



November 2025

Report No. 25-03

Audit of the Veterans Land Board Loan Processing

Overall Conclusions

The Texas Veterans Land Board (VLB), part of the Texas General Land Office (GLO), offers low-interest loans and other benefits to eligible Texas veterans and military members via the Land and Housing Program. The program aims to assist former service members, military personnel, and their spouses in buying land, purchasing or building homes, and making home improvements.

The audit sought to assess the effectiveness, efficiency, and compliance of VLB loan processing. Based on the audit, the VLB has established processes and controls to ensure adequate oversight, management, and operations of the loan program. However, the audit identified areas where the VLB can seek to strengthen the loan program's efficiency, effectiveness, and compliance. The areas identified pertain to the following:

1. Credit Risk Management:
 - a. Establish a Debt-to-Income (DTI) threshold consistent with VLB's risk tolerances.
 - b. Strengthen the accuracy of the Uniform Underwriting Transmittal Summaries.
 - c. Align current underwriting processes with established guidelines.
2. Enhance the review of the Errors & Omissions insurance and Fidelity Bond coverage.
3. Ensure the transparency and consistency of the attorney review and approval process.

The "Detailed Results" section of this report provides additional information on the improvement items mentioned above. The audit identified additional areas to strengthen the information security controls of the VLB loan and housing program. These items were presented to management in a separate communication.

Management's Summary Response

Management concurs with the recommendations. The "Detailed Results" section of this report contains management's response to each observation.



Acknowledgments

We appreciate the assistance and cooperation provided by the management and staff of the VLB Land and Housing, Office of General Counsel (OGC), Office of Information Security (OIS), and Information Technology Services (ITS). For questions about this report, please contact me at (512) 463-6078.



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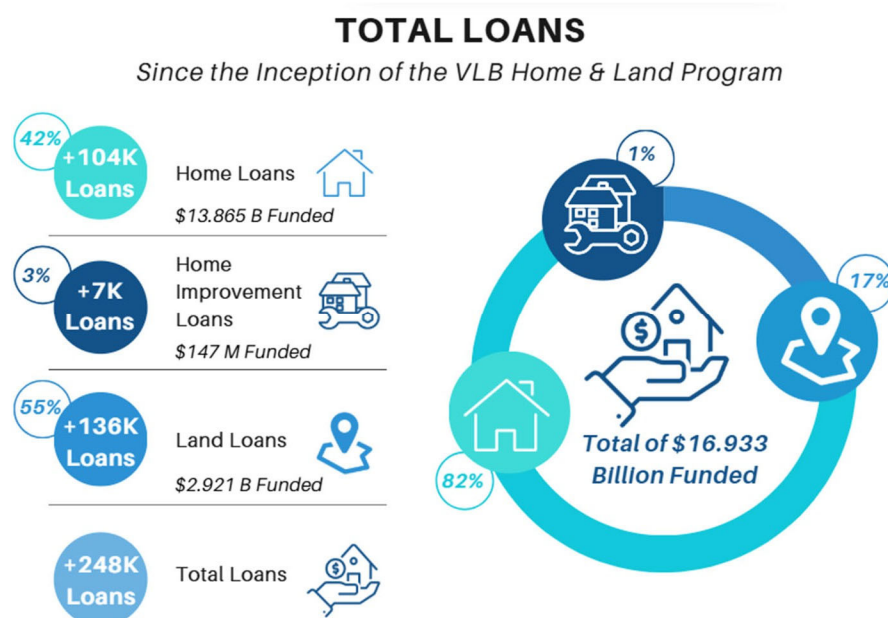
Background Information

The Texas VLB was created by the Texas Legislature in 1946. Article III, Section 49-b of the Texas Constitution authorized the VLB to oversee the Veterans' Land Program, which was initially established to lend money to Texas veterans returning from World War II for land purchases. In 1983, the Housing Assistance program was established to provide home loan programs for Texas veterans, and in 1986, the Home Improvement Program was introduced to offer home improvement loans. The primary purpose of all three programs is to provide Texas veterans with assistance in obtaining land and housing loans.

The VLB offers the following loan programs, which provide competitive, low-interest loans to veterans and military members in Texas:

- **Veteran Home Loan Program**: The Veteran's Home Loan Program offers veterans, military members, and their spouses the opportunity to borrow up to \$806,500 on a fixed-rate loan with terms of 15, 20, 25, or 30 years.
- **Veteran Home Improvement Program (VHIP)**: The VHIP loan program offers loans up to \$50,000 for a 20-year term or \$10,000 for a 10-year term.
- **Veteran Land Loan Program**: The Land Loan Program offers the opportunity to borrow up to \$150,000 to purchase land. In July of 2024, the maximum land loan limit for qualified dual-spouse veterans was set to \$225,000.

As of June 2025, the VLB has awarded approximately 248,652 loans totaling \$16.933 billion since the program's inception. Land loans have the largest loan count, totaling 136,843 (55%), while home loans represent the largest dollar amount, totaling \$13.865 billion (82%).



Below is a breakdown of the loan count and loan amounts for the 8-month audit scope from September 1, 2024, through April 30, 2025. During this period, 1,110 loans were awarded, totaling \$261.3 million.

FY2025 LOAN BREAKDOWN

September 1, 2024, through April 30, 2025

1,110 Loans Funded Totaling \$261.3 Million

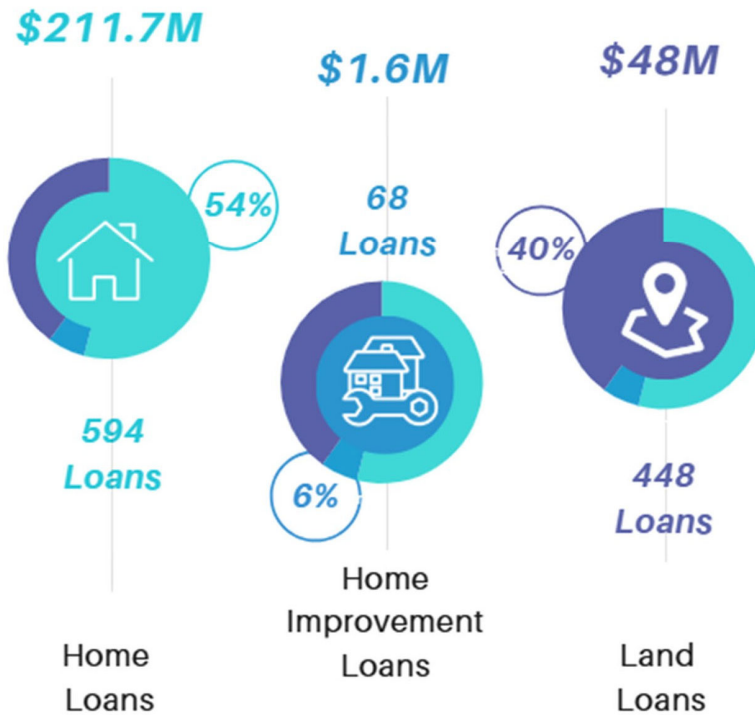


Table of Contents

Overall Conclusion.....	1
Management’s Summary Response	1
Acknowledgments	2
Background Information.....	3
Detailed Results.....	6
Chapter 1: Credit Risk Management	6
Section 1.1: Establish a DTI Threshold Consistent with VLB’s Risk Tolerances ..	6
Section 1.2: Strengthen the Accuracy of the Uniform Underwriting Transmittal Summaries	8
Section 1.3: Align Current Underwriting Processes with VLB Established Guidelines.....	10
Chapter 2: Enhance the Review of the Errors & Omissions Insurance and Fidelity Bond Coverage	12
Chapter 3: Ensure the Transparency and Consistency of the Attorney Review and Approval Process	13
Appendix	14
A. Objective, Scope & Methodology.....	14
Distribution List	15





Detailed Results

Chapter 1

Credit Risk Management

Section 1.1: Establish a DTI Threshold Consistent with VLB's Risk Tolerances

A defined DTI threshold is essential to assess borrower repayment capacity and manage credit risk. Elevated DTI ratios may indicate limited borrower capacity to absorb additional financial obligations. Additional compensating factors, such as a larger down payment or a high credit score, can help borrowers with higher DTIs get approved for loans under the VLB Land and Housing program.

The audit noted that the VLB does not have a defined maximum DTI threshold for land loans that is consistent with the program's underwriting guidelines or agency risk tolerances. The VLB guidelines allow land loans with DTIs of 65% or more to be approved after submission of a written explanation of credit report results, a loan processor's satisfactory review, and review by VLB management. They also require a 20% down payment.¹

As a result, approvals have included borrowers with DTIs ranging from 51% to 98%², which may exceed the agency's intended risk tolerance. Out of an audit sample of 429 active land loans granted from September 1, 2024, through April 30, 2025, 365 (85%) had a DTI at or below 50%, while 64 (15%) exceeded that level.

DTI %	45% and Below	46% to 50%	51% to 55%	56% to 65%	66% to 75%	76% to 98%	Total
Land Loan Count	326	39	26	24	8	6	429
	50% and Below = 365		51% and Greater = 64				429

Although there is no regulatory guidance that specifically applies to the VLB land loan program, Fannie Mae's³, Selling Guide provides methodology for best practices regarding Maximum DTI Ratios:

*"For loan casefiles underwritten through Desktop Underwriter (DU), the maximum allowable DTI ratio is 50%."*⁴

¹ Credit Underwriting Grading System for Land Mortgage Application, Category 4: Review by Manager/Sr. Manager

² 64 land loans had DTI ratios ranging from 51% to 98%.

³ Fannie Mae, or the Federal National Mortgage Association, is a government-sponsored enterprise that makes home loans more accessible and affordable by buying mortgages from lenders and selling them as mortgage-backed securities to investors.

⁴ Fannie Mae Selling Guide, Single Family, *Maximum DTI Ratios*.



Fannie Mae also makes exceptions to the maximum DTI ratio by instructing government mortgage lenders to follow the requirements for the respective government agency.⁵

Recommendation

VLB should establish and enforce a maximum allowable DTI threshold that aligns with the agency's risk tolerances and industry standards.

Management's Response

The intent of the management response is to align with the agency's risk tolerances and industry standards. The VLB established a Maximum Debt-to-Income Ratio Policy, not to exceed 65%, and has established safeguards to ensure compliance.

Responsible Parties: Director Land & Housing

Implementation Date: Implemented on October 2, 2025

⁵ Fannie Mae Selling Guide, Single Family, *Exceptions to the Maximum DTI Ratio*



Section 1.2: Strengthen the Accuracy of the Uniform Underwriting Transmittal Summaries

The Uniform Underwriting and Transmittal Summary (Form 1008) summarizes a borrower's financial position and supports the underwriting decision. When Form 1008 does not accurately reflect the borrower's final financial data, loans may be approved that do not align with program requirements.

During review of a sample of Form 1008s, the following inconsistencies were noted:

1. **Final DTI ratios:** Of 58 loans tested (47 land loans and 11 home improvement loans), 13 (22%) loans showed variances between the final DTI and the DTI reflected on Form 1008.
2. **DTI Calculation:** 2 of the 11 (18%) home improvement loans tested contained liability data that did not support the DTI calculation shown on Form 1008. One of the loans was overstated due to a double count within the liability calculation, while the cause of the overstatement for the other loan could not be determined.

Fannie Mae states the following regarding DTI Ratio Tolerance and Re-Underwriting Criteria:

*"If the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio to increase by more than the allowed tolerances."*⁶

Recommendations

To strengthen the accuracy and reliability of loan underwriting data, the VLB should:

1. Establish procedures requiring Form 1008 to be updated with the borrower's most current and complete financial information prior to final approval or loan closing.
2. Implement controls to ensure DTI ratio calculations on Form 1008 are complete, accurate, and supported by underlying documentation.

⁶ Fannie Mae Selling Guide, Single Family, *DTI Ratio Tolerance and Re-Underwriting Criteria*

Management's Response

The VLB agrees with the recommendations.

1. Procedures have been revised to require an updated Uniform Underwriting and Transmittal Summary (Form 1008) to be created and stored within the loan origination system itself when the borrower's financial information changes.
2. Processors and Underwriters will manually verify the data and documentation in the loan origination system, and ensure the Uniform Underwriting and Transmittal Summary (Form 1008) is accurate.

Responsible Parties: Director Land & Housing & Manager of Loan Operations

Implementation Date: Implemented on October 17, 2025



Section 1.3: Align Current Underwriting Processes with VLB Established Guidelines

The VLB Credit Underwriting Grading System is used for loan applications that do not meet Fannie Mae's Desktop Underwriting System criteria. The grading system categorizes borrowers based on credit and debt classes, which determine down payment requirements and the level of review required for manual underwriting.

The following depicts the categories and requirements noted in the VLB Grading System:

Category	Down Payment	Credit Class	Debt Class	Written Explanation	Review Needed
1	5%	A	A/B	No, if no liens	Automatic Approval
2	7%	B	A/B or DTI <64%	Yes, if liens	Further Review By Loan Processor
3	10%	C	C <65%	Yes, explanation should detail circumstances that resulted in the action reflected on the credit report	Further Review By Sr. Loan Processor
4	20%	C	C 65% +	Yes, explanation should detail circumstances that resulted in the action reflected on the credit report	Review By Manager/Sr. Manager

VLB's manual underwriting review process does not consistently follow the guidelines established in the VLB Grading System. Upon reviewing 47 land loans, 17 were approved through Desktop Underwriter, and 30 were manually underwritten. Review of these loans noted the following:

- 25 (83%) loans did not have the support of a review by the appropriate reviewer, and 5 (17%) loans were appropriately reviewed but reflected debt class categorizations inconsistent with the VLB underwriting guidelines.
- 12 (40%) loans had down payment percentages below the required guidelines.

Inconsistent application of the grading system increases underwriting risk and reduces assurance that loan approvals align with established guidelines.



Recommendations

The VLB should:

1. Ensure reviews and approvals are documented and performed by the appropriate reviewer.
2. Verify that debt class and down payment percentages conform to grading system requirements.
3. Periodically review underwriting guidelines to ensure alignment with the VLB's risk tolerance and program guidelines.

Management's Response

The VLB agrees with the recommendations.

1. Effective December 1, 2025, the policy is being revised to reflect that the final approval is conducted by the underwriter.
2. VLB will ensure the current policy is consistently followed. Effective October 3, 2025, down payment deviations are required to be requested in writing from the Veteran, and such requests can only be approved by the Director of Land & Housing or the Executive Secretary.
3. As of December 1, 2025, underwriting guidelines will be reviewed on a semi-annual basis to ensure alignment with the agency's risk tolerance and program guidelines.

Responsible Parties: Underwriters, Compliance Analyst & Director of Land & Housing

Implementation Date: December 1, 2025.



Chapter 2

Enhance the Review of the Errors & Omissions Insurance and Fidelity Bond Coverage

A review of the VLB's oversight of contractual requirements for vendor management⁷, requires loan origination and servicing vendors to maintain Errors and Omissions (E&O) insurance and a Fidelity Bond.

While the agency obtains proof of insurance and verifies policy existence, the documentation does not specify a minimum dollar threshold. The contract references Fannie Mae requirements without defining coverage limits, making it difficult to determine whether vendor coverage is adequate.

Without assessing coverage amounts, the VLB risks undetected gaps in vendor protection that could expose it to potential financial loss resulting from vendor errors, omissions, or fraud. Additional information from the vendor can help verify whether the coverage amounts for E&O insurance and the Fidelity Bond meet the Fannie Mae requirements stated in the contract.

Recommendation

The VLB should strengthen vendor management oversight by requiring vendors to provide documentation verifying that E&O and Fidelity Bond coverage amounts meet or exceed Fannie Mae requirements. This process should ensure the adequacy of coverage is consistently reviewed, validated, and documented as part of ongoing vendor oversight activities.

Management's Response

The VLB agrees with the recommendation. The VLB will require all third-party vendors to submit documentation demonstrating their coverage amounts meet or exceed stipulated requirements. VLB will collaborate closely with Contract Management staff to implement and ensure oversight of this process.

Responsible Parties: Director of Land & Housing

Implementation Date: April 30, 2026

⁷Section 8.01 Insurance and Bonds; GLO Contract No. 17-455-000-A581 and 17-458-000-A585



Chapter 3

Ensure the Transparency and Consistency of the Attorney Review and Approval Process

Opportunities exist to strengthen the process for documenting the attorney's review and approval of closing documents. While the VLB's Standard Operating Procedures outline the review process, documentation of the attorney's formal approval was not consistently evident across loan files.

Audit testing confirmed that the loan closer checklists are completed and submitted to the VLB attorney for review, and that the attorney conducts a quality control assessment and communicates results to the VLB via email. However, the process would benefit from a more structured approach to ensure reviews and approvals are consistently documented and retained.

Establishing a uniform approach enhances accountability, transparency, and assurance that all closing documents receive appropriate legal review prior to final approval.

Recommendations

The VLB, in coordination with OGC, should develop a standardized process for attorneys to document and retain evidence of their review and approval of closing documents. Consideration may also be given to an automated approval process to improve consistency and efficiency.

Management's Response

The VLB agrees with the recommendation. All attorney review and approval emails will now be stored within the loan origination system. VLB will collaborate with the vendor of the loan origination system to explore the development of an automated workflow within the existing loan origination system.

Responsible Parties: Loan Closers and Director of Land & Housing

Implementation Date: Implemented on October 1, 2025.



Appendix

Objective

Assess the effectiveness, efficiency, and compliance of the VLB loan process. This includes evaluating the adequacy of internal controls, ensuring regulatory compliance, and identifying opportunities for operational and information technology improvements to mitigate risks.

Scope & Methodology

The audit scope included VLB Land and Housing program loan activity performed during FY2025 (*September 2024 through April 2025*). The audit focused on controls and processes related to the VLB's loan processing, including credit risk management, vendor management, loan closing, and information technology controls.

The audit methodology followed a risk-based approach and included process observations, information gathering, procedural testing, and analyzing and evaluating information.

The audit was conducted in accordance with *Government Auditing Standards* and *Global Internal Audit Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.





Distribution List

Copies of this report have been distributed to the following:

Texas General Land Office

Dawn Buckingham, M.D., Texas Land Commissioner

Jennifer Jones, Chief Clerk and Deputy Land Commissioner

Adrian Piloto, Deputy Chief Clerk

Jeff Gordon, General Counsel

Tony Dale, Executive Secretary and Senior Deputy Director, VLB

Raul Gonzales, Director of Land and Housing, VLB

Jeff Fazio, Director of General Law, OGC

Sean Peterson, Chief Information Officer, ITS

Arturo Montalvo, Deputy Director, OIS

Texas VLB Board Members

Governor's Office of Budget and Planning

Legislative Budget Board

Texas State Auditor's Office

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