreach relies heavily on online surveys and other internet-based tools. However, given typically older age of veterans, the ICV administrators propose that traditional outreach methods including phone calls and hard copy surveys may be more effective at marketing the program. Recently implemented marketing strategies could improve outreach effectiveness, but the effects will not be measurable for some time (P. Rasada, personal communication, April 4, 2014).

Current Program Improvement Efforts

CalVet is currently implementing a number of process and product improvement strategies to address changing market conditions and veteran demographics. Process improvements include a new Qualification Assistance Counseling program meant to provide immediate preapproval for veterans who are capable of qualifying for CalVet loans within 12 months and complete the program (CalVet, 2014a). This provides an opportunity for the program to access a slightly wider target population by engaging with potentially qualified applicants. Improvements to the loan origination and underwriting processes include restructuring of staff roles and incorporating a new loan origination system (LOS), which further facilitates the tracking of loan prospects and internet-based communication with potential borrowers (CalVet, 2014a).

The implementation of a new LOS reflects a heavier emphasis placed on technological improvements to program processes which make the program more marketable to a changing veteran population. CalVet is assessing the feasibility of collecting electronic payments and credit reports needed in the loan origination process as well as offering additional borrower payment options including payments over the phone or by credit card (CalVet, 2014a). These additional options are likely to make the program more attractive to younger veterans and those more likely to frequently use internet-based services, allowing the program to more effectively market to its target population. These potential changes are likely to become more important as military separations continue to introduce young veterans to the state's veteran population. CalVet is also actively marketing its program among real estate professional organizations and veteran fraternal organizations, in an effort to familiarize both industry actors and veterans with the program (CalVet, 2014a).

Additional product changes aim to widen the program's target population. Specifically, refinanced outstanding bond debt has allowed CalVet more flexibility in offering lower interest rates on current loan products (CalVet, 2014a). Beginning June 1, 2014, CalVet will offer 15 and 20 year fixed loans in addition to their current 30 year fixed loan products (CalVet, 2014e). These shorter term loans will allow the program to more effectively market older veterans that may not be interested in a 30 year loan. These current process and product improvement efforts aim to both widen the program's target population and enhance its ability to engage existing prospective borrowers. The effects of these strategies will not be readily apparent until implementation is completed.

5. LIMITATIONS

Limitations of Data Sources

An exhaustive evaluative analysis requires current and complete data. The main challenge of our study in terms of data collection was identifying and acquiring all relevant data necessary for our quantitative analyses. Recommendations from technical experts and CalVet leadership provided initial direction regarding data needs, and subsequent research revealed any additional necessary data requirements. The majority of financial, organizational, and loan data was provided directly from CalVet upon request.

ACS data regarding housing tenure household income describes only households as defined by the Census Bureau and does not account for those living in group quarters. Thus, derived estimates such as homeownership rates and percentage of household income spent on housing do not apply to individuals living in non-institutional or institutional group quarters. However, the group quarters residence rate among California's statewide adult civilian population is 2.15% and does not exceed 4% in any of the seven states analyzed. Similarly, 2.44% of the California veteran population lives in group quarters and no state analyzed exhibits a veteran group quarters residence rate higher than 2.8% (U.S. Census Bureau, 2012a).

In determining the urban residence proportion of California veterans and CalVet loan recipients, two area units are used. Census tract ACS 5-year population estimates are used to describe the distribution of California veterans overall. Individual census tract population estimates are more prone to error than statewide estimates, and totaling the veteran census tract counts results in an estimated California veteran population about 5% higher than the ACS 1-year estimate of 1,857,748. For the purposes of this analysis, only the proportion of urban and rural populations and not their population counts are drawn from this spatial analysis. CalVet loan portfolio data includes ZIP codes of each active and inactive loan. Because ZIP codes can vary greatly in size and do not necessarily coincide with the boundaries of 2010 Census urban areas, two selection methods are used to identify urban ZIP codes, producing two sets of estimates. More geographically detailed data would result in more accurate estimates, but ZIP code information serves to maintain the anonymity of CalVet loan recipients.

CalVet loan portfolio data contains loan information maintained by multiple loan servicing software services. As a result of historical records being imported into current servicing software, many older loans are not identified by loan type. Of the 50,010 records included, 20,070 (about 43%) lack this distinction. As a result, calculations of historical average CalVet interest rates may not be representative of only home loans, but could include rates of loans like home improvement loans. However, very little fluctuation is seen between months for this older data. Freddie Mac's Private Mortgage Market Survey details national interest rates rather than specifically California trends. The data does only apply, however, to 30-year fixed-rate mortgages comparable to CalVet's home loan products.

Limitations of Contextual Analysis

Our initial approach to evaluating CalVet within the context of other state veteran home loan programs in the U.S. assumed a large number of states also having such programs. We had originally intended to analyze best practices and perform a qualitative comparison. However, as our research revealed, currently only Oregon and Texas have similar programs. All other states either do not have any veteran home loan services or such services are offered through a non-governmental third-party organization. In response to this development, we shifted our analysis to a stronger focus on the difference between the Federal VA Home Loan program and the CalVet program. For the purpose of this evaluation, we believe that this is a more useful comparison, as it is more representative of the alternatives offered to California veterans.

6. IMPLICATIONS

After conducting this two tiered analysis it is clear that CalVet Home Loans is currently serving a small population of almost 50,000 California veterans with home loans services and that these loans and borrower services cost CalVet about $10 million dollars in the past 2012-2013 fiscal year.

As a mortgage lender CalVet is less efficient than a traditional private sector lender, and as a veteran's loan provider CalVet is providing fewer loans than guaranteed by the Federal VA Home Loan Program in the state. CalVet may however, be providing loans for less expensive properties on average than the Federal VA, which indicates the possibility that CalVet may be serving a smaller, but lower income subset of the veteran population. From a review of the available portfolio data this veteran however, is no less qualified in terms of credit score than any typical borrower. Currently, the average credit score among CalVet's borrower profile is above the industry standard FICO score of 700.

Despite the fact that the demand for CalVet's services has been declining since the 1990's, there is room for growth to expand services to a "target" population of approximately 265,000 veterans. This target population can be defined as California veterans below the age of 55 that do not own their homes and currently rent their housing. However, this is a relatively small and specific target population as approximately 70% of veterans in California already own their homes, 16% points higher than the homeownership rate among the general California population.

The main operational implications for CalVet going forward from this study are:

- CalVet is only reaching about 2% (about 50,000) of California veterans through its current services and loan portfolio. Meanwhile their total target population is almost 18% (about 265,000) of the total veteran population of roughly 1.86 million veterans in the state. While CalVet's "target population" is a relatively small percentage of the state veteran population, there is ample room for those services to grow in the event that CalVet can continue to offer competitive market interest rates on loan products.
- Rural veterans are disproportionately represented in CalVet Active Loan Portfolio. At least 45% of CalVet active loans are located in rural areas although roughly 20% of the state's veterans live in rural areas. Therefore, CalVet should seek out more urban applicants in future marketing strategies if possible, however this may be difficult considering higher urban housing prices.
- In that vein, in order to maintain their newly regained competitive edge, CalVet should attempt to consistently offer below market interest rates in order to compete with private lenders that work in conjunction with the federal VA Guaranty Program.

A further summary of the implications is shown in Table 3 below.

Table 3.: Summary of Implications

TIER ONE: *NEEDS ASSESSMENT IMPLICATIONS*

Demographic & Spatial analysis of the state veteran population to assess the number of state veteran's that could be considered part of CalVet's potential "target population" American Community Survey data

RESULTS

The CA veteran population is declining & has already declined
CalVet's target population is more rural and older than the typical California home buying population

TIER TWO: *EFFICIENCY ANALYSIS & QUALITATIVE IMPLICATIONS*

Comprehensive efficiency analysis to gauge to "true cost" of providing home loans & the number of veterans already receiving CalVet's services using government budget reports & independent financial audits

RESULTS
Administrative costs jumped in 2013 and CalVet was lending less due to a lack of demand

Comprehensive review of risk management strategies & comparative risk analysis to measure CalVet's performance against private sector and federal competitors using private sector mortgage efficiency reports

RESULTS
CalVet's portfolio is largely insured and does not pose a significant risk to the state general fund.

Qualitative review of veteran's loan service provision among other states veterans home loan programs, the federal VA Home Loan Guaranty Program and veterans housing nonprofits in order to ascertain the true scope of this issue in California through interviews and a literature review

RESULTS
CalVet's portfolio does not pose a significant risk to the state general fund. The federal program is a significant competitor. However, they may be serving a more wealthy veteran sub-population

Qualitative data: Only three states have a program similar to CalVet and CalVet is the only program that does not contract out for any of its main services

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TECHNICAL APPENDICES

Appendix 1: ACS PUMS Methodology

For each state's dataset and the national dataset, STATA survey commands are used to first estimate the homeownership rates among the overall population and then by age group. The same process is repeated for the state's veteran subpopulation. The group quarters residence rate is then estimated among the total and veteran populations. Next, the average percentage of household income spent on housing is calculated using owner and renter housing costs and household income data. Average owner costs estimates include monthly mortgage, utility, and real estate tax costs. Similarly, average renter costs estimates include monthly rent and utilities costs. Owner and renter costs are weighted by tenure proportions, multiplied by 12 months, and divided by mean household income to provide the average percentage of household income spent on housing. This process is repeated for each state's and the national general and veteran populations and again for 5 age groups within those populations. Ultimately, 27 indicators are described for 10 populations among 4 states and the U.S., all of which are found in Appendix 2.

Appendix 2: Detailed ACS Results

		California				Texas				Oregon			
		CA	Std. Error	CA Vet	Std. Error	TX	Std. Error	TX Vet	Std. Error	OR	Std. Error	OR Vet	Std. Error
Population (18+)		28,663,319	3,750	1,857,748	9,737	18,982,973	3,491	1,607,667	9,319	3,036,050	1,036	325,534	4,636
Homeownership Rate		53.56%	0.20%	70.22%	0.43%	63.28%	0.22%	72.86%	0.48%	61.02%	0.48%	73.32%	0.93%
By Age:													
	18-34	39.42%	0.30%	40.87%	1.74%	47.90%	0.35%	43.36%	1.82%	38.83%	0.90%	31.01%	4.13%
	35-54	56.42%	0.24%	56.75%	1.11%	67.73%	0.24%	65.44%	0.91%	65.02%	0.73%	64.67%	2.20%
	55-64	70.36%	0.26%	71.29%	0.91%	79.06%	0.33%	78.23%	0.79%	78.66%	0.78%	79.06%	1.87%
	65-74	74.57%	0.35%	81.57%	0.64%	83.03%	0.41%	85.74%	0.70%	82.58%	0.89%	84.88%	1.36%
	75+	71.58%	0.34%	81.78%	0.64%	77.36%	0.44%	82.30%	0.91%	72.39%	1.01%	77.84%	1.71%
Group Quarters Residence		2.15%	0.005%	2.44%	0.14%	2.26%	0.01%	2.77%	0.15%	2.22%	1.11E-09	2.32%	0.26%
Age													
	18-34	32.7%	0.1%	9.5%	0.2%	33.5%	0.1%	11.5%	0.3%	29.6%	0.1%	7.4%	0.5%
	35-54	36.2%	0.1%	22.0%	0.3%	36.8%	0.1%	28.3%	0.4%	33.8%	0.1%	22.0%	0.5%
	55-64	15.0%	0.1%	20.8%	0.2%	14.7%	0.1%	21.1%	0.3%	17.5%	0.1%	22.3%	0.5%
	65-74	8.9%	0.1%	23.2%	0.2%	8.7%	0.1%	20.7%	0.2%	10.9%	0.1%	25.4%	0.5%
	75+	7.2%	0.1%	24.6%	0.2%	6.3%	0.1%	18.4%	0.2%	8.3%	0.1%	23.0%	0.4%
Sex													
	Male	49.1%	0.1%	93.0%	0.2%	49.0%	0.1%	91.5%	0.2%	49.0%	0.1%	92.7%	0.4%
	Female	50.9%	0.1%	7.0%	0.2%	51.0%	0.1%	8.5%	0.2%	51.0%	0.1%	7.3%	0.4%
Median Individual Income		$26,241.00	$63.22	$40,514.00	$281.46	$25,618.00	$74.77	$38,622.00	$546.50	$24,934.00	$180.55	$33,374.00	$611.55
Unemployment Rate		11.2%	0.1%	11.1%	0.4%	7.8%	0.1%	6.6%	0.3%	10.9%	0.2%	10.4%	0.9%
Poverty Rate		14.8%	0.1%	7.6%	0.2%	15.1%	0.1%	7.3%	0.2%	15.6%	0.3%	8.5%	0.5%
Disability Rate		12.6%	0.1%	26.6%	0.2%	14.4%	0.1%	26.6%	0.3%	16.7%	0.2%	31.3%	0.7%
Average Percent of Household Income Spent on Housing		23.82%		20.11%		17.70%		15.41%		21.16%		18.86%	
By Age:													
	18-34	24.45%		24.20%		18.76%		18.65%		22.91%		21.54%	
	35-54	23.32%		21.16%		16.89%		16.50%		20.60%		20.54%	
	55-64	21.30%		20.13%		14.94%		14.68%		19.04%		19.61%	
	65-74	21.06%		19.72%		15.07%		14.33%		17.92%		17.20%	
	75+	20.79%		17.58%		15.58%		13.45%		19.27%		17.06%	
HUD Homeless Estimate		130,898		16,461		34,052		4,364		15,828		1,356	
	% of Population	0.46%		0.89%		0.18%		0.27%		0.52%		0.42%	

		Wisconsin				United States			
		WI	Std. Error	WI Vet	Std. Error	US	Std. Error	US Vet	Std. Error
Population (18+)		4,407,746	1,219	404,801	4,233	239,178,768	18,541	21,230,865	34,955
Homeownership Rate		69.15%	0.43%	78.10%	0.91%	63.84%	0.13%	75.94%	0.15%
By Age:									
	18-34	48.82%	0.87%	50.40%	0.44%	46.62%	0.19%	45.95%	0.57%
	35-54	76.05%	0.53%	75.71%	1.93%	68.00%	0.13%	68.42%	0.29%
	55-64	82.35%	0.66%	80.89%	1.87%	78.61%	0.11%	79.27%	0.25%
	65-74	84.60%	0.73%	86.25%	1.28%	81.96%	0.10%	86.06%	0.21%
	75+	69.96%	0.90%	78.05%	1.61%	74.63%	0.14%	82.29%	0.20%
Group Quarters Residence		2.59%	1.70E-09	2.32%	0.22%	2.56%	1.78E-05	2.22%	0.03%
Age									
	18-34	29.2%	0.1%	6.8%	0.4%	30.4%	0.1%	8.6%	0.1%
	35-54	35.1%	0.1%	23.2%	0.5%	35.4%	0.1%	24.8%	0.1%
	55-64	16.9%	0.1%	22.5%	0.4%	16.1%	0.1%	21.5%	0.1%
	65-74	10.0%	0.1%	23.2%	0.4%	10.0%	0.1%	22.6%	0.1%
	75+	8.7%	0.1%	24.3%	0.4%	8.0%	0.1%	22.5%	0.1%
Sex									
	Male	49.1%	0.1%	93.5%	0.3%	48.4%	0.1%	92.4%	0.1%
	Female	50.9%	0.1%	6.5%	0.3%	51.6%	0.1%	7.6%	0.1%
Median Individual Income		$27,279.00	$110.03	$33,721.00	$525.23	$26,278.00	$22.49	$36,264.00	$60.18
Unemployment Rate		7.0%	0.1%	7.8%	0.5%	9.2%	0.1%	8.0%	0.1%
Poverty Rate		11.7%	0.2%	6.8%	0.3%	13.9%	0.1%	7.2%	0.1%
Disability Rate		13.7%	0.1%	24.8%	0.5%	14.8%	0.1%	26.6%	0.1%
Average Percent of Household Income Spent on Housing		18.79%		17.60%		19.76%		17.17%	
By Age:									
	18-34	20.05%		20.77%		20.89%		20.43%	
	35-54	18.21%		18.53%		19.21%		18.17%	
	55-64	16.64%		17.42%		17.25%		16.80%	
	65-74	17.17%		16.73%		17.30%		16.17%	
	75+	18.54%		16.45%		18.40%		15.87%	
HUD Homeless Estimate		6,027		539		633,782		62,619	
	% of Population	0.14%		0.13%		0.26%		0.29%	

Appendix 3: Stakeholder Interview List

Stakeholder Group	**Interviewee(s)**
New Directions	1. Gary Meraz – North Program Supervisor 2. Eduardo Gonzalez – Greatest Generation of Veterans Program Supervisor
Veterans United Home Loans	1. Anonymous – VA Mortgage Specialist 2. Barby Wulff – Loan Specialist
California Interagency Council on Veterans	1. Bradley C. Sutton – Chief Counsel, Deputy Director 2. Pamela Rasada – Administrative Officer

Appendix 4: Stakeholder Interview Questions and Answers

1. What is your organization's role in veterans' home loan purchasing process?

   New Directions: "We maintain an active search for all kinds of veterans' housing options, working with a variety of housing authorities to find subsidized, affordable, and other specialized housing, we seek to help veterans to complete rental and credit applications, and place our clients in appropriate homes."

   Veterans United Home Loans: "Basically, the most important task of our daily work is to provide helpful information and personal, specialized knowledge and support to veterans who are eligible and desire to have their own homes. We are an intermediary agency instead of a direct service provider."

   Interagency Council on Veterans: "The ordered purpose of the ICV is to identify and prioritize the needs of California's veterans, and to coordinate the activities at all levels of government in addressing those needs. We work with CalVet in an effort to develop a home loan program targeting lower income veterans."

2. How often do your clients ask to be directed to the CalVet Program? How often do you actually direct clients to this program?

   New Directions: "To my knowledge, no more than 1/10 of my colleagues know about the existence of the CalVet Home Loan Program. Very few of our contacts request information of this particular program and we rarely provide any information of this program to our clients. Even for our workers who have knowledge about the Program, there are factors preventing them to introduce their clients to apply. The overlapping issue between the federal program and the CalVet Program is the most critical reason. We are used to the pattern of directing clients with home improvement or house construction demands to the CalVet Program, with all the other clients directed to the federal program, which provides more insurance options and basically the same loan service with eligibility requirements that only slightly different from the CalVet Program."

   Veterans United Home Loans: "Most of my colleagues are familiar with three major loan purchasing options: USDA Loans administered by the U.S. Department of Agriculture for citizens, FHA Loans, which are the Federal Housing Administration loans, and the traditional loans. Since our mortgage specialists are working on a national base, information about the highly localized CalVet Program is not included in the training material, and there is no effective contact between Veterans United Home Loans and the CalVet Home Loan Division. As a result, when directing our clients to different loan programs, the first priority for first-time purchase is at most of the times the federal VA Loan, and only when the client doesn't meet the federal eligibility they will be directed to private lenders and CalVet. The number of cases directed to CalVet from United Home Loan is no more than 5 cases annually."

3. How do you evaluate the effectiveness of CalVet's veterans outreaching efforts? Any suggestions for improvement?

    Interagency Council on Veterans: "CalVet has just started its marketing strategies in late 2013. It takes time for ICV to follow up the effect. The outreaching approach the department tries to create in its upcoming marketing efforts is not clear to me, however, as it seems that CalVet aims to depend heavier on online surveys and its website to spread its words. Actually due to the age of the targeted population and their residential area, it seems to me that a wiser option is to utilize more traditional approaches like phone calls, personal communications, mailed-out surveys, etc. We also noticed prolonged service cycle, especially the loan preapproval and underwriting procedures. Occasionally veterans have to wait for months during these procedures. ICV has initiated a tactic to remedy the long waiting time, but we are still waiting for CalVet's collaboration."

Appendix 5: Summary of State Expenditures on Farms & Homes for Veterans Allocation

Expenditure Type	2011-12	2012-13	2013-14	2014-15	Percent Change
Property Acquisition	$793,000	$923,000	$2,248,000	$2,285,000	188%
Loan Servicing	$10,613,000	$10,434,000	$12,000,000	$12,600,000	19%
Loan Funding	$59,135,000	$49,079,000	$45,200,000	$45,600,000	-23%
	$70,541,000	$60,436,000	$59,448,000	$60,485,000	-14%
Loan Funding Allocated from Home Building Fund of 1943	NA	$42,970,000	$40,000,000	$40,000,000	
Loan Funding Allocated from Pooled Self Insurance Fund	NA	$6,109,000	$5,200,000	$5,600,000	
	Total	$49,079,000	$45,200,000	$45,600,000	

	2011-12	2012-13	2013-14	2014-15
Property Acquisition	1%	2%	4%	4%
Loan Servicing	15%	17%	20%	21%
Loan Funding	84%	81%	76%	75%
Total	100%	100%	100%	100%

Source: California Governor's Budget, Expenditures Detail for The Department of Veterans Affairs, 10, Farms and Homes for Veterans

Appendix 6: 1943 Fund Balance Sheet

Summarized Statement of Net Position (aka "Balance Sheet") (Dollars in thousands)

	2010	2011	2012	2013	$ Change	% Change
Assets						
Cash & investments	284,355	104,605	167,395	171,358	(112,997)	-40%
Receivables under contracts of purchase, net	1,499,938	1,325,499	1,145,938	921,296	(578,642)	-39%
Other receivables and assets	67,765	77,204	74,791	65,681	(2,084)	-3%
Total Assets	1,852,058	1,507,308	1,388,124	1,158,335	(693,723)	-37%
Liabilities						
Bonds payable	1,667,254	1,336,384	1,217,674	1,001,941	(665,313)	-40%
Other payables and liabilities	23,085	14,276	15,511	13,527	(9,558)	-41%
	1,690,339	1,350,660	1,233,185	1,015,468	(674,871)	-40%
Net position (restricted)	161,719	156,648	154,939	142,867	(18,852)	-12%
A/L (Asset coverage of existing liabilities)	1.10	1.12	1.13	1.14		

CalVet Home Building Fund of 1943

Summarized Statement of Revenues and Expenses (aka "Operating Statement")

(Dollars in thousands)

	2010	2011	2012	2013	$ Change	% Change
Program Operations						
Interest revenues:						
Contracts of purchase	91,222	80,412	70,857	58,970	(32,252)	-35%
Investments and other	4,960	5,191	5,647	2,674	(2,286)	-46%
Total program operating revenues	96,182	85,603	76,504	61,644	(34,538)	-36%
Revenue as a percentage of Existing Contracts	6.1%	6.1%	6.2%	6.4%		
B.S/IS	7.3%	6.7%	7.6%	4.1%		
Expenses						
Interest Expense	89,519	72,278	62,863	47,879	(41,640)	-47%
Provision for program losses	19,575	9,592	6,654	3,936	(15,639)	-80%
Total program expenses	109,094	81,870	69,517	51,815	(57,279)	-53%
Interest Expense	5.4%	5.4%	5.2%	4.8%		
Loss Provision %	1.2%	0.7%	0.5%	0.4%		
Program Operations revenue over expenses	(12,912)	3,733	6,987	9,829	22,741	n/a

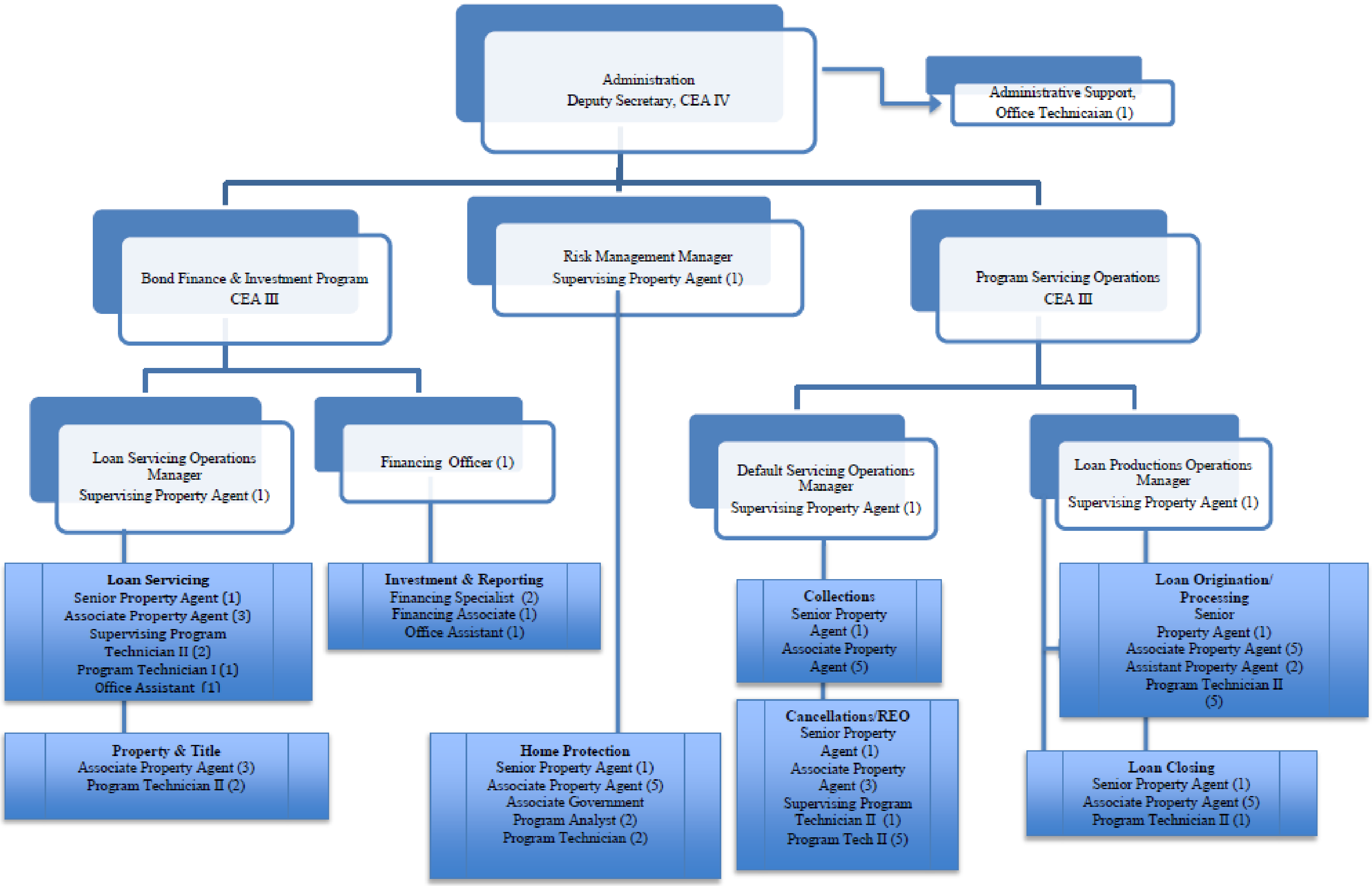
Program Administration

(Summarized Rev, Exp & Loss)

(Dollars in Thousands)

	2010	2011	2012	2013	$ Change	% Change
Program administration revenues	3,825	4,576	1,516	1,980	(1,845)	-48%
Program administration expenses	15,901	12,992	10,169	12,055	(3,846)	-24%
Program admin expenses over revenue	(12,076)	(8,416)	(8,653)	(10,075)	2,001	
Net program operations less net program admin	(24,988)	(4,683)	(1,666)	(246)	24,742	-99%
Loss on sale of repossessed property	(12,900)	(13,773)	(6,665)	(4,305)	8,595	-67%
Transfer from other funds	0	13,385	6,621	245	245	n/a
Deficiency of revenue under expenses	(37,888)	(5,071)	(1,710)	(4,306)	33,582	-89%

Appendix 7: CalVet Organizational Chart



Appendix 8: CalVet vs. Federal VA Eligibility Requirements

	CalVet	Federal
Service Length	90 days minimum active service during one of specified periods	90 days (war or current) OR 181 days (peace time)
War or Peace Time	BOTH	BOTH
Honorable Conditions	YES	YES
Prior Residency	NO	N/A
National Guard & Reserves Eligibility	Called to, and released from, active duty or service during a period of U.S. combat or homeland defense	Gulf War – 90 days Other – 6 years of service
Eligibility Exceptions	Discharge before 90 days due to service-connected disability from that time period	Discharge due to hardship, convenience of gov't, reduction-in-force, certain medical conditions, or service-connected disability
Spouse Eligibility	• Un-remarried spouse; death is determined to be connected to service (while on or after active duty)	• Un-remarried spouse; died while in service or from service disability
	• Un-remarried spouse of POW/MIA	• Spouse of MIA or POW
	- - - -	• Surviving spouse re-married on or after age 57 AND on or after 12/16/03
	- - - -	• Surviving spouse; total disability but may not have been cause of death
Other Eligibility	- - - -	• U.S. citizens who served in armed forces of allied gov't in WWII