EVALUATION OF VA'S HOME LOAN GUARANTY PROGRAM

FINAL REPORT

APPENDICES

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APPENDIX A

SAMPLING AND NONRESPONSE ANALYSIS

APPENDIX A: SAMPLING AND NONRESPONSE ANALYSIS

Sampling

The Department of Veterans Affairs (VA) Loan Survey population consists of participants in the VA Home Loan Guaranty program who originated a VA home loan between fiscal years 1999 and 2003. Refinanced loans are excluded from the home loan population, and only those loans that are active in VA's administrative files as of June 1, 2003 are included. The population consists of four groups 1) veterans, 2) active duty military personnel, 3) reservists, and 4) borrowers who received default assistance from VA (cured loans). The first three groups in the population are independent and do not overlap. The fourth group—cured loans—is part of the first three groups. The sampling frame consists of 390,935 veteran borrowers, 102,811 active-duty military borrowers, and 18,830 reservist borrowers. In addition, 33,772 VA Home Loan borrowers received default assistance on loans originated between 1999 and 2003.

Samples for each of the four groups—veterans, active duty, reservists, and cured loans—were selected from VA's administrative files using a stratified random sampling design. Each sample was drawn as a self-weighted sample stratified by the fiscal year of loan origination. That is, the proportion of cases by fiscal year in the sample matches the proportion of cases by fiscal year in the population. The sample sizes were established to obtain a 90-percent confidence interval of plus or minus 4 percentage points when estimating a percentage expected to be close to 50 percent in the population (the worst-case scenario). This criterion yields 423 veterans, 422 active-duty military personnel, 417 reservists, and 419 borrowers who receive default assistance.

On the basis of the Dillman method (Dillman, 2000) and previous mail surveys of VA home loan borrowers, the Study Team expected a response rate of 60 percent. Hence, the desired sample size was divided by 0.60 for each group to obtain an initial sample size that would yield the desired precision. Table A-1 summarizes the sample.

Table A-1. Population, Expected Respondents, and Initial Sample

Group	Population	Expected Respondents	Initial Sample
Veterans	722,467	423	705
Active Duty Military	131,026	422	703
Reservists	27,149	417	695
Cured	37,385	419	698
Total*	880,642	1,681	2,802

**Cured loan borrowers are a subset of the other three populations but comprise a separate sample; hence, they are not added in the population counts but are included in the sample totals.*

Separate samples were drawn from each of the four borrower populations. Each population was stratified by the year of loan origination. The same sampling fraction was used in each stratum within populations. In drawing the sample, a random number was assigned to each borrower. For the first three samples, the borrowers with the lowest numbers were selected. For the borrowers who received default assistance, the borrowers with the highest numbers were selected. This guarantees stratified random samples with no overlap, even though there is overlap in the population.

Members of VA's 2002 home loan customer satisfaction survey sample were excluded from the current VA Loan Survey. This could produce a slight bias for two reasons: 1) The 2002 survey used different sampling fractions in each region and 2) not every 2003 borrower would be in the 2002 frame (depending on the date of loan origination). To avoid any bias, the sample was first drawn without excluding the 2002 survey participants. Then the selected 2003 sample was matched to the 2002 participant file. Finally, each matching borrower selected in the 2003 sample was replaced by a borrower from the same group (veteran, servicemember, reservist, or defaulter) and region who would have been in scope for the 2002 survey. This procedure avoids bias associated with different sampling fractions by region due to exclusion.

Initially, three replicate samples each comprising 2,802 cases were selected. To obtain the 1,681 responses, a 60 percent response rate in the first replicate would be needed to achieve the target. However, the Study Team could not obtain telephone numbers for a high percentage of cases (55%). Consequently, to obtain an initial sample, we oversampled by taking 1.5 times the 2,802 cases (rounding up for several cells) for a total of 4,207 cases. The first 2,082 cases consisted of the totality of replicate 1. We took the remaining cases from the other two replicates proportionally, by group and year, but using only borrowers for whom telephone numbers were available; if a sufficient number did not exist, we used the cases for which addresses existed. Later in the VA Loan Survey, a lower response rate in the cured loan group necessitated that 200 cases be added to the sample.

The initial contact letter was mailed on September 24, 2003, followed by the VA Loan Survey mailing about 2 weeks later to all 4,207 borrowers in the initial sample. A second VA Loan Survey was mailed in October 2003 and was sent to those who had not responded (3,924). In the beginning of November 2003, interviewers began administering the VA Loan Survey by telephone. Only telephone calls were made to administer the VA Loan Survey to the additional 200 cured loan borrowers.

We received 1,755 responses. The number of VA Loan Survey respondents in each of the sample groups is 462 veterans, 440 active duty personnel, 429 reservists and 424 cured loan borrowers. The number of VA Loan Survey respondents exceeds the target numbers in each of the sample groups. Table A-2 shows the distribution of responses by year of loan origination.

Table A-2. Number of Responses by Fiscal Year of Loan Origination

Sample	Number of Responses by Fiscal Year of Loan Origination					Target Number	Total Number of Responses
	1999	2000	2001	2002	2003		
Veterans	121	38	97	128	78	423	462
Active Duty	81	36	106	139	78	422	440
Reservists	128	40	95	109	57	417	429
Cured	200	86	103	34	1	419	424
Total	530	200	401	410	214	1,681	1,755

Data Collection

The study design used a modified Dillman approach (Dillman, 2000), consisting of the following sequence of contacts:

- Initial contact letter announcing the VA Loan Survey
- First wave VA Loan Survey mailing
- Second wave VA Loan Survey mailing
- Third wave telephone reminder/interview

Respondents were requested to participate in the VA Loan Survey in a letter signed by VA's Assistant Secretary for Policy, Planning and Preparedness and by the Undersecretary for Benefits. The letter informed respondents of the purpose, scope, and nature of the VA Loan Survey. Ten days after the mailing of the initial contact letter, the Study Team mailed the first wave of the VA Loan Survey questionnaires to the potential respondents. The VA Loan Survey questionnaires contained a letter that reiterated the importance of the VA Loan Survey, asked the respondents to participate, and offered a choice between returning the questionnaire in the postage-paid return envelope or by calling a toll-free number to complete the questionnaire by telephone interview. A prepaid, pre-addressed postcard was enclosed to provide participants with an option of indicating the best times and telephone number for an interviewer to call them.

One month after the initial contact, a second questionnaire was sent to the nonrespondents. As in the first wave, the second wave of questionnaires included a letter that reiterated the importance of the VA Loan Survey, urged the respondents to participate, and provided participants with the choice of completing the questionnaire or calling a toll-free number to complete the VA Loan Survey by telephone. A postcard was enclosed that gave participants the option of indicating the best times and telephone number for the interviewer to call them.

Two weeks after the second wave of the questionnaire mailings, the third wave of the data collection was initiated—telephone contact. Participants were asked to either send their completed VA Loan Survey by mail or complete the VA Loan Survey by telephone interview. A detailed message was left on the participants' answering machines urging them to complete the questionnaire, fill out the postcard, or call back using the toll-free number. About a month later, we sent a letter to 200 additional cured loan cases, requesting them to participate in the VA Loan Survey. The letter informed them of the purpose, scope, and nature of the VA Loan Survey; it also included a toll-free number for them to call to complete the questionnaire over the telephone. Immediately afterward, the Study Team called respondents who did not call the toll-free number to encourage them to participate.

The addresses used for mailing were obtained from VA's administrative files; telephone numbers were obtained from three sources: 1) organizations that obtain numbers from sources such as subscriptions, catalog purchases, and product registrations; 2) published directories; and 3) respondents who returned postcards with telephone number information. Ninety-six postcards were returned, and 81 borrowers who returned their postcards completed the VA Loan Survey. Telephone surveys averaged 30 minutes to complete.

VA Loan Survey Yield

As Table A-3 depicts, the Study Team obtained the majority of the completed VA Loan Surveys through the mail (ranging from 51% of the eligible and reachable respondents for the cured loan cases to 85% for veterans). More telephone calls were made to the groups with the lowest response rates to the mail VA Loan Survey. The telephone followup had two effects: It increased responses to the mail VA Loan Survey and it added telephone responses. The telephone followup obtained the most telephone interview responses for the lowest-responding group (30% for cured loan cases) and resulted in the target response being met for all groups.

Table A-3. Increase in Response Rates of Telephone Interviews over Mail VA Loan Surveys, by Recipient Type

Status of Mail VA Loan Surveys and Telephone Interviews	Recipient Type			
	Veterans	Active duty	Reservist	Cured
Initial Sample	1060	1056	1043	1248
Total Number of Unreachable and Ineligible Respondents*	550	528	555	727
Number of Completed Mail VA Loan Surveys Wave 1 and Wave 2**	433	362	348	267
Number of Completed Telephone Interviews	29	78	81	157
Number of Refusals to Telephone Interviews	48	88	59	97
Mail VA Loan Survey Response Rate–Completes as Percentage of Eligible and Reachable Respondents	**84.9%**	**68.6%**	**71.3%**	**51.2%**
Telephone Interviews' Percent Increase in Response Rate for Eligible and Reachable Respondents	**+5.7%**	**+14.8%**	**+16.6%**	**+30.1%**

**Ineligible respondents are those who are deceased, no longer have the loan or whose address is absent or incorrect. Unreachable respondents are those who could not be contacted by telephone. Details of this category are shown in Table 4.*

***The number of completed mail VA Loan Surveys includes the effect of the telephone followup. A total of 378 individuals who were contacted by telephone submitted a mail VA Loan Survey. Interestingly, many respondents mailed in their Wave 1 VA Loan Surveys, not their Wave 2 VA Loan Surveys, after telephone contact was made.*

As Table A-4 depicts, a large percentage of mail VA Loan Survey nonrespondents (46%) were unreachable by telephone. In the past decade there has been an increase in telephone noncontact rates due to the increasing number of households that screen telephone calls using answering machines or Caller-IDs and due to the increase in the number of telephone lines dedicated to fax machines or computers (Tuckel and O'Neill, 2002). In this VA Loan Survey, we defined unreachable respondents as those with no available telephone number, the wrong telephone number, answering machine, busy signal, etc. (Table A-4).

An additional 8 percent of the initial sample is ineligible to participate in the study (Table A-4). About half of the ineligibles are deceased or report that they did not have a VA home loan at the time of the VA Loan Survey. The other half could not be reached since the contact letter was either returned or could not be mailed because no address was found on VA's administrative file. Returned letters occur because of data entry errors or because the sampled individuals sold their home between the time when the VA Loan Survey sample was established and the time the VA Loan Survey contact was made. Less than 1 percent of eligibles have no address or have a partial address on VA's administrative file, which is likely due to a mismatch between the loan origination file and the address file used to construct the sampling frame. It may also occur because of data entry errors.

Table A-4. Final Disposition and Status of Mail VA Loan Surveys and Telephone Interviews

Final Disposition of Mail VA Loan Surveys and Telephone Interviews	Status of Mail VA Loan Surveys and Telephone Interviews	Number	Percent
Deceased	Ineligible	7	0.2%
No VA Home Loan (based on respondent report)	Ineligible	161	3.7%
No address	Ineligible	21	0.5%
Wrong address/Returned mail	Ineligible	153	3.5%
Total Ineligible		**342**	**7.8%**
Communication difficulties—hearing, language, poor telephone connection	Unreachable	3	0.1%
Military deployment	Unreachable	104	2.4%
Answering machine or voicemail	Unreachable	539	12.2%
Business telephone number	Unreachable	21	0.5%
Busy telephone number	Unreachable	21	0.5%
Callback requested, but not present at callback	Unreachable	151	3.4%
Disconnected telephone number	Unreachable	263	6.0%
No answer to telephone calls	Unreachable	129	2.9%
No telephone number	Unreachable	637	14.5%
Wrong telephone number	Unreachable	150	3.4%
Total Unreachable by Telephone		**2018**	**45.8%**
TOTAL ELIGIBLE AND REACHABLE		**2047**	**46.4%**
TOTAL CASES		**4407**	**100.0%**
High item nonresponse		Refusal	14
Refusal		Refusal	278
Total Refusal (As a Percentage of Eligible Plus Reachable)		**292**	**14.3%**
COMPLETED VA LOAN SURVEYS (AS A PERCENTAGE OF ELIGIBLE PLUS REACHABLE)		**1755**	**85.7%**

Response rates for the combined mail and telephone modes of data collection produced moderate response rates, ranging from 41 percent for cured loan cases to 49 percent for veterans and active duty personnel (Table A-5). These response rates were calculated using the widely accepted formula that divides the number of completes by the number of eligible respondents plus the estimated proportion of respondents with unknown eligibility who are eligible to participate (Ellis, 2000; AAPOR, 2000). Response rates are greatly improved when unreachable and ineligible respondents are excluded from the calculations, ranging from 81 percent for cured loan cases to 91 percent for the veterans. These response rates are comparable to studies that employ

Dillman's method of combining mail and telephone modes of data collection (Dillman, 2000).

Table A-5. Response Rates for Mail VA Loan Surveys and Telephone Interviews by Recipient Type

Status of Mail VA Loan Surveys and Telephone Interviews	Recipient Type			
	Veterans	Active duty	Reservists	Cured
Initial Sample	1060	1056	1043	1248
Total Number of Unreachable and Ineligible Respondents	550	528	555	727
Total Number of Received VA Loan Surveys and Completed Telephone Interviews	462	440	429	424
Number of Refusals	48	88	59	97
Response Rate–Completes as Percentage of Eligible Respondents plus Estimated Eligible Respondents*	**48.7%**	**48.8%**	**48.0%**	**41.4%**
Response Rate–Completes as Percentage of Reachable plus Eligible Respondents	**90.6%**	**83.3%**	**87.9%**	**81.4%**

** Calculated by dividing the number of completes by the number of eligible respondents plus the estimated proportion of respondents with unknown eligibility who are eligible to participate (Ellis, 2000; AAPOR, 2000)*

Nonresponse Assessment

Each of the four samples—veterans, active duty, reservists, and cured—were tested separately for nonresponse bias by comparing the sampling frame's characteristics with the VA Loan Survey respondents' characteristics.

Veterans Sample—Nonresponse Assessment

To test for a nonresponse bias in the veteran sample, the Study Team compared VA Loan Survey respondents with the sampling frame on characteristics such as loan amount, age group, race, and gender. As shown in Table A-6, a Chi-square statistic was calculated to test whether the VA Loan Survey respondents differ significantly from the sampling frame.

In the veteran sample, one characteristic differs between the sample and the frame—age. VA Loan Survey respondents are slightly older than the population of veterans.

**Table A-6. Veterans Sample—
VA Loan Survey Respondents Compared with Sampling Frame**

Variable	Frame	Respondents
Loan Amount		
Under $90,000	27.0%	27.5%
$90,000–$119,999	23.9%	25.3%
$120,000–$149,999	22.2%	22.1%
$150,000+	27.0%	25.1%
Age Group*		
Under 25	3.2%	1.1%
25–34	35.7%	30.5%
35–44	29.4%	29.0%
45–54	20.0%	23.4%
54+	11.8%	16.0%
Race		
White, non-Hispanic	65.0%	67.1%
Black, non-Hispanic	10.8%	10.6%
Hispanic	5.3%	4.6%
American Indian or Alaskan Native	0.5%	0.4%
Asian or Pacific Islander	0.9%	0.2%
Unknown	17.48%	17.1%
Gender		
Male	93.2%	93.1%
Female	6.8%	6.9%

** Statistically significant difference at the .05 level on a Chi-square test*

The veteran VA Loan Survey respondents and the frame are not significantly different on the remainder of the tested characteristics, including loan amount, race, and gender.

We performed an analysis to test whether the results of a key variable would change if the sample had been equally distributed on the age variable. We found that the mean results are very similar on the key variable of question 29 parts 1 through 9, which measures satisfaction with various aspects of the VA Home Loan program. After the adjustment, mean scores for the adjusted sample were within 0.04 (on a 1 to 6 response scale) of the unadjusted sample mean (Table A-7).

**Table A-7. Veteran Sample—
Analysis of Mean Scores for Question 29**

Question Number	Unadjusted	Adjusted for Age Group
29 part 1	2.00	2.01
29 part 2	2.01	2.00
29 part 3	2.05	2.09
29 part 4	1.69	1.70
29 part 5	2.82	2.83
29 part 6	2.09	2.11
29 part 7	2.12	2.14
29 part 8	1.97	1.99
29 part 9	1.90	1.92

Active Duty Personnel Sample—Nonresponse Assessment

To test for a nonresponse bias in the active duty sample, VA Loan Survey respondents are compared with the sampling frame on characteristics such as loan amount, age, race, and gender. As shown in Table A-8, a Chi-square statistic is calculated to test whether the VA Loan Survey respondents differ significantly from the sampling frame.

In the active duty sample, as in the veteran sample, one characteristic differs between the sample and the frame—age. VA Loan Survey respondents are slightly older than the population of active duty military personnel.

Table A-8. Active Duty Sample — VA Loan Survey Respondents Compared with Sampling Frame

Variable	Frame	Respondents
Loan Amount		
Under $90,000	23.9%	23.2%
$90,000–$119,999	26.1%	24.1%
$120,000–$149,999	22.4%	23.4%
$150,000+	27.6%	29.3%
Age Group*		
Under 25	13.4%	10.9%
25–34	49.4%	39.1%
35–44	32.6%	42.7%
45–54	4.2%	6.6%
54+	0.6%	0.7%
Race		
White, non-Hispanic	59.6%	58.4%
Black, non-Hispanic	14.0%	15.2%
Hispanic	6.0%	6.6%
American Indian or Alaskan Native	0.4%	0.7%
Asian or Pacific Islander	2.1%	2.5%
Unknown	18.0%	16.6%
Gender		
Male	89.7%	91.1%
Female	10.3%	8.9%

** Statistically significant difference at the .05 level on a Chi-square test*

The active duty VA Loan Survey respondents and the frame are not significantly different on the remainder of the tested characteristics, including loan amount, race and gender.

We performed an analysis to test whether the results of a key variable would change if the sample had been equally distributed on the age variable. We found that the mean results are very similar on the key variable of question 29 parts 1 through 9, which measures satisfaction with various aspects of the VA Home Loan program. After the adjustment, mean scores for the adjusted sample were within 0.02 (on a 1 to 6 response scale) of the unadjusted sample mean (Table A-9).

**Table A-9. Active Duty Sample—
Analysis of Mean Scores for Question 29**

Question Number	Unadjusted	Adjusted for Age Group
29 part 1	2.06	2.08
29 part 2	1.99	1.98
29 part 3	2.18	2.19
29 part 4	1.84	1.85
29 part 5	3.10	3.09
29 part 6	2.14	2.12
29 part 7	2.08	2.08
29 part 8	1.93	1.93
29 part 9	2.02	2.02

Reservists Sample—Nonresponse Assessment

To test for a nonresponse bias in the reservist sample, VA Loan Survey respondents are compared with the sampling frame on characteristics such as loan amount, age, race, and gender. As shown in Table A-10, a Chi-square statistic was calculated to test whether the VA Loan Survey respondents differ significantly from the sampling frame.

In the reservist sample, the respondents and the frame are not significantly different on the any of the tested characteristics, including age, loan amount, race, and gender.

**Table A-10. Reservist Sample —
VA Loan Survey Respondents Compared with Sampling Frame**

Variable	Frame	Respondents
Loan Amount		
Under $90,000	27.3%	26.3%
$90,000–$119,999	26.3%	24.5%
$120,000–$149,999	22.9%	28.2%
$150,000+	23.5%	21.0%
Age Group		
Under 25	3.6%	4.2%
25–34	60.3%	56.6%
35–44	24.1%	23.3%
45–54	8.4%	11.2%
54+	3.5%	4.7%
Race		
White, non-Hispanic	62.6%	65.5%
Black, non-Hispanic	12.3%	13.3%
Hispanic	6.0%	3.0%
American Indian or Alaskan Native	0.4%	0.5%
Asian or Pacific Islander	1.1%	1.2%
Unknown	17.7%	16.6%
Gender		
Male	89.5%	87.7%
Female	10.5%	12.4%

** Statistically significant difference at the .05 level on a Chi-square test*

Cured Sample—Nonresponse Assessment

To test for a nonresponse bias in the sample of borrowers who received default assistance on their loans, VA Loan Survey respondents were compared with the sampling frame on characteristics such as loan amount, age, race, and gender. As shown in Table A-11, a Chi-square statistic was calculated to test whether the VA Loan Survey respondents differ significantly from the sampling frame.

In the cured sample, as in the samples of veterans and active duty borrowers, one characteristic differs between the sample and the frame—age. VA Loan Survey respondents are slightly older than the population who receive default assistance from VA.

Table A-11. Cured Sample—
VA Loan Survey Respondents Compared with Sampling Frame

Variable	Frame	Respondents
Loan Amount		
Under $90,000	36.7%	38.6%
$90,000–$119,999	25.8%	24.6%
$120,000–$149,999	19.6%	20.4%
$150,000+	17.9%	16.4%
Age Group*		
Under 25	4.9%	2.8%
25–34	36.1%	30.2%
35–44	31.4%	32.3%
45–54	19.0%	24.8%
54+	7.5%	9.4%
Race		
White, non-Hispanic	55.3%	53.4%
Black, non-Hispanic	19.5%	19.9%
Hispanic	5.9%	4.9%
American Indian or Alaskan Native	0.6%	0.5%
Asian or Pacific Islander	0.9%	0.0%
Unknown	18.0%	21.3%
Gender		
Male	92.5%	92.7%
Female	6.2%	5.6%

** Statistically significant difference at the .05 level on a Chi-square test*

The cured survey respondents and the frame are not significantly different on the remainder of the tested characteristics, including loan amount, race, and gender.

We performed an analysis to test whether the results of a key variable would change if the sample had been equally distributed on the age variable. We found that the mean results are very similar on the key variable of question 29 parts 1 through 9, which measures satisfaction with various aspects of the VA Home Loan program. After the adjustment, mean scores for the adjusted sample were within 0.02 (on a 1 to 6 response scale) of the unadjusted sample mean (Table A-12).

**Table A-12. Cured Sample—
Analysis of Mean Scores for Question 29**

Question Number	Unadjusted	Adjusted for Age Group
29 part 1	1.97	1.97
29 part 2	1.98	1.99
29 part 3	1.99	1.99
29 part 4	1.75	1.73
29 part 5	2.53	2.53
29 part 6	2.10	2.11
29 part 7	2.31	2.32
29 part 8	1.94	1.95
29 part 9	1.90	1.88

Conclusion

The nonresponse analysis shows that for the sample of reservists, the VA Loan Survey respondents represent the sampling frame on all of the tested characteristics. For the other three samples of veterans, active duty personnel, and cured loan borrowers, the VA Loan Survey respondents are slightly older than the population.

An analysis of the responses by age group reveals that the younger age groups are more likely to be unreachable. Military deployments in the active duty sample are more likely in the younger age group. In the final dispositions of our telephone VA Loan Survey, the number of messages on answering machine/voicemail and callbacks are more common among the younger individuals sampled. A study on nonresponse in telephone surveys[1] confirms the finding that younger persons are more difficult to reach. The study finds that the proportion of frequent screening of telephone calls is greater among 18 to 29 year olds.

For those in the younger groups who can be reached, we found that the proportion of people who participated in the VA Loan Survey is comparable to the older age groups. When the response rate is calculated on the basis of the number of reachable and eligible cases, a Chi-square test indicates that the percentage difference between the age groups is not significantly different (Table A-13).

[1] Tuckel, P. and H. O'Neill. (2002). The Vanishing Respondent in Telephone Surveys. *Journal of Advertising Research,* Sept.-Oct., 26–48.

Table A-13. Response Rate by Age Group

	Age Group*				
	Under 25	25 to 34	35 to 44	45 to 54	55+
Number of completed VA Loan Surveys	81	683	560	290	139
Number of reachable and eligible cases	100	824	639	328	157
Response Rate as % of reachable and eligible cases	81.0%	82.9%	87.6%	88.4%	88.5%

** Note: The age for two respondents could not be determined.*

Our analysis controlling for age indicates that the slightly greater percentage of older persons in the sample has no effect on the mean estimates of the key variables of satisfaction. Thus, one can conclude that no bias is associated with the slight underrepresentation of younger persons.

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APPENDIX B

VA LOAN SURVEY ITEM FREQUENCIES*

*Item frequencies are reported for the overall sample of 618, unless noted otherwise. Some frequencies are reported for specific sample groups and for respondents who answered affirmatively to a preceding branch question. Response frequencies based on totals other than 618 are noted.

1. From which of the following organizations or individuals did you learn about VA Home Loan program? (MARK ALL THAT APPLY)
75.2% Military.
23.5% VA **(COMPLETE THE TYPE OF CONTACT BELOW:)** ***Percentages for the type of VA contact are based on Q1=VA, 23.5%, N=145***
- **13.1%** Telephone contact
- **16.6%** Office visit
- **25.5%** VA web site
- **4.8%** VA outreach program or meeting
- **50.3%** VA brochure or other document
- **5.5%** Other, specify: ____________________
- **0%** Refused

5.0% Veterans service organization: American Legion, VFW, AMVETS, Disabled American Veterans, or Paralyzed Veterans of America
21.7% Real Estate Agent
0.5% Seller/Builder
11.5% Lender
14.6% Other veterans
8.9% Friends
9.7% Family
1.0% Web site (other than VA Web site)
1.9% Other, specify: ____________________
0.3% Refused

2. How did you obtain your Certificate of Eligibility (COE) to qualify for the VA loan? (MARK ONE)
27.0% Obtained from lender
43.9% Through the mail from VA
21.2% Visit to VA office
1.9% Did not need Certificate of Eligibility
0.3% Other, specify: ____________________
1.0% Don't know
1.0% Refused
2.1% Military
0.5% VA Website
1.1% Real estate agent or seller/builder

3. Did you get help in filling out the application for your Certificate of Eligibility? (MARK ONE)
33.0% Yes **(GO TO 3.1)**
48.5% No **(SKIP TO 4)**
17.6% Didn't need help **(SKIP TO 4)**
0.8% Refused

3.1. (IF YES TO 3) Which of the following organizations or individuals helped you? (MARK ALL THAT APPLY) ***Percentages are based on Q3=YES, 33.0%, N=204***
9.3% Military
2.5% Veterans service organization, such as American Legion, VFW, AMVETS, Disabled American Veterans, or Paralyzed Veterans of America
30.4% VA
31.4% Real Estate Agent
2.0% Seller/Builder
41.7% Lender
1.0% Other veterans
2.0% Friends
0.5% Family
0% Other, specify: ____________________
0.5% Refused

4. Would you have been interested in an adjustable rate loan if it were available to you at the time you got your VA loan? (MARK ONE)
26.2% Yes
73.1% No
0.6% Refused

5. Is this your first home? (MARK ONE)
52.6% Yes **(SKIP TO 6)**
47.2% No **(GO TO 5.1)**
0.2% Refused

5.1. Did you use a VA loan to purchase your FIRST home? (MARK ONE) ***Percentages are based on Q5=NO, 47.2%, N=292***
69.5% Yes
30.5% No

6. Have you ever had a home loan other than VA home loan? (MARK ONE)
26.9% Yes **(GO TO 6.1)**
73.1% No **(SKIP TO 7)**
0% Refused

6.1. (IF YES TO 6) Compared with other home loan(s) that you have had, is the VA home loan application process easier or harder than other home loans? (MARK ONE) ***Percentages are based on Q6=YES, 26.9%, N=166***
11.4% Much easier to apply for VA home loan
19.3% Easier to apply for VA home loan
42.8% About the same to apply for a VA home loan
25.3% Harder to apply for a VA home loan
0.6% Much harder to apply for a VA home loan
0.6% Refused

7. For what purpose did you obtain your CURRENT VA loan? (MARK ONE)
76.4% To buy an existing home **(GO TO 7.1)**
10.5% To build a home **(GO TO 7.1)**
2.6% To buy a residential unit in a condominium project **(GO TO 7.1)**
3.2% To buy a new or used manufactured home **(GO TO 7.1)**
6.6% To refinance an existing home loan **(GO TO 7.1)**
0% To buy or improve a manufactured home lot on which to place a unit owned and occupied by you **(SKIP TO 8)**
To repair, alter or improve a home, other than the Specially Adapted Housing or Special Home Adaptations **(SKIP TO 8)**
0% To repair, alter or improve a home using the Specially Adapted Housing or Special Home Adaptations grants **(SKIP TO 8)**
0% To improve a home through installation of a solar heating and/or cooling, water heaters, insulation, weather-stripping/ caulking, storm windows/doors, or other energy conservation improvements **(SKIP TO 8)**
0.2% Other, specify: ______________________________ **(SKIP TO 8)**
0.5% Refused **(GO TO 7.1)**

ANSWER QUESTIONS 7.1, 7.2, AND 7.3 ONLY IF YOU USED YOUR CURRENT VA HOME LOAN TO PURCHASE OR BUILD YOUR HOME, OR TO PURCHASE A RESIDENTIAL UNIT IN A CONDOMINIUM PROJECT. OTHERWISE SKIP TO QUESTION 8 IN THE NEXT COLUMN.
PERCENTAGES AND AVERAGES ARE BASED ON N=617

7.1. How many years have you owned this home? WRITE IN THE NUMBER OF YEARS: 2.55 (s.d.=2.21; N=617)

7.2. Is this home in a senior citizens complex or retirement community? (MARK ONE) ***Percentages are based on N=617***
0.6% Yes
99.2% No
0.2% Refused

7.3. Do you live in this home? (MARK ONE)
Percentages are based on N=617
96.3% Yes **(SKIP TO 8)**
3.6% No **(GO TO 7.3.A)**
0.2% Refused **(SKIP TO 8)**

7.3.A. (IF NO TO 7.3) Why don't you live in this home currently? (MARK ONE) ***Percentages are based on Q7.3=NO, 3.6% N=22***
0% This home will be my residence, once building or construction is completed **(SKIP TO 8)**
0% This home is an investment property that is currently rented **(SKIP TO 8)**
0% This home is an investment property that is currently unoccupied **(SKIP TO 7.3.A.2)**
13.6% This home was my residence, but it is now unoccupied because I was transferred and I'm trying to sell it **(GO TO 7.3.A.1)**
36.4% This home was my residence, but I no longer live there due to other reasons, and I'm trying to sell it **(SKIP TO 7.3.A.1)**
4.5% This home was my residence, but I no longer live there due to other reasons, and I'm not trying to sell it **(SKIP TO 7.3.A.2)**
18.2% Other **(SKIP TO 7.3.A.2)**
0% Refused
27.3% This home was sold **(SKIP TO 7.3.A.2)**

7.3.A.1. How long has this home been on the market? WRITE IN THE NUMBER OF MONTHS: 5.73 (s.d.=10.63; N=11) (GO TO 7.3.A.3)

7.3.A.2. How many months has the property been unoccupied? WRITE IN THE NUMBER OF MONTHS: 3.14 (s.d.=10.09; N=22) (GO TO 7.3.A.3)

7.3.A.3. Have you been able to keep up the mortgage payments during the period the property has been unoccupied? (MARK ONE) ***Percentages are based on N=22***
40.9% Yes
13.6% No
45.5% Does not apply

8. Please indicate ALL of the reasons why you got your current VA home loan (MARK ALL THAT APPLY)
88.8% No down payment required
54.9% Lower closing costs
33.5% No prepayment penalty
35.3% No mortgage insurance
40.5% Easier to qualify for VA loan
21.2% VA provides assistance to prevent default or foreclosure
53.1% Good interest rate available with VA loan
17.0% Recommended by real estate agent or lender
74.6% VA home loan is a benefit that I am entitled to
1.9% Other, specify: ______________________________

9. Please indicate which reason was the MAIN reason why you got your current VA home loan (MARK ONE)
55.8% No down payment required
3.4% Lower closing costs
0.2% No prepayment penalty
4.9% No mortgage insurance
5.8% Easier to qualify for VA loan
0.5% VA provides assistance to prevent default or foreclosure
10.7% Good interest rate available with VA loan
1.9% Recommended by real estate agent or lender
14.9% VA home loan is a benefit that I am entitled to
1.0% Other, specify: ______________________________
1.0% Refused

10. Did you have to pay closing costs to obtain your VA home loan? (MARK ONE)
54.2% Yes **(GO TO 10.1)**
45.6% No **(SKIP TO 11)**
0.2% Don't remember

10.1. (IF YES TO 10) How much were the closing costs? ***Percentages and averages are based on Q10=YES, 54.2%, N=335*** **WRITE IN THE AMOUNT:$2,898.35 (s.d.= $2,682.11; N=234)**
30.1% Don't recall

10.2. (IF YES TO 10) How much sooner would you have been able to buy a home if you didn't have to come up with the closing costs? ***Percentages and averages are based on Q10=YES, 54.2%, N=335*** **WRITE IN THE NUMBER OF MONTHS: 9.83 (s.d.= 10.40; N=114)**
66.0% Had no effect

11. Did you have to make a down payment? (MARK ONE)
15.9% Yes **(GO TO 11.1)**
83.8% No **(SKIP TO 12)**
0.3% Refused

11.1. (IF YES TO 11) How much of a down payment did you make (in percentages)? ***Percentages and averages are based on Q11=YES, 15.9%, N=98*** **ESTIMATE THE PERCENTAGE: 8.01 (s.d.= 8.33; N=63)**
35.7% Don't recall

11.2. (IF YES TO 11) How much sooner would you have been able to buy a home if you didn't have to make a down payment? ***Percentages and averages are based on Q11=YES, 15.9%, N=98*** **WRITE IN THE NUMBER OF MONTHS: 13.38 (s.d.= 15.19; N=16)**
59.2% Had no effect
24.5% Don't know

12. Did you include the funding fee in your VA home loan amount? (MARK ONE)
12.8% Did not have to pay a funding fee **(SKIP TO 13)**
53.2% Yes **(SKIP TO 13)**
5.2% No **(GO TO 12.1)**
28.8% Don't recall **(SKIP TO 13)**

12.1. (IF NO TO 12) How much sooner would you have been able to buy a home if you didn't have to come up with the funding fee? ***Percentages and averages are based on Q12=NO, 5.2%, N=32*** **WRITE IN THE NUMBER OF MONTHS: 5.67 (s.d.=3.51; N=3)**
68.8% Had no effect
21.9% Don't know

13. Did the lender-imposed loan limit affect your decision about how expensive a home to buy? (MARK ONE)
91.1% No – I didn't want to buy a more expensive home
1.9% No – I did buy a home that exceeded the limit, but put down a bigger down payment
6.8% Yes – I would have bought a more expensive home if the lender did not limit the VA loan
0.2% Refused

14. How much is a fair market value of your home today? WRITE IN THE CURRENT MARKET VALUE OF YOUR HOME: $148,639.57 (s.d.= $61886.82; N=541)
12.5% Don't know

15. How much did your home increase or decrease in value since you bought it? (MARK ONE AND WRITE IN AMOUNT)
68.0% Increased by: **$26,763.84 (s.d.= $32,204.14; N=420)**
0.3% Decreased by: **$4,500.00 (s.d.= $707.11; N=2)**
8.1% Stayed the same
23.6% Don't know

16. In what year did you buy your current home (not the year of the latest refinance, if applicable)? WRITE IN THE YEAR: 2000.63 (s.d.=1.84; N=618)

17. Is your CURRENT VA home loan your FIRST VA home loan? (MARK ONE)
59.2% Yes **(SKIP TO 19)**
40.8% No **(GO TO 18)**

18. (IF NO TO 17) For which purpose did you obtain a VA home loan or loans in the PAST—not your CURRENT VA HOME loan? (MARK ALL THAT APPLY) ***Percentages are based on Q17=NO, 40.8%, N=252***

84.5% To buy an existing home **(GO TO 18.1)**
11.5% To build a home **(GO TO 18.1)**
0.8% To buy a residential unit in a condominium project **(GO TO 18.1)**
4.8% To buy a new or used manufactured home **(GO TO 18.1)**
6.0% To refinance an existing home loan **(GO TO 18.1)**
0% To buy or improve a manufactured home lot on which to place a unit owned and occupied by the veteran **(GO TO 18.1)**
0.8% To repair, alter or improve a home, other than the Specially Adapted Housing or Special Home Adaptations **(SKIP TO 18.2)**
0% To repair, alter or improve a home using the Specially Adapted Housing or Special Home Adaptations grants **(SKIP TO 18.2)**
0% To improve a home through installation of a solar heating and/or cooling, water heaters, insulation, weather-stripping/ caulking, storm windows/doors, or other energy conservation improvements **(SKIP TO 18.2)**

18.1. (IF USED VA LOAN(S) TO BUY A HOME IN THE PAST) What kind of home(s) did you buy with VA loan(s) in the past—not the CURRENT VA loan? (MARK ALL THAT APPLY) ***Percentages are based on N=252***

93.3% Single family detached house
5.6% Townhouse
0.4% Condominium
1.6% Multi-family unit
2.0% Manufactured home
0.4% Trailer, recreational vehicle or mobile home
0% Other, specify: ______________________________
0% Refused

18.2. (IF NO TO 17) How long ago did you obtain your FIRST VA home loan? (MARK ONE) ***Percentages are based on Q17=NO, 40.8%, N=252***

0.8% Less than 1 year
21.0% 1 to 5 years
25.8% 6 to 10 years
28.2% 11 to 20 years
23.0% More than 20 years
1.2% Refused

18.3. (IF NO TO 17) How many times have you used the VA home loan program to purchase a home? ***Percentages and averages are based on Q17=NO, 40.8%, N=252***

WRITE IN THE NUMBER OF TIMES: 2.17 (s.d.=0.82; N=248)
1.6% Refused

18.4. (IF NO TO 17) How many times have you used the VA home loan program to refinance a home? ***Percentages and averages are based on Q17=NO, 40.8%, N=252***

WRITE IN THE NUMBER OF TIMES: .48 (s.d.=0.66; N=248)
1.6% Refused

19. In your experiences with the VA home loan program, how difficult or easy was it for you to do the following: (PLEASE ANSWER ITEMS 19.1 – 19.15 BELOW)

	Very Difficult	Difficult	Easy	Very Easy	Not Applicable	Refused
19.1. Get information about the VA Home Loan program? (MARK ONE)	0%	4.7%	51.8%	43.1%	1.5%	0%
19.2. Understand the information about the VA Home Loan program? (MARK ONE)	0.6%	11.0%	58.7%	28.5%	1.0%	0.2%
19.3. Get a Certificate of Eligibility? (MARK ONE)	0.6%	10.2%	54.0%	32.5%	1.9%	0.6%
19.4. Get approval for the loan? (MARK ONE)	1.1%	7.3%	55.7%	35.1%	0.3%	0.5%
19.5. Pay the funding fee? (MARK ONE)	1.6%	12.6%	45.8%	12.5%	27.3%	0.2%
19.6. Pay the closing costs? (MARK ONE)	2.1%	15.0%	46.9%	12.3%	23.3%	0.3%
19.7. Afford the mortgage payments? (MARK ONE)	0.3%	8.6%	72.5%	18.1%	0%	0.5%
19.8. Find a suitable home that fell within the VA maximum? (MARK ONE)	2.6%	6.8%	55.7%	30.7%	4.2%	0%
19.9. Find a VA registered builder? (MARK ONE)	0.6%	2.8%	16.3%	7.1%	73.1%	0%
19.10. Get the seller to accept a VA loan? (MARK ONE)	1.3%	7.6%	47.2%	30.3%	12.6%	1.0%
19.11. Find an authorized VA lender? (MARK ONE)	0.3%	3.7%	57.8%	33.8%	3.9%	0.5%
19.12. Find an authorized VA lender that offered a competitive loan package, including points, interest rate, closing costs? (MARK ONE)	1.6%	11.3%	55.0%	25.2%	6.8%	0%
19.13. Find real estate personnel who were knowledgeable and interested in VA loans? (MARK ONE)	2.6%	10.4%	53.6%	26.2%	7.3%	0%
19.14. Get support from real estate personnel? (MARK ONE)	1.9%	8.7%	51.8%	29.1%	8.4%	0%

19.15. If you had any other difficulty, please specify: ____________________

20. Did any of the difficulties that you identified in Question 19 ever delay or prevent you from owning your home? (MARK ONE)

9.7% Yes **(GO TO 20.1)**
50.5% No **(SKIP TO 21)**
39.8% No difficulties **(SKIP TO 21)**

20.1. (IF YES TO 20 BECAUSE OWNERSHIP WAS DELAYED) Which of the difficulties that you identified in Question 19 DELAYED you in owning your home? (MARK ALL THAT APPLY) ***Percentages are based on Q20=YES, 9.7%, N=60***

6.7% 19.1. Get information about VA program
11.7% 19.2. Understand the information about the VA program
25.0% 19.3. Get a Certificate of Eligibility
30.0% 19.4. Get approval for the loan
13.3% 19.5. Pay the funding fee
21.7% 19.6. Pay the closing costs
8.3% 19.7. Afford the mortgage payments
16.7% 19.8. Find a suitable home that fell within the VA maximum
5.0% 19.9. Find a home builder that offered a VA loan
30.0% 19.10. Get the seller to accept the VA loan
6.7% 19.11. Find an authorized VA lender
13.3% 19.12 Find an authorized VA lender that offered a competitive interest rate.
11.7% 19.13. Find real estate personnel who were knowledgeable and interested in VA loans
8.3% 19.14. Get support from real estate personnel
16.7% 19.15. Other difficulty

20.2. (IF YES TO 20 BECAUSE OWNERSHIP WAS PREVENTED) Which of the difficulties that you identified in Question 19 PREVENTED you from owning your home? (MARK ALL THAT APPLY)
Percentages are based on Q20=YES, 9.7%, N=60

0% 19.1. Get information about VA Home Loan program
1.7% 19.2. Understand the information about VA program
3.3% 19.3. Get a Certificate of Eligibility
8.3% 19.4. Get approval for the loan
5.0% 19.5. Pay the funding fee
8.3% 19.6. Pay the closing costs
3.3% 19.7. Afford the mortgage payments
11.7% 19.8. Find a suitable home that fell within the VA maximum
1.7% 19.9. Find a home builder that offered a VA loan
13.3% 19.10. Get the seller to accept the VA loan
1.7% 19.11. Find an authorized VA lender
3.3% 19.12 Find an authorized VA lender that offered a competitive interest rate.
8.3% 19.13. Find real estate personnel who were knowledgeable and interested in VA loans
5.0% 19.14. Get support from real estate personnel
0% 19.15. Other difficulty

21. In the past 5 years, have you or anyone in your household been turned down for credit? (MARK ONE)

28.2% Yes
71.4% No
0.5% Refused

22. How easy or difficult WOULD it be for you to obtain a home loan without the VA home loan program? (MARK ONE)

11.7% Very Easy **(SKIP TO 23)**
33.8% Easy **(SKIP TO 23)**
25.1% Difficult **(GO TO 22.1)**
10.7% Very Difficult **(GO TO 22.1)**
18.8% Don't know **(SKIP TO 23)**
0% Refused

22.1. (IF DIFFICULT OR VERY DIFFICULT) Which of the following difficulties would prevent you from getting a non-VA conventional home loan? (MARK ALL THAT APPLY) ***Percentages are based on Q22= Difficult or Very Difficult, 35.8%, N=221***

84.2% Cannot afford the down payment
48.9% Cannot afford the closing costs
22.2% Cannot afford the mortgage insurance
13.6% Cannot afford the interest rate
30.8% Credit record not good enough
19.5% Too much other debt
1.8% Banks don't want to lend to active duty service members
2.3% Other, specify: ______________________________
0% Refused

23. Why did you buy rather than rent your home? (MARK ALL THAT APPLY)

75.2% Financial reasons, such as build equity, tax shelter
33.3% Wanted to establish a permanent residence after leaving military service
17.8% Rental housing is not adequate
7.6% Better schools
38.8% Availability of VA guaranteed loan
3.1% Other, specify: ___________________________
0.2% Refused

24. If you did not have your VA home loan, what would be your most likely housing situation? (MARK ONE)

4.7% Military housing **(FOR MILITARY PERSONNEL ONLY)**
27.5% Rent
46.3% Own home with a conventional, non-VA loan
18.4% Own home with a FHA loan
1.8% Share housing with family or friends
0.6% Other, specify: _____________________________
0.6% Refused

25. How would you rate your present housing situation with your VA loan relative to your alternatives without a VA loan? (MARK ONE)
51.8% Much better off
24.3% Somewhat better off
22.0% About the same
1.6% Somewhat worse off
0.3% Much worse off
0% Refused

THE QUESTIONS ON THIS PAGE DEAL WITH SUPPORT THAT YOU MAY HAVE RECEIVED IN THE EVENT OF FINANCIAL DIFFICULTY WITH MORTGAGE PAYMENT(S). THESE QUESTIONS ADDRESS YOUR LEVEL OF SATISFACTION WITH SUPPORT THAT YOU MAY HAVE RECEIVED FROM YOUR LENDER AND VA. ***PERCENTAGES FOR QUESTIONS 26, 27, AND 28 ARE BASED ON THE CURED SAMPLE, N=424***

26. Did YOUR LENDER provide information about what your and VA liabilities would be in the event of default or foreclosure on your VA mortgage? (MARK ONE)
51.7% Yes
23.3% No
24.8% Don't recall
0.2% Refused

27. Did YOUR LENDER ever contact you to offer assistance because you were late on mortgage payment(s)? (MARK ONE)
39.6% Yes **(GO TO 27.1)**
60.1% No **(SKIP TO 28)**
0.2% Refused

27.1. (IF YES TO 27) What type(s) of assistance did YOUR LENDER provide? (MARK ALL THAT APPLY) ***Percentages are based on Q27=YES, 39.6%, N=168***
20.2% Advised you to consolidate other debt to reduce monthly obligations
42.9% Accepted lower or partial payments temporarily until you solved your problem
7.1% Adjusted the term of the loan to lower monthly payment
5.4% Reduced the interest to lower the monthly payment
1.8% Accepted lower or no payments until you sold your home
10.7% Other, specify ______________________________
18.5% Increased monthly payments to catch up the amount of the late payment
0.6% Refused
6.5% None

27.2. (IF YOUR LENDER PROVIDED ASSISTANCE) Which types of assistance that you marked above were worthwhile? (MARK ALL THAT APPLY) ***Percentages are based on Q27=YES, 39.6%, N=168***
12.5% Advised you to consolidate other debt to reduce monthly obligations
42.3% Accepted lower or partial payments temporarily until you solved your problem
6.5% Adjusted the term of the loan to lower monthly payment
6.0% Reduced the interest to lower the monthly payment
1.2% Accepted lower or no payments until you sold your home
8.9% Other, specify ______________________________
11.3% Increased monthly payments to catch up the amount of the late payment
1.8% Refused
17.3% Nothing was worthwhile

27.3. (IF YOUR LENDER PROVIDED ASSISTANCE) Overall, how satisfied are you with assistance provided by YOUR LENDER? (MARK ONE) ***Percentages are based on Q27=YES, 39.6%, N=168***
20.8% Very Satisfied
31.5% Satisfied
22.0% Somewhat Satisfied
10.1% Somewhat Dissatisfied
4.8% Dissatisfied
8.3% Very Dissatisfied
2.4% Not Applicable
0% Refused

28. Did VA ever contact you to offer assistance because you were late on mortgage payment(s)? (MARK ONE)
45.3% Yes **(GO TO 28.1)**
54.5% No **(SKIP TO 29)**
0.2% Refused

28.1. (IF YES TO 28) What kind(s) of assistance did VA provide? (MARK ALL THAT APPLY) ***Percentages are based on Q28=YES, 45.3%, N=192***

34.4% Provided financial counseling
42.7% Helped you work out a repayment plan with your lender
8.3% Helped to modify the original loan, e.g., extend the loan period
2.1% Purchased your loan from your lender and worked out new terms
7.3% Encouraged you to sell your home to avoid foreclosure
0.5% Accepted the deed on your house for you to avoid foreclosure
0% Paid off the existing loan so that you could sell your home and remove your indebtedness
6.8% Other, specify: ______________________________
4.2% Sent information by mail
11.5% None

28.2. (IF VA PROVIDED ASSISTANCE) Which type(s) of assistance that you marked above were worthwhile? (MARK ALL THAT APPLY) ***Percentages are based on Q28=YES, 45.3%, N=192***

29.2% Provided financial counseling
35.4% Helped you work out a repayment plan with your lender
11.5% Helped to modify the original loan, e.g., extend the loan period
3.1% Purchased your loan from your lender and worked out new terms
3.1% Encouraged you to sell your home to avoid foreclosure
0% Accepted the deed on your house for you to avoid foreclosure
0% Paid off the existing loan so that you could sell your home and remove your indebtedness
5.2% Other, specify: ______________________________
2.1% Sent information by mail
23.4% None

28.3. (IF VA PROVIDED ASSISTANCE) How satisfied are you with the assistance provided by VA? (MARK ONE) ***Percentages are based on Q28=YES, 45.3%, N=192***

32.3% Very Satisfied
27.6% Satisfied
12.5% Somewhat Satisfied
9.9% Somewhat Dissatisfied
6.3% Dissatisfied
4.7% Very Dissatisfied
6.8% Not Applicable

29. How satisfied are you with the following aspects of VA home loan program:
(PLEASE ANSWER QUESTIONS 29.1 – 29.9 BELOW)

	Very Satisfied	Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Dissatisfied	Very Dissatisfied	Not Applicable	Refused
29.1. Information you got about the VA home loan program? (MARK ONE)	21.4%	59.1%	14.6%	2.3%	1.0%	0.6%	1.0%	0.2%
29.2. How long it took to get your VA home loan? (MARK ONE)	25.2%	56.3%	11.5%	4.4%	1.3%	0.8%	0.2%	0.3%
29.3. Maximum amount of the VA home loan guarantee? (MARK ONE)	22.2%	57.8%	9.1%	4.9%	2.4%	0.8%	2.8%	0.2%
29.4. Being able to use your VA loan guaranty benefit to purchase another home in the future. (MARK ONE)	38.5%	46.3%	5.0%	1.6%	1.1%	0.2%	7.0%	0.3%
29.5. Amount of funding fee you had to pay to obtain your VA home loan? (MARK ONE)	8.4%	30.7%	16.8%	12.8%	5.8%	4.4%	21.0%	0%
296. Service provided by your real estate agent? (MARK ONE)	28.3%	39.0%	12.0%	5.5%	3.7%	1.9%	9.1%	0.5%
29.7 Service provided by your lender? (MARK ONE)	25.2%	50.2%	14.9%	4.0%	2.1%	2.4%	1.0%	0.2%
29.8. Service provided by VA? (MARK ONE)	24.1%	54.7%	12.6%	1.0%	1.8%	0.6%	4.9%	0.3%
29.9. VA Home Loan program overall, including everything: maximum loan amount guaranteed, VA services, private industry services, and so on? (MARK ONE)	26.5%	57.6%	12.1%	2.3%	0.8%	0.3%	0%	0.3%

30. How old are you? <u>WRITE IN YOUR AGE</u>: 42.64 (s.d=11.64; N=617)
0.2% Refused

31. What is you gender?
91.1% Male
8.9% Female

32. What is your race? (<u>MARK ONE</u>)
78.2% White
14.1% Black or African American
0.6% Asian
0.6% Native Hawaiian or other Pacific Islander
0.8% Native American or Alaska Native
6.1% Other, specify: ______________________________
1.1% Refused

33. Are you Spanish, Hispanic, or Latino? (<u>MARK ONE</u>)
7.9% Yes
90.8% No
1.3% Refused

34. What is your marital status? (<u>MARK ONE</u>)
6.8% Never married **(GO TO 35)**
79.4% Married **(GO TO 34.2)**
0.8% Widowed **(GO TO 34.1)**
11.7% Divorced **(GO TO 35)**
0.8% Separated **(GO TO 35)**
0.5% Refused

34.1. (IF WIDOWED) When did your spouse pass away? ENTER THE YEAR: 1997.60 (s.d=8.23; N=5) (SKIP TO 35)

34.2 (IF MARRIED) Which of the following statements best describe your spouse's current employment status? (<u>MARK ONE</u>) ***Percentages are based on Q34=MARRIED, 79.4%, N=491***
5.1% Employed full time plus a part-time job
51.7% Employed full time (or on vacation or leave from a full time job)
12.6% Employed part time only
3.9% Looking for work
25.3% Not employed and not looking for work
1.4% Refused

35. Do you have any of the following financial dependents? (<u>MARK ALL THAT APPLY AND WRITE IN THE NUMBER</u>)
58.4% Children – SPECIFY THE NUMBER:
2.07 (s.d=1.07; N=359)
0.2% Refused
2.1% Parents – SPECIFY THE NUMBER:
1.15 (s.d=0.38; N=13)
2.6% Others – SPECIFY THE NUMBER:
1.19 (s.d=0.54; N=16)
38.8% NONE OR NOT APPLICABLE
0.2% Refused

36. What is the highest level of education you have completed or the highest degree you have received? (<u>MARK ONE</u>)
0.3% 8th grade or less
0.3% Some high school, no diploma
14.9% High school diploma or G.E.D.
9.5% Trade, vocational, or technical training after high school
29.1% Some college, no degree
11.7% Associate's degree
24.1% Bachelor's degree
9.5% Graduate or advanced professional degree
0.5% Refused

37. How many years have you served on active duty in the Armed Services? (<u>MARK ONE</u>)
6.1% Less than 2 years
41.1% 2 to 5 years
17.8% 6 to 10 years
35.0% More than 10 years
0% Refused

37.1. (FOR VETERANS ONLY) In what year did you receive a discharge from military service? ***Percentages and averages are based on the Veterans sample, N=462*** **ENTER THE YEAR: 1985.92 (s.d= 12.97; N=425)**
0.9% Refused

38. Which of the following statements best describes your financial situation right now? (<u>MARK ONE</u>)
79.3% You can take care of living expenses, and have some money left over
17.8% You can afford only basic necessities, with little or no money left
2.6% You have to make major sacrifices and cut back on basic necessities
0.3% Refused

39. Which of the following income ranges best describes an estimate of your total combined FAMILY income in 2002 before taxes and deductions?
Total combined FAMILY income includes income from ALL family members in your household from wages, salaries, commissions, alimony, child support, interest, dividends, retirement income, etc. (MARK ONE)
0.6% $10,000 or less
1.6% $10,001 to $20,000
6.5% $20,001 to $30,000
13.8% $30,001 to $40,000
16.2% $40,001 to $50,000
35.1% $50,001 to $75,000
16.2% $75,000 to $100,000
8.9% More than $100,000
1.1% Refused

40. Which of the following statements best describe your current employment status? (MARK ONE)
2.9% Employed full time plus a part time job
79.4% Employed full time (or on vacation or leave from a full time job)
7.1% Employed part time only
3.2% Looking for work
7.1% Not employed and not looking for work
0.2% Refused

41. How would you rate your overall health now? (MARK ONE)
44.0% Very good **(SKIP TO 42)**
42.2% Good **(SKIP TO 42)**
10.0% Fair **(GO TO 41.1)**
3.4% Poor **(GO TO 41.1)**
0.3% Very poor **(GO TO 41.1)**
0% Refused

41.1. Do you have any service-connected disabilities? (MARK ONE) ***Percentages are based on Q41=FAIR, POOR, OR VERY POOR, 13.7%, N=85***
68.2% Yes **(GO TO 41.1.A)**
31.8% No **(SKIP TO 42)**

41.1.A. (IF YES TO 41.1) What is your service-connected disability level? ***Percentages and averages are based on Q41.1=YES, 68.2%, N=58***
WRITE IN DISABILITY RATING NUMBER:
40.28 (s.d=30.39; N=40)
31.0% Don't know or not sure

41.1.B. (IF YES TO 41.1) Are you aware of VA's Specially Adapted Housing Grant program? (MARK ONE) ***Percentages are based on Q41.1=YES, 68.2%, N=58***
8.6% Yes
89.7% No
1.7% Refused

42. Does getting a VA home loan make you feel that the Nation recognizes your service to our country? (MARK ONE)
82.7% Yes
16.5% No
0.8% Refused

42.1. The VA home loan program helps service members and veterans catch up with their civilian counterparts and readjust to civilian life after active duty. (MARK ONE)
76.4% Yes
23.1% No
0.5% Refused

43. Are you proud to serve or have served our country in the US Armed Services, Reserves, or National Guard? (MARK ONE)
98.4% Yes
1.3% No
0.3% Refused

44. Are you aware of the availability of loan guarantees for energy efficiency improvements, including solar heating and/or cooling, water heaters, insulation, weather-stripping/ caulking, storm windows/doors, or other energy conservation improvements? (MARK ONE)
11.8% Yes **(GO TO 44.1)**
88.2% No **(SKIP TO 47)**
0% Refused

44.1. (IF YES TO 44) Have you ever had a VA loan for energy efficiency improvement? (MARK ONE)
Percentages are based on Q44=YES, 11.8%, N=73
2.7% Yes **(SKIP TO 44.2)**
97.3% No **(GO TO 44.1.A)**
0% Refused

44.1.A. (IF NO TO 44.1) Why have you NOT obtained a VA loan for energy efficiency improvement? (MARK ALL THAT APPLY) ***Percentages are based on Q44.1=NO, 97.3%, N=71***
71.8% Don't need the improvement **(SKIP TO 47)**
11.3% Was not aware of the VA loan for energy efficiency improvement **(SKIP TO 47)**
1.4% Available loan amount is not enough **(SKIP TO 47)**
12.7% Cannot afford the monthly payments **(SKIP TO 47)**
2.8% Too much trouble to apply for the loan **(SKIP TO 47)**
2.8% Other, specify: ________________ **(SKIP TO 47)**
4.2% Don't need the loan
1.4% Refused

44.2. (IF YES TO 44.1) From which of the following organizations or individuals did you learn about VA loans for energy efficiency improvements? (MARK ALL THAT APPLY) ***Percentages are based on Q44.1=YES, 2.7%, N=2***
50.0% Military
100% VA
0% Veterans service organization such as: American Legion, VFW, AMVETS, Disabled American Veterans, or Paralyzed Veterans of America
0% Real Estate Agent
50.0% Seller/Builder
50.0% Lender
0% Other veterans
0% Friends.
0% Family.
0% VA web site
0% Web site (other than VA Web site).
0% Other, specify: ______________________________

45. In your experiences with the VA LOAN FOR ENERGY EFFICIENCY IMPROVEMENTS, how difficult or easy was it for you to do the following: (PLEASE ANSWER ITEMS 45.1 – 45.12) ***Percentages are based on Q44.1=YES, 2.7%, N=2***

	Very Difficult	Difficult	Easy	Very Easy	Not Applicable
45.1. Get information about the VA loan for energy efficiency improvements? (MARK ONE)	0%	0%	100%	0%	0%
45.2. Understand the information about the VA loan for energy efficiency improvements? (MARK ONE)	0%	50.0%	50.0%	0%	0%
45.3. Get a Certificate of Eligibility? (MARK ONE)	0%	0%	50.0%	50.0%	0%
45.4. Get approval for the loan? (MARK ONE)	0%	0%	50.0%	50.0%	0%
45.5. Pay the funding fee? MARK ONE)	0%	0%	100%	0%	0%
45.6. Pay the closing costs? (MARK ONE)	0%	0%	100%	0%	0%
45.7. Afford the mortgage payments? (MARK ONE)	0%	50.0%	50.0%	0%	0%
45.8. Get the energy efficiency improvements you wanted that fell within the VA maximum amount? (MARK ONE)	50.0%	0%	50.0%	0%	0%
45.9. Find an authorized VA lender? (MARK ONE)	0%	0%	50.0%	0%	50.0%
45.10. Find an authorized VA lender that offered a competitive loan package (including points, interest rate, closing costs)? (MARK ONE)	0%	0%	50.0%	0%	50.0%
45.11. Get cooperation and support from the company providing the improvements? (MARK ONE)	0%	0%	0%	0%	100%

45.12. If you had any other difficulty, please specify: ______________________________

46. Did any of the difficulties you identified in Question 45 ever delay or prevent you from making energy efficiency improvements to your home? (MARK ONE)
Percentages are based on Q44.1=YES, 2.7%, N=2
50.0% Yes **(GO TO 46.1)**
50.0% No **(SKIP TO 47)**
0% No difficulties **(SKIP TO 47)**

46.1. (IF YES TO 46) Which of the difficulties you identified in Question 45 DELAYED you in making energy improvements to your home? (MARK ALL THAT APPLY) *Percentages are based on Q46=YES, 50.0%, N=1*
0% 45.1. Get information about the VA energy efficiency loan program
0% 45.2. Understand the information about the VA energy efficiency loan program
0% 45.3. Get a Certificate of Eligibility
0% 45.4. Get approval for the loan
0% 45.5. Pay the funding fee
0% 45.6. Pay the closing costs
0% 45.7. Afford the mortgage payments
100% 45.8. Get energy efficiency improvements you wanted that fell within the VA maximum amount
0% 45.9. Find an authorized VA lender
0% 45.10. Find an authorized VA lender that offered a competitive interest rate.
0% 45.11. Get cooperation and support from the company providing the improvements
100% 45.12. Other difficulty

46.2. (IF YES TO 46) Which of the difficulties you identified IN QUESTION 15 PREVENTED you from improving your home? (MARK ALL THAT APPLY)
Percentages are based on Q46=YES, 50.0%, N=1
0% 45.1. Get information about the VA energy efficiency loan program
0% 45.2. Understand the information about the VA energy efficiency loan program
0% 45.3. Get a Certificate of Eligibility
0% 45.4. Get approval for the loan
0% 45.5. Pay the funding fee
0% 45.6. Pay the closing costs
0% 45.7. Afford the mortgage payments
100% 45.8. Get energy efficiency improvements you wanted that fell within the VA maximum amount
0% 45.9. Find an authorized VA lender
0% 45.10. Find an authorized VA lender that offered a competitive interest rate
0% 45.11. Get cooperation and support from the company providing the improvements
100% 45.12. Other difficulty

47. Are you a veteran, active duty military personnel, or reservist? (MARK ONE)
16.2% Veteran – with reserve duty **(GO TO 48)**
61.3% Veteran – with no reserve duty **(GO TO 48)**
19.4% Active duty military personnel **(GO TO 49)**
2.4% Reservist – currently on active duty **(GO TO 48)**
0.2% Reservist – currently NOT on active duty **(GO TO 48)**
0.2% National Guard **(GO TO 48)**
0.3% Refused

48. Did you have a VA home loan during your active duty military service? (MARK ONE) *Percentages are based on Q47=VETERAN, RESERVIST, OR NATIONAL GUARD, 80.5%, N=498*
16.5% Yes
83.1% No
0.4% Refused

IF YOU ARE NOT ON ACTIVE DUTY, SKIP TO 50.
IF YOU ARE ON ACTIVE DUTY, CONTINUE.
PERCENTAGES FOR QUESTIONS 49 ARE BASED ON ACTIVE DUTY SAMPLE, N=440

49. (IF ACTIVE DUTY MILITARY PERSONNEL) Is military housing available on your base? (MARK ONE)
Percentages are based on Active Duty sample, N=440
60.2% Yes **(GO TO 49.1)**
13.0% No **(SKIP TO 50)**
26.8% Refused

49.1. (IF YES TO 49) Do you receive a military housing allowance? (MARK ONE) *Percentages are based on Q49=YES, N=265*
96.6% Yes **(GO TO 49.1.A)**
3.4% No **(SKIP TO 49.1.B)**

49.1.A. (IF YES TO 49.1) How much per month? *Percentages and averages are based on Q49.1=YES, N=265* **WRITE IN THE MONTHLY DOLLAR AMOUNT: $ 922.79 (s.d=$ 332.51; N=256) (SKIP TO 50)**
3.5% Refused

49.1.B. (IF NO TO 49.1) Why did you choose to live off base/post? (MARK ALL THAT APPLY)
Percentages are based on Q49.1=NO, N=9
0% On-base housing unsuitable
11.1% On-base housing unavailable
0% Better schools off base/post
66.7% Prefer living in civilian community
0% Military housing allowance
33.3% Other, specify: ___________________________

50. What is/was your current/latest military pay grade? (MARK THE CORRECT RESPONSE AND ENTER YOUR GRADE)
85.3% Enlisted **5.06 (s.d=1.54; N=527)**
11.8% Officer **3.42 (s.d=1.08; N=73)**
1.5% Chief Warrant Officer **3.22 (s.d=0.83; N=9)**
1.5% Refused

51. Do you plan to use the VA Home Loan Program again in the future to purchase a home, refinance, or make improvements to a home? (MARK ALL THAT APPLY)
51.0% Likely to purchase another home
27.7% Likely to build a new home
21.8% Likely to refinance
25.6% Likely to make energy efficiency home improvements
8.3% Not likely to use the VA Home Loan Program again
3.2% Do not plan to use the program unless the loan limit is increased
23.1% Don't know
2.4% Other, specify: ______________________
0.3% Refused

51.1. (IF NOT LIKELY TO USE OR DO NOT PLAN TO USE TO 51) What are the reasons that you would not use the VA Home Loan Program again? (MARK ALL THAT APPLY) ***Percentages are based on N=70***
30.0% Loan limit is too low
4.3% Guaranty amount is too low
7.1% Lengthy process
2.9% No adjustable rate mortgage (ARMs)
22.9% Funding fees
8.6% Prefer conventional loan
42.9% Don't need the assistance
12.9% Don't know
15.7% Other, specify: ______________________
1.4% Refused

52. SHOULD VA KEEP CURRENT PROGRAM REQUIREMENTS OR CHANGE THE HOME LOAN PROGRAM IN ANY OF THE FOLLOWING WAYS TO BETTER MEET YOUR NEEDS? (MARK ALL THAT APPLY)

GUARANTY AMOUNT
43.9% No change needed -- leave the maximum amount loan amount at $240,000
49.0% Tie the maximum loan amount to area home prices
8.6% Increase the amount of the loan to: **ENTER AMOUNT: $386,960.00 (s.d=$271,946.195; N=50)**
.5% Refused
0% Decrease the amount of the loan to:

FUNDING FEE
35.0% No change needed -- leave the funding fee at the current level (0 – 3%)
59.2% Eliminate the funding fee
5.8% Change the finding fee to:
ENTER PERCENT: 0.98 (s.d=0.47; N=36)
0.2% Refused

INFORMATION
22.5% No change needed
74.4% Provide pre-loan counseling on how to shop for the most advantageous loan
5.2% Provide other information (**DESCRIBE**) _________
0% Refused

LENDER TERMS
32.4% No change needed
27.5% Require lenders to offer the same terms (interest rate, points, etc.) for VA loans as the equivalent conventional loan with a 20% down payment
35.4% Make it easier for builders to offer VA loans
30.4% Cap the points that can be charged
34.5% Cap the interest rate that can be charged
32.5% Cap the closing costs
1.9% Place other requirements on lenders (**PLEASE DESCRIBE**)______________________
0.8% Refused

LOAN TERMS
44.0% No change needed
21.4% Offer adjustable rate mortgages
44.3% Offer 15 years loans
1.9% Require lenders to offer other loan terms **(PLEASE DESCRIBE:)** ______________________
2.4% Refused

SPECIAL SERVICES TO ACTIVE DUTY MILITARY
40.1% No change needed
23.9% Provide forbearance during duty station transfers
54.2% Provide resale assistance for duty station transfers
2.1% Provide other services to active duty military (**PLEASE DESCRIBE**) ______________________

BENEFIT ELIGIBILITY
92.1% No change needed
1.1% Limit eligibility to those who would not qualify for a conventional loan
1.8% Limit loan benefit usage to a maximum of years after leaving active duty, **ENTER NUMBER OF YEARS: 13.09 (s.d=7.29; N=11)**
4.4% Limit loan benefit usage to a maximum of times, **ENTER NUMBER OF TIMES: 6.48 (s.d=9.42; N=27)**
1.5% Change eligibility in another way **(DESCRIBE)** ___
0.6% Refused

53. Do you have any other suggestions or comments to improve the VA Home Loan Program? (WRITE YOUR COMMENTS IN THE SPACE BELOW)

THANK YOU FOR TAKING THE TIME TO COMPLETE THIS QUESTIONNAIRE.
YOUR ANSWERS ARE VERY IMPORTANT.

PLEASE PLACE THIS QUESTIONNAIRE IN THE ENCLOSED PRE-PAID ENVELOPE AND RETURN IT TO US.

APPENDIX C

LEGISLATIVE HISTORY AND INTENT

APPENDIX C

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APPENDIX C: LEGISLATIVE HISTORY AND INTENT

Overview

The VA Home Loan Guaranty program began as a simple housing assistance benefit, within a larger package of readjustment benefits, to help World War II veterans quickly transition to civilian life following discharge from active service. In its original inception, it was neither evident nor intended that the program would survive as an enduring benefit.

As the Nation moved into the second half of the 20th century, the program grew in complexity and size as housing options, financing markets, and veterans' options and needs for housing expanded. Eligibility was opened to veterans of later periods of conflict, including Korea, Vietnam, and the Persian Gulf.

The program was extended to cover special groups, such as those needing specially adapted living facilities and Native Americans living on trust lands, in recognition that their unique needs should also be served by the program.

The definition of a qualifying "veteran" was expanded to include active servicemembers to support the volunteer military and, later, members of the Selected Reserve in recognition of growing active/reserve Total Force mission sharing.

As the program matured and its costs increased, user fees and other revenue producing and cost containment features were enacted to assist in funding the program and to address national deficit reduction goals.

The need for housing assistance continues to be viewed as a valued benefit by both the Congress and veterans. The program's intent has evolved from its original conception into the premise that transition assistance can be justifiable for any period of active service, not just wartime service, because the service removes the veteran from civil life. In addition, Congress has recognized that the VA housing benefit provides incentive value for the volunteer military. For these reasons, the program has been made permanent and benefits have been extended to qualifying members still on active duty, to members serving in the Selected Reserve, and to certain surviving spouses.

PART 1: THE WORLD WAR II PERIOD

The Servicemen's Readjustment Act of 1944

The VA Loan Guaranty program was enacted by Public Law 78–346, June 22, 1944; more than a year prior to the end of World War II (WWII). The loan guaranty was part of a larger readjustment program, the Servicemen's Readjustment Act of 1944, that was intended to address many of the issues that would face the large numbers of war veterans soon to reenter civilian life. These issues included physical rehabilitation, education, housing, employment and readjustment allowances, and the proper administration of these benefits.

There was widespread agreement and support for establishing assistance programs for returning veterans well before the war ended. President Roosevelt was a leading advocate, sending several messages to Congress as early as 1943.[1] The American Legion also actively supported legislation, providing a draft that was eventually crafted into the Servicemen's Readjustment Act.[2]

By purposefully enacting these programs before the end of the war, the Congress and the other advocates hoped to avoid the many problems that arose following World War I (WWI) when there was no cohesive approach for effectively assisting veterans. The unfortunate consequence was that returning veterans received inadequate support as they readjusted to civilian life. Several comments recorded during consideration of the readjustment bill by the House, and summarized below, underscored the emphasis that Congress placed on establishing a sound and responsive program prior to war's end.

> Rep. Maloney: After World War No. 1, we did not provide a complete program for the rehabilitation of our veterans, and the treatment given them was most inadequate because, as a matter of fact, their welfare was not given serious consideration…with their duty performed and return home, they were mustered out, quickly forgotten, and left, more or less, to seek their own rehabilitation. Of course, from time to time, some benefits were given to them in a piecemeal way; however, an over-all complete program was never adopted.[3]

> Rep. Jeffery: At the close of the First World War there was mustering-out pay for the veterans, and some years after there was adjusted compensation, which took the form of money, long after the greatest need had passed. This is a departure from any such scheme. It is an attempt immediately upon the mustering-out of

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1 House of Representatives, Message from the President of the United States, Document No. 344, 78th Congress, 1st Session, October 27, 1943; House of Representatives, Message from the President of the United States, Document 361, 78th Congress, 1st Session, November 23, 1943. The President's messages recommended enactment of several readjustment programs including mustering-out pay, unemployment compensation, credit for military service under the Social Security Act, and training and education. Assistance with housing was not mentioned in either of these messages.

2 Congressional Record—House of Representatives, May 12, 1944, p. 4534.

3 Ibid.

> the individual veteran to help him to help himself. To that end there have been devised various titles or sections of the bill which will fit insofar as possible the various needs of veterans of all types.[4]

In addition to establishing the programs before termination of the war, the Congress wanted to correct another problem that followed WWI by ensuring that veterans would be able to turn to one agency for support—the Veterans' Administration (VA).[5] In the Senate Finance Committee report transmitting the Senate's version of the readjustment legislation (S.1767) to the full Senate, Sen. Bennett Clark stated:

> The bill sets up an over-all control of these activities in the Veterans' Administration to the end that the veteran may have one central agency with whom he may qualify and one agency to whom he may look to insure the enjoyment of his rights. At the same time, Congress will have one agency which may be held responsible for the proper carrying out of the will of Congress with regard to these benefits.[6]

The House of Representatives echoed similar sentiments. In a speech about the need for the Servicemen's Readjustment Act, Rep. Tolan of California stated:

> We have first declared the Veterans' Administration to be an essential war agency, and have armed it with priorities in personnel and material so badly needed to enable it to meet all of the veterans' needs….The Administrator of Veterans' Affairs will channel down through existing agencies in administering the program; but his will be the responsibility for its success both to the veteran and to the Congress.
>
> No longer may the wearied veteran be pushed from pillar to post among several Government agencies in a tragic search for his rights and benefits.[7]

Both the House and Senate also agreed that a fundamental objective for the comprehensive readjustment programs was to reintegrate and to restore returning veterans to the positions they reasonably would have attained but for their war service. The housing benefit, for example, was intended to make up for the foregone opportunities to earn and save enough to afford the purchase of a home. The benefit was intended to similarly situate veterans with their non-veteran counterparts.

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[4] Ibid.

[5] The Veterans' Administration was established in 1930 to "consolidate and coordinate Government activities affecting war veterans." Previously, the various veteran benefits were administered by three separate Federal agencies: the Veterans Bureau, the Bureau of Pensions in the Interior Department, and the National Home for Disabled Volunteer Soldiers. This fragmentation was a contributing factor to the inadequate support for veterans following World War I. Source: Department of Veterans Affairs Fact Sheet.

[6] United States Senate, Committee on Finance, Providing Federal Government Aid for the Readjustment in Civilian Life of Returning World War II Veterans, S.1767, Report No. 755, 78th Congress, 2nd Session, March 18, 1944, p. 1.

[7] Congressional Record—Appendix, April 7, 1944, p. A1845.

Sen. Clark eloquently expressed the following views:

> As I see it, there have been two basic goals which we have achieved in this bill.
>
> The first has been to throw every possible protection about the veteran, to bridge the awkward gap between the release from the armed services and reintegration into civilian life. We recognize that the burden of war falls heavily on the citizen soldier.
>
> And the second goal is to see that the veteran is not penalized by reason of his services; that he is given a fair break, winning for himself those traditional American opportunities, which he has defended and preserved for all of us here at home.
>
> His most immediate need, perhaps, is the first classification, the "bridge the gap" part of the program.[8]

Congress also acknowledged the importance of speedy readjustment of veterans. Speeding the readjustment was considered not only equitable, but also necessary to avoid significant social and economic unrest. The record indicates that the Congress had a short-term priority of smoothing the transition of veterans in the immediate postwar period, but there was also acknowledgement that successful near-term transition would lay the foundation for longer-term prosperity. The Senate report on the bill emphasized the following:

> To the extent to which these men and women can be speedily reintegrated into the civilian population, the consummation of all of our hopes and prayers for national security and advancement depend. At the conclusion of the last war, all of the nations involved save only the United States and to a lesser extent Great Britain failed dismally in this task of reintegration of the civilian population….
>
> If the trained and disciplined efficiency and valor of the men and women of our armed forces can be directed into the proper channels, we shall have a better country to live in than the world has ever seen. If we should fail in that task, disaster and chaos are inevitable.[9]

The House report on its bill expressed a similar opinion.

> The object sought is the same in any event, namely, the reintegration of the discharged soldier, sailor, and marine into the civilian economy in the most prompt and adequate manner.[10]

[8] Congressional Record—Appendix, June 12, 1944, p. A3197.
[9] Senate Report No. 755, p. 3.
[10] United States House of Representatives, Providing Federal Government Aid for the Readjustment in Civilian Life of Returning World War II Veterans, Report No. 1418, 78th Congress, 2nd Session, May 5, 1944, p. 2.

The implementing features reflected these positions. First, the VA Loan Guaranty program was limited to veterans of WWII. Qualifying veterans were required to have served for 90 days or more during the period beginning September 16, 1940[11] and the official end of the war, ultimately determined to be July 25, 1947. Second, the final law established a deadline by which the veteran would have to submit a loan guaranty application, specifically before the later of 2 years after separation from service and 2 years following the end of the war. In any event, no applications would be accepted after 5 years from the end of the war, or after July 25, 1952.[12] These implementing features clarified the loan guaranty benefit as being more a short-term than an enduring program.

As a consequence of assisting veterans in the purchase of housing, the Readjustment Act also addressed national economic objectives. First, significant personal savings had accumulated during the war because there were few consumer goods available for purchase, and because of price controls on those goods that were available. But at war's end, production that had been channeled to defense needs would be redirected to peacetime. Purchase of housing was seen as a way to absorb some of the capital available for spending or investment, and thereby help avoid a postwar depression that some feared. By establishing a loan guaranty as opposed to a cash bonus, the Congress reduced the cost of the program. Also, by limiting purchase prices to their "reasonable normal values," the Congress sought to counteract housing price inflation in the postwar economy and actually return housing prices to their prewar or "normal" levels.

Table C-1 summarizes the major features for the Senate and House bills for the law as enacted in 1944. The House and Senate versions of the bill were similar. The primary differences were the form that the housing assistance should take, and the period in which applications could be submitted. The Senate bill included an outright loan from VA, while the House bill included a loan guaranty. As noted earlier, the Senate bill included neither a delimiting period for application nor a maximum loan repayment period. An important feature was the requirement for VA to approve the guaranty before it was effective. The practical effect of this provision was that lenders would not approve VA loans until the guaranty was issued.

[11] Effective date of the Selective Service Act.

[12] Interestingly, as seen in Table 1, the Senate bill did not contain a delimiting date for application for benefits.

Table C-1: Primary Features of VA Housing Assistance Legislation

Feature	Senate Bill (S.1767)	House Bill	Servicemen's Readjustment Act (P.L. 78–346)
Eligible service	Active military or naval service anytime after September 16, 1940 and prior to termination of the war; other than dishonorable discharge; at least 90 days of service or, if less than 90 days, discharge as the result of a service connected disability; if discharge is not service connected, veteran must have served outside the continental U.S. or in Alaska.	Active military or naval service anytime after September 16, 1940 and prior to termination of the war; honorable discharge; at least 90 days of service or, if less than 90 days, discharge as the result of a service connected injury or disability.	Active military or naval service anytime after September 16, 1940 and prior to termination of the war; other than dishonorable discharge; at least 90 days of service or, if less than 90 days, discharge as the result of a service connected injury or disability
Method of assistance	Direct loan not to exceed $1,000	Loan guaranty of up to 50% of value not to exceed $2,500	Loan guaranty of up to 50% of value not to exceed $2,000
Types of assistance for loan guaranty	Homes: Purchase residential property or construct a dwelling; Payment for improvements, repairs, alterations, or delinquent indebtedness or taxes on property already owned. Farms: Purchase land, buildings, livestock, equipment, machinery or implements; Payment for repairs, alterations, or improvements to buildings. Businesses: Purchase business, land, buildings, supplies, equipment, machinery, or tools.	Homes: Purchase residential property or construct a dwelling; Payment for improvements, repairs, alterations, or delinquent indebtedness or taxes on property already owned. Farms: Purchase land, buildings, livestock, equipment, machinery or implements; Payment for repairs, alterations, or improvements to buildings. Businesses: Purchase business, land, buildings, supplies, equipment, machinery, or tools.	Homes: Purchase residential property or construct a dwelling; Payment for improvements, repairs, alterations, or delinquent indebtedness or taxes on property already owned. Farms: Purchase land, buildings, livestock, equipment, machinery or implements; Payment for repairs, alterations, or improvements to buildings or equipment. Businesses: Purchase business, land, buildings, supplies, equipment, machinery, or tools.
Delimiting dates to apply	None specified	Apply within 2 years after separation, or 2 years after termination of the war whichever is later, but not more than 6 years after termination of the war	Apply within 2 years after separation, or 2 years after termination of the war whichever is later, but not more than 5 years after termination of the war
Interest rate	0% for first year; 3% per year thereafter	First year's interest paid by VA; not to exceed 6% per year thereafter	First year's interest paid by VA; not to exceed 4% per year thereafter

Feature	Senate Bill (S.1767)	House Bill	Servicemen's Readjustment Act (P.L. 78–346)
Repayment period	None specified	Not to exceed 20 years	Not to exceed 20 years
Authorized lenders	VA	Persons, firms, associations, and corporations; and governmental agencies and corporations, either State or Federal	Persons, firms, associations, and corporations; and governmental agencies and corporations, either State or Federal
Appraisal	Purchase price does not exceed the reasonable value as determined by an agency designated by VA	Purchase price does not exceed the reasonable value as determined by proper appraisal	Purchase price does not exceed the reasonable normal value as determined by proper appraisal
Loan/guaranty approval	Loan approved by an agency designated by VA	Guaranty effective only upon approval by VA	Guaranty effective only upon approval by VA

Source: House of Representatives Report No. 1418 on S.1767, May 5, 1944; P.L. 78–346

The objective of the law enacted in 1944 was stated in its title—"readjustment." The law addressed those areas where the Congress believed the veteran would need the most assistance in restoration to civilian life: medical care, education, employment, readjustment allowances, and housing.

The readjustment law presumed two important factors about the veterans it intended to assist. First, they became members of the armed forces in a conscription environment. Second, they could not take advantage of most of the readjustment benefits in the act, including loan guaranties, until they separated from service. Changes in these circumstances and in other factors would later stretch the program objectives.

Considering all the testimony and opinions expressed by legislators during consideration of the various bills, our interpretation is that there were several layers of Congressional intent for the total readjustment package.

The first layer was the global objective of readjustment, or easing the transition from military to civilian life and assisting the veteran in "making up for lost time." We interpret the purposes of this layer as the following:

- ♦ Seed the veteran's reintegration into civilian life
- ♦ Make the veteran whole by recompensing for the foregone opportunities to work, to save, to establish credit, and to obtain an education or training caused by their wartime military service.

Within this global statement of intent, however, we believe there was a second layer of purpose relating directly to the VA Loan Guaranty program. That is the following:

- To assist the veteran in obtaining suitable housing.

This may seem to be an artificial distinction, but it is a distinction worth considering. The global circumstances giving rise to the loan guaranty changed over time. Veterans eventually readjusted to civilian life and the Nation transitioned from wartime to peacetime after World War II, and then after several other periods of conflict. In the 1970s, the Nation converted to an all-volunteer approach for staffing the military, and this event significantly changed the global environment governing emoluments to incentivize service. Nevertheless, the loan guaranty program (though modified over time) has survived for nearly 60 years, we posit, because the Congress continues to believe that assisting veterans in obtaining housing is, itself, a worthy objective, in addition to overarching purposes such as readjustment or incentive for service.

In the following sections, we trace the evolution of the VA Loan Guaranty program from 1944 to the present. Some events are covered in more detail because they represented significant milestones. We attempt to interpret how each of these key events related to adjustments in overall program objectives.

Amendments in 1945

Many features of the new loan guaranty soon came under review because, when observed through the lens of practical experience, they conflicted with smooth program operations and with achieving the program's objectives. Both Houses held hearings to address experiences during the first year of operation and to consider modifications. More than 20 separate bills were introduced in the House alone.[13] Ultimately, changes were enacted that made the program more useable for veterans and more responsive to their needs. Several of the most significant 1945 amendments are summarized in the following paragraphs. Table C-2 compares the 1944 and 1945 laws.

<u>Delimiting dates for application</u>: As stated in the original act, the delimiting dates to apply for a VA home loan guaranty could have precluded a veteran from obtaining a loan guaranty who had first attended college under the education provisions of the law. By the time the veteran finished college, their eligibility period for a loan guaranty application could have expired. As stated by Rep. Cunningham during House hearings:

> We told the Senate. They said: 'Why not give them both?' We agreed to that, so the door was opened and the veterans can get both the education and the loan but in our haste we overlooked the 2-year provision.
>
> Now the result is we are about where we started. The boy who goes to school does not know what he wants to borrow money for; he is not starting in farming or business or buying a home while going to college. But by the time he gets

[13] House of Representatives, Committee on World War Veterans' Legislation, Bills and Testimony Before The Committee On World War Veterans' Legislation Relating To The Servicemen's Readjustment Act of 1944, 79th Congress, 1st Session, Confidential Committee Print No. 73, July 5, 1945, pp. 12–14.

> through school, the statute of limitations has run and he will not be eligible for the loan.
>
> What we should have done, we should have pushed that up to 4, or 5 or 6 years to do that.[14]

The amending legislation corrected this problem by replacing the delimiting dates for application (as shown in Table C-1) with a simplified requirement that qualifying veterans apply within 10 years after the termination of the war. The amendment did not expand eligibility to other than WWII veterans. The delimiting date extension was intended to increase the likelihood that war veterans would be able to more fully take advantage of the benefits afforded.

Loan Approval: By mid-1945, VA had approved approximately 26,000 home loans and approximately 800 farm loans. But, there was a growing concern about the amount of paperwork and the waiting time necessary to have a loan guaranty application approved. The process frustrated both veterans and the lending institutions.

One Member of the House recited a news article indicating that banks in one California city had discontinued processing VA loan applications because "more that 20 feet of Veterans' Administration forms are required to be filled."[15] The forms were needed because of the detailed information VA needed to discharge its duty to determine the practicability of the loan. VA had to assess the suitability of the home, the likelihood the veteran could make the mortgage payments, and the accuracy of the appraisal.

The National Director of the American Legion testifying before the House committee provided the perspective from veterans' observations:

> Other complaints rest upon the impatience of lenders and veterans alike with the regulations promulgated by the Veterans' Administration and the forms which are required to be filled out before a loan guaranty becomes effective. There are those who feel that the Veterans' Administration has practically emasculated the law by an array of regulations, which some say would take a battery of lawyers to decipher and apply. Veterans become disgusted and work out their own borrowing program without any reference to this device of the loan guaranty.[16]

The record of hearings reflects significant discussion about the merits of streamlining the loan approval process against the imperative to protect the veteran against unethical lenders and inflated appraisals.[17] Ultimately, the conferees adopted an automatic guaranty. Thus, a VA loan would be automatically guaranteed by virtue of the lender and an eligible veteran having consummated a loan that complied with the

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[14] House of Representatives, Committee on World War Veterans' Legislation, Hearings on H.R.3749 and Related Bills to Amend the Servicemen's Readjustment Act of 1944, 79th Congress, 1st Session, June 19, 20, 21, 28, July 5, 1945, p. 7.

[15] Congressional Record—House, November 21, 1945, p. 11052.

[16] House of Representatives, Hearings on H.R. 3749 and Related Bills to Amend the Servicemen's Readjustment Act of 1944, p. 175.

[17] For example, Ibid, pp. 41–43.

other provisions of the law. No VA approval of the loan was necessary, and once VA determined that the loan was properly consummated, it would issue the guaranty.

Loan approval authority was delegated to any lending agency subject to examination and supervision by an agency of the United States (for example, the Comptroller of the Currency or the Federal Deposit Insurance Corporation) or of any State or Territory, including the District of Columbia. This provision added banks to the list of approved lenders.[18]

Appraised value: Determining the appropriate yardstick for appraising the value of a home or farm emerged as a significant issue. The original statute indicated the appraisal would be determined on the basis of the reasonable normal value. In theory, when the law was passed in 1944, the term “normal” was widely understood to mean the value to which the property would revert following the end of the war. Most expected that home values, which had become inflated during the war, would return to pre-1940 levels. There was concern that approving loans on actual rather than “normal” values would result in cases where veterans would be left holding loans on properties whose values later declined following the war. However, in mid-1945, while the war was still ongoing, housing prices had not abated and many loan applications were being disapproved because the appraisals were higher than what was perceived by VA to be their “normal” values. Furthermore, the term “normal” was ambiguous and subject to many different interpretations.

One piece of VA testimony before the House Committee on World War Veterans’ Legislation clearly illustrated the issues:

> Mr. Breining: …If I may revert a minute to the reasonable normal value, and I do so because that has been one of our greatest enigmas, prices generally throughout the country are such that we are above what is reasonably or generally considered a normal level. Different economists take different periods as representative of normality.
>
> Normal is a rather nebulous thing, because we know that back several years ago, there was a slogan about getting back to normalcy. Whether we ever got here or not, I do not know. What represents normalcy is something not many men can agree upon.
>
> We have turned down quite a few loans because of their being above reasonable value.
>
> I am quoting now from the Federal Home Loan Bank review of May 5th. They show that in March 1945 material was 132 percent of the average of the 1935–1939 period. They show that labor was 140.2 percent, so that the total was 134.7 percent.

[18] House of Representatives, Explanation of Public Law 268, 79th Congress, Committee Print No. 119, p. 4.

> Now they took the 1935–1939 period as the period of normalcy. Other economists may take other periods. But there is no question that if you take any business trends, it is just a series of valleys and mountains. You can smooth out those curves by putting the mountains in the valleys and trying to strike an average or mean, but when you get down to determining what actually is a normal value, it is a very difficult thing, and different men will attach a different significance to that term.[19]

Commenting on the Senate version of the amendments to Public Law 78–346, Sen. Johnson, the Chairman of the Subcommittee on Veterans' Legislation, stated that:

> …finally, and probably one of the most important changes proposed by the committee, there is the authorization of Government-guaranteed loans based on "reasonable" rather than "reasonable normal" value of property. It is believed that this will remove one of the most disturbing factors in the administration of the loan provisions. The use of the word "normal" has been found to be wholly unsatisfactory in the present state of the real estate market.
>
> …the subcommittee very reluctantly decided to eliminate the word "normal," but we felt that under present circumstances, with present going prices, unless the word "normal" were eliminated, no home or farms would be purchased by veterans.[20]

The amendment that was approved removed the term "normal" from the law. The revised language also included a compromise requiring that the appraisal of reasonable value be made by an appraiser designated by VA.

<u>Guaranty Amount, Repayment Period</u>: The $2,000 guaranty maximum was retained for non-real estate loans and a $4,000 guaranty maximum was established for real estate loans. The original 20-year repayment period was modified to 10 years for non-real estate loans, 25 years for home loans, and 40 years for farm loans.

Table C-2 summarizes the differences between the original VA Home Loan Guaranty program and the amended program in Public Law 79–268 that was enacted on December 28, 1945.

[19] Ibid, pp. 44–45.
[20] Congressional Record—Senate, November 8, 1945, p. 10668.

Table C-2: Comparison of the Servicemen's Readjustment Act of 1944 with P.L. 79–268 VA Home Loan Guaranty Provisions

Feature	Servicemen's Readjustment Act (P.L. 78–346)	Amendments to Servicemen's Readjustment Act (P.L. 79–268)
Eligible service	Active military or naval service anytime after September 16, 1940 and prior to termination of the war; other than dishonorable discharge; at least 90 days of service or, if less than 90 days, discharge as the result of a service connected injury or disability.	No change. An honorable discharge paper is deemed to be a certificate of eligibility. Veterans with discharges other than honorable may apply to VA for a certificate.
Method of assistance	Loan guaranty of up to 50% of value not to exceed $2,000.	Loan guaranty of up to 50% of value not to exceed: $2,000 for non-real estate loans $4,000 for real estate loans.
Types of assistance for loan guaranty	<u>Homes</u>: Purchase residential property or construct a dwelling; Payment for improvements, repairs, alterations, or delinquent indebtedness or taxes on property already owned. <u>Farms</u>: Purchase land, buildings, livestock, equipment, machinery or implements; Payment for repairs, alterations, or improvements to buildings or equipment. <u>Businesses</u>: Purchase business, land, buildings, supplies, equipment, machinery, or tools.	<u>Homes</u>: Purchase residential property or construct a dwelling; Payment for improvements, repairs, or alterations. <u>Farms</u>: Purchase land, buildings, livestock, equipment, machinery or implements; Payment for repairs, alterations, or improvements to land, buildings (including farmhouse), or equipment. For working capital, or to purchase stock in a cooperative association if required by Federal law. <u>Businesses</u>: Purchase of business, land, buildings, supplies, equipment, machinery, tools, inventory, stock in trade; Payment for construction, repair, alteration or improvement of property; Provide funds for working capital. <u>Delinquency</u>: Refinance of indebtedness on a home or farm loan; indebtedness from a gainful occupation; delinquent taxes or assessments on property or business.
Delimiting dates to apply	Apply within 2 years after separation, or 2 years after termination of the war whichever is later, but not more than 5 years after termination of the war.	Apply not more than 10 years after the termination of the war.
Interest rate	First year's interest paid by VA; not to exceed 4% per year thereafter.	Not to exceed 4% per year; VA authorized to pay 4% on the amount originally guaranteed in place of the first year's interest.
Repayment period	Not to exceed 20 years.	Home loans: 25 years Farm loans: 40 years Non-real estate loans: 10 years.

Feature	Servicemen's Readjustment Act (P.L. 78–346)	Amendments to Servicemen's Readjustment Act (P.L. 79–268)
Authorized lenders	Persons, firms, associations, and corporations, and governmental agencies and corporations, either State or Federal.	Federal land banks, national banks, State banks, private banks, building and loan associations, insurance companies, credit unions, or mortgage and loan companies subject to examination and supervision by an agency of the United States or of any State or Territory, including the District of Columbia.
Appraisal	Purchase price does not exceed the reasonable normal value as determined by proper appraisal.	Purchase price or cost of construction, repairs or alterations do not exceed reasonable value as determined by proper appraisal made by an appraiser designated by VA.
Loan/guaranty approval	Guaranty effective only upon approval by VA.	Guaranty automatic upon consummation of a loan agreement between approved lender and an eligible veteran. Guaranty must be approved by VA if lender is not one of the above-specified classes.

Source: House of Representatives Committee Print No. 119; P.L. 78–346; P.L. 79–268

The evidence in the legislative history suggests that the changes enacted in Public Law 79–268 were intended to make the VA Home Loan Guaranty program more accessible to WWII veterans, and thereby enhance achievement of the program's objectives of readjustment and of assisting veterans in obtaining suitable housing. There does not appear to be evidence that these changes were intended to modify or expand the intent of the original Servicemen's Readjustment Act of 1944.

These changes did, however, represent the first of many piecemeal modifications or efforts to "fine tune" the program.

The Housing Act of 1950

By 1950, more than 1,800,000 World War II veterans had purchased homes under the VA Home Loan Guaranty program, and their repayment records were favorable with only about 0.3 percent of loans going to foreclosure.[21] Nevertheless, a persistent nationwide housing shortage was limiting both veterans' and non-veterans' abilities to obtain suitable and affordable housing.

Those with mid-range incomes most often encountered the shortages, and this included most veterans. As expressed in the Senate report on the National Housing Act:

> The gap in our present housing program lies in the area between the families in the lower-income third and the families in the upper-income third.

[21] United States Senate, Committee on Banking and Currency, Housing Act of 1950, 81st Congress, 2nd Session, Report No. 1286, February 24, 1950, p. 90.

> …in terms of both volume and suitability for adequate family life, housing that is available, or in prospect of being made available, for families in the middle-income third is wholly inadequate.
>
> The middle-income families of this country are the families of 'the butcher, the baker, the candlestick maker.' They are the families of the average workingman—the clerks in the stores, the men who put gasoline in your car, the neighborhood grocer, the rank and file of labor, the average young veteran.[22]

National political, industrial, and labor leaders expressed strong opinions that the Congress needed to act expeditiously to alleviate the problem. President Truman wrote the following to Rep. Brent Spence, Chairman of the House Banking and Currency Committee:

> There is still a large unfilled need in this country for good homes at prices which families of moderate income particularly those with children can afford….They are the backbone of the country, yet they cannot pay the rental or sales prices now being asked in most localities for homes large enough for family living….It is important that other measures be devised to permit them to live in decent housing and to realize their dream of owning their own homes.[23]

Writing in support of the housing act legislation under consideration in the House, the National Housing Director, American Veterans Committee stated:

> Statistically, a greater percentage of World War II veterans are in the middle-income bracket than any other major segment of our population and will receive more benefit from these provisions than any other group.[24]

Finally, the president of the Congress of Industrial Organizations (CIO) wrote in support of the House bill:

> I know of no greater opportunity afforded the Congress of the United States to take positive constructive action toward alleviation of the Nation's shocking housing shortage than that presented by the legislation now under consideration. Congress can make a substantial contribution to the stability of our economy and the preservation of our American system through passage of the middle-income housing bill.[25]

The record indicates a situation in which veterans were caught up with the remainder of the Nation in a housing shortage. Referencing the veteran's situation, Sen. Maybank commented in introducing the Senate housing bill:

[22] Ibid, pp. 48–49.
[23] Congressional Record—House, March 22, 1950, p. 3874.
[24] Ibid.
[25] Ibid.

> When we passed the GI loan program some time ago, we intended to make it possible for veterans to get 100-percent loans at 4 percent interest. During the last 2 years, such loans were virtually unobtainable.[26]

In discussing the veteran's situation, the report on the Senate's housing bill stated that:

> Some qualified veterans have been seeking fruitlessly to get financing on the liberal terms held out to them under the GI bill. Many have been compelled to accept the combination FHA-VA loan with its extra original charges and higher carrying costs.
>
> The present law limits the amount of the guaranty to 50 percent of the loan or $4,000, whichever is less. These limits, at current price levels, fall somewhat short in supplying an effective margin of principal protection assurance to the private lender for houses priced above $8,000.[27]

The eventual solution was the National Housing Act of 1950, Public Law 81–475, enacted on April 20, 1950. The Act included numerous measures to increase the availability of affordable housing for all citizens, including veterans.

One of the Act's most significant features affecting veterans was the direct loan program, established to assist veterans who could demonstrate that VA guaranteed loans were unavailable in their areas. The authority to make direct loans was limited by a $150 million funding limit and a June 30, 1951 expiration date. Both limits were extended numerous times by succeeding legislation.

The National Housing Act's amendments to the VA Home Loan Guaranty program were consistent with the nature of the 1945 improvements. The record indicates they were enacted in response to housing market conditions. Their purpose was to make the program more responsive to veterans seeking to acquire residential or farm housing. The changes did not represent a change in program objectives regarding readjustment or housing for veterans. However, as noted in Table C-3, the Act did expand the eligibility pool to include certain surviving spouses of war veterans.

The 1950 amendments to the VA Home Loan Guaranty program are summarized in Table C-3.

[26] Congressional Record—Senate, April 10, 1950, p. 5023.
[27] Senate Report No. 1286, pp. 90–91.

Table C-3. Housing Act of 1950 (P.L. 81–475)
VA Home Loan Guaranty Program Amendments
Key Provisions

Feature	Provision
Maturity	Increased from 25 years to 30 years.
Maximum guaranty	Increased from $4,000 or 50% of the loan to $7,500 or 60% of the loan.
Farm home loans	Added provision to assist in the guaranty of farm home loans.
Surviving spouse eligibility	Makes eligible unremarried surviving spouses of veterans who would have been eligible for a loan guaranty but who died as the result of service-connected injury or illness.
Restoration of eligibility	Permits Administrator to permit veteran to reapply for a loan guaranty if the veteran suffered loss of home through no fault of his own (e.g., fire, natural disaster, condemnation).
State loans	Loans made by States are placed on the same basis as loans made by approved lending institutions.
Construction standards	Requires homes financed under the loan guaranty program to meet VA prescribed construction standards.
FHA-VA loans	Abolished not later than December 31, 1950.
Direct loan program	Authorizes VA to make direct loans for purchase or construction of homes or construction or improvement of farmhouses in areas where the veteran can demonstrate that VA guaranteed loans are unavailable. Loans limited to $10,000 bear 4 percent interest, and mature in 30 years. Total funds for direct loans limited to $150 million. Authority expires June 30, 1951.

Source: United States Senate, Summary of Housing Act of 1950, 81st Congress, 2nd Session, Document No. 165, April 27, 1950, pp. 7–8.

Part 1 Summary

The primary legislative activity during this period was designing and implementing a program of transition benefits for WWII veterans. The transition program was put in place a year before the end of hostilities so that the mistakes following WWI would not be repeated. In addition, the intent was for the program to move veterans quickly from military service into the mainstream civilian economy.

The housing benefit was established as a loan guaranty program. Once enacted, the Congress made numerous modifications to make the housing benefit more usable and relevant in the housing and financing landscape that emerged following WWII.

The record indicates a significant amount of sensitivity by the Congress toward veterans' housing needs. In addition, the Congress expressed a responsibility to protect the veteran against unscrupulous building and lending practices.

Our evaluation of Congressional intent during this period is that the Readjustment Act of 1944 embodied two important concepts that would consistently emerge in descendent legislation years later.

First, a transition or readjustment benefit is justifiable and necessary because it situates veterans with those whose lives have not been interrupted by service to country. Several decades later, the Congress would expand its view by determining that transition benefits were appropriate regardless of the nature of service (conscript or volunteer), or period of service (wartime or peacetime).

Second, a housing benefit is an important element of a transition program. Housing benefits are needed and valued by veterans.

PART 2: THE KOREAN CONFLICT AND THE COLD WAR PERIOD

Coverage for Korean Conflict Veterans

In 1952, Congress passed and the President signed The Veterans' Readjustment Act of 1952, Public Law 82–550, which extended the home loan guaranty and direct loan benefits available to WWII veterans to veterans of the Korean Conflict. Congressional intent for this legislation was consistent with the intent for the 1944 Servicemen's Readjustment Act. That is, its purpose was to provide Korean Conflict veterans a means of readjustment from military to civilian life. Section 102, the Statement of Policy for Public Law 82–550, read in part:

> The Congress of the United States hereby declares that the veterans'… home, farm, and business-loan benefits…provided for by this Act are for the purpose of assisting in the readjustment of such persons from military to civilian life.[28]

The House report on its bill, H.R. 7656, stated that:

> The general purpose of this title is to extend the loan guaranty provisions of Title III of the Servicemen's Readjustment Act to the veterans of the Korean Conflict period to the same extent as those provisions apply to World War II veterans.[29]

Besides making Korean Conflict veterans eligible for the VA Home Loan Guaranty program, the law also added several improvements and protections. The Act's features are summarized in Table C-4.

The Act did not establish a second entitlement for WWII veterans who also served in the Korean Conflict. Veterans who had already used all of their loan guaranty entitlement following WWII did not receive a new entitlement by virtue of Korean period service. However, any remaining unused entitlement could be used, as well as a full entitlement if a previous guaranteed loan had been fully repaid.

This law replicated Congressional intent first expressed in the 1944 Veterans' Readjustment Act—assisting veterans in readjusting to civilian life, and, among these activities, securing housing. The factor of military service conscription and the requirement to separate from service to use the benefit continued.

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28 Public Law 82–550, Section 102.

29 United States House of Representatives, Education and Training and Other Benefits for Persons Serving in the Armed Forces on or after June 27, 1950, Report No. 1943, 82nd Congress, 2nd Session, May 16, 1952, p. 39.

Table C-4. Public Law 82–550 (July 16, 1952)
Veterans' Readjustment Act of 1952
Key Provisions

Feature	Provision
Eligibility	Extends eligibility for home loan guaranty and direct loans to veterans serving any time on or after June 17, 1950 and before 10 years after a date to be determined following the end of hostilities. Also extends eligibility to certain surviving spouses.
Regulation of loans	VA may require prior approval on certain types of loans as determined by the Administrator.
Construction standards	Requires property purchased with a guaranteed loan to meet VA standards for planning, construction, and general acceptability.
Right of refusal to appraise	Gives VA authority to refuse to appraise property owned or to be constructed by any individual that has a record of deficiencies, failure to discharge contractual liabilities, or business practices prejudicial to veterans.
Credit risk	Requires that the veteran be a satisfactory credit risk as a condition for an automatic loan guaranty.
Direct loans	In cases where a commitment was made for a direct loan before the authority expired, the loan can be completed subsequent to the expiration date.
Refusal to guaranty	VA may refuse to guaranty loans made by lenders who have failed to maintain adequate loan accounting records, demonstrated an inability to properly service loans, or engaged in practices detrimental to the veteran's interest.

Direct Loan Program Beginnings

The direct loan program was established by the National Housing Act of 1950 to provide housing assistance to veterans who lived in areas where VA guaranteed loans were unavailable. This occurred primarily in nonurban areas where the limited mortgage funding was absorbed by loans at higher interest rates than were permissible in the VA Home Loan Guaranty program.

Congress viewed the direct program as a way of ensuring access to VA housing assistance for all veterans. Sen. Maybank commented on the Senate floor:

> The bill would make home loans to veterans more widely effective and available by…enabling the Government to make such loans if they cannot be obtained from private sources. Many veterans have been discriminated against because they live in areas where private home loans under the GI bill are not available. This would assure them of equitable opportunity to use this benefit….[30]

The Act authorized direct VA loans for the purchase or construction of residential homes, or for the construction or improvement of farm homes. However, because the Act also increased the amount of the home loan guaranty, there was some belief that direct loans would not be used extensively. Consequently, the law sunset VA's authority to make direct loans approximately 14 months following enactment, and

[30] Congressional Record—Senate, April 10, 1950, p. 5024.

limited the total amount of direct loans to $150 million. The initial direct loan authority expired on June 30, 1951.

Congress passed numerous laws to renew and then extend the direct loan authority. Table C-5 summarizes the legislative history for the direct loan program from 1950 through 1956. Direct loan authority amendments after 1956 are discussed in later parts of the legislative history.

Table C-5. VA Direct Loan Authority Legislative History from 1950 to 1956

Statute and Date	Provisions
P.L. 81–475 7/19/1950	Establishes direct loan program. Authority expires June 30, 1951. Total amount of direct loans limited to $150 million.
P.L. 82–139 9/1/1951	Renews authority until June 30, 1953. Establishes a revolving fund limited to $150 million in outstanding loans at any one time. Fund included the unreserved portion of the original $150 million allocation, plus the amounts of loan repayments, and proceeds from sales of direct loans to private investors.
P.L. 82–325 4/1/1952	Augments revolving fund with an additional $125 million to be available in quarterly installments of $25 million, less proceeds from direct loan sales in the previous quarter.
P.L. 83–101 7/1/1953	Extends authority by 1 year to June 30, 1954. Augments revolving fund with an additional $100 million available in quarterly installments. Increases maximum interest rate (from 4 percent) to conform to the rate on guaranteed loans (not to exceed 4 ½ percent).
P.L. 83–438 6/29/1954	Extends authority through July 31, 1954.
P.L. 83–611 8/21/1954	Renews and extends authority to June 30, 1955. Augments revolving fund with an additional $150 million available in quarterly installments of $37.5 million, less the amount of direct loan sales.
P.L. 84–88 6/21/1955	Extends authority by 2 years to June 30, 1957. Augments revolving fund by $150 million, available in installments of $50 million, less the amount of direct loan sales.
P.L. 84–1020 8/7/1956	The Housing Act of 1956. Extends authority by 1 year to June 30, 1958. Authorizes no additional funds for the extension period.

Source: House Committee Print No. 1, Veterans' Housing in Rural Areas, Small Cities, and Towns, Committee on Veterans' Affairs, 86th Congress, 1st Session, January 26, 1959.

In its investigation of the direct loan program published in 1959, the House Veterans' Affairs Committee was critical about the under use of the program.

> The committee found that the administration of the direct loan program was such that it was almost impossible for a veteran to build a new home in a direct loan area. Approximately 80 percent of the direct loans were for the purchase of old and existing homes. The committee further found that veterans were unable to buy a farm and a farm home with the aid of a VA direct loan because the

> Veterans' Administration required the veteran to obtain at least 60 percent of his income from farming operations. This was not the intent of Congress.[31]

The Congress believed that the direct loan program was not meeting its intended purposes because of administrative practices that were either impeding approvals or thwarting applications.

Post-Korea to Vietnam Era

In addition to provisions related to the direct loan program that were explained above, several additional important changes in other aspects of the VA Home Loan Guaranty program occurred during the period between the Korean Conflict and the Vietnam era.

The first change was an extension of the entitlement for WWII veterans. The 10-year anniversary following the official end of WWII would occur on July 25, 1957. After this date, no WWII veteran would be eligible to apply for a VA guaranteed loan. Public Law 84–898, enacted August 1, 1956, extended the termination date for WWII veterans until July 25, 1958.

The legislative record reveals several reasons for the extension. First, was the opinion that the original readjustment objectives for the program remained unfulfilled because a large number of WWII veterans had not yet used their entitlement. Speaking on the floor of the House, Rep. Faschell commented regarding the need for an extension:

> The original intent of the Servicemen's Readjustment Act of 1944 was to provide a period in which our veterans could rehabilitate themselves, including the providing of a home for their families. That these veterans have not completely been rehabilitated is evident by the fact that about 11 million World War II veterans have not been able to avail themselves of their entitlement under the act for a guaranteed home loan.[32]

Another rationale for an extension was the anticipated damage to the nation's homebuilding industry if the program was not extended. The industry was in a decline already and homes financed by VA loans comprised 30 percent of housing starts in 1955. Witnesses at Senate hearings forecast further erosion of homebuilding if this source of financing terminated. A typical concern was that of organized labor represented by the witness from the American Federation of Labor–Congress of Industrial Organizations (AFL–CIO).

> The veterans' home loan program has made and continues to make an important contribution to our total housing activity. An abrupt cutoff of this program at this time would undoubtedly result in a still farther reduction in homebuilding at a time when housing activity has already declined considerably below last year's

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[31] House Committee Print No. 1, Veterans' Housing in Rural Areas, Small Cities, and Towns, Committee on Veterans' Affairs, 86th Congress, 1st Session, January 26, 1959, p. 2.

[32] Congressional Record—House, July 23, 1956, pp. 12880–12881.

> level….A severe and sudden shock to the Nation's home building activity must be avoided.[33]

Arguments were presented that if an extension was not granted, a large number of veterans would apply at the last minute and this burst in the demand for housing would be inflationary.

Not everyone in Congress agreed with the importance of extending the eligibility date to support the housing industry. Rep. Olin Teague, Chairman of the House Veterans' Affairs Committee, stated in his Foreword to the Committee's report on the use of VA guaranteed housing loans by WWII veterans:

> The veterans' housing program was created as a readjustment device for veterans and was not intended as a support for the building and lending industries. It was apparent from the beginning that if the program was to be successful that it would be necessary that the program operate within the framework of good building and lending practices, but the program was not originally contemplated as an aid to builders and lenders and it should not be viewed as such at this late date.[34]

The extension that eventually passed included several provisions in addition to the program extension. The provisions permitting restoration of entitlement increased the usability of the program. Table C-6 summarizes the new home loan provisions in Public Law 84–898.

[33] Veterans' Loan Guaranty Program, Hearings Before the Subcommittee on Veterans' Affairs of the Committee on Labor and Public Welfare, United States Senate, 84th Congress, 2nd Session, June 20 and 21, 1956, p. 52.

[34] House Committee Print No. 3, Utilization of Housing Loans (Guaranteed, Insured, or Direct) by Veterans of World War II, Committee on Veterans' Affairs, 85th Congress, 1st Session, January 15, 1957, p. 111.

Table C-6. Public Law 84–898 (August 1, 1956)
Key Provisions

Feature	Provision
Program extension	Extends authority for VA to guaranty loans made by WWII veterans through July 25, 1958.
Reinstatement of entitlement	a) Reinstates through January 31, 1965 (expiration date of Home Loan Guaranty program for Korean Conflict veterans) the entitlement for WWII veterans who lose their homes by public condemnation, natural disaster, or other compelling reasons not of their own fault. This provision was justified on the basis of numerous veterans' homes being condemned during construction of the interstate highway system. b) Reinstates the amount of a VA loan that has been repaid in full by an eligible veteran who disposed of a house because of a transfer while in active military service.
Determination of reasonable value	Clarifies that the responsibility for determining reasonable value rests with the Administrator.
Release from liability	VA can, under certain circumstances, release veteran from further liability under a VA guaranteed loan if veteran disposes of residential property and purchaser subsequently defaults.
Intent to occupy	Requires veteran to certify that he intends to occupy the home securing a VA guaranteed loan both at the time of loan application and closing.

Source: Public Law 84–898; House of Representatives, Amending Title II of the Servicemen's Readjustment Act to Provide that A Second Purchaser be Accepted in Lieu of the Original Veteran Purchaser, 84th Congress, 2nd Session, Report No. 1971, pp. 2–3.

Two years later, Congress approved another extension of the loan guaranty and direct loan programs, and made additional changes to both programs. Public Law 85–364 was enacted on April 1, 1958, and its key provisions are summarized in Table C-7.

Table C-7. Public Law 85–364 (April 1, 1958)
Key Provisions

Feature	Provision
Program extension	a) Extends authority for VA to guaranty loans made by WWII veterans for 2 years through July 25, 1960. b) Extends authority for the direct loan program for 2 years through July 25, 1960. c) Permits one additional year for processing of applications for either program that were received on or before July 25, 1960.
Direct loan maximum	Increases direct loan maximum from $10,000 to $13,500.
Direct loan funding	Provides additional funds for direct loans of $150 million in each of 1959 and 1960.
Interest rate	Permits VA to set the interest rate on VA guaranteed loans not to exceed 4 ¾ percent.

Source: Public Law 85–364.

Note: The President vetoed Similar legislation (H.R. 4602) the previous year on September 2, 1957.

The law also restated the language authorizing the direct loan program, emphasizing the purpose as being to assist veterans to secure housing in rural areas or in small cities and towns where housing credit was not readily available ("housing credit shortage areas"). This change in focus to nonmetropolitan areas was later found objectionable by Members whose urban constituents were unable to secure a loan guaranty and were ineligible for direct loans.

The improvements in the direct loan program enacted by P. L. 85–364 resulted in a marked increase in applications. When the law was enacted in April 1958, there were about 13,000 applications waiting funding. By January of 1959 the waiting list had grown to more than 45,000. More direct loan funding was needed to work through the waiting list.

The maximum interest rate permitted on VA guaranteed loans was less than and uncompetitive with other mortgage rates so few lenders were participating. Both VA and financial sector witnesses indicated in hearings that the interest rate ceiling needed to be increased.

Rep. Teague's statement on the House floor summarized the situation:

> The real meaning back of this condition is that we have 45,000 veterans who today cannot get a VA guaranteed loan from private lenders and unless Congress provides adequate funds for the direct loan program, those veterans—in all probability—will never be able to buy a home.
>
> The committee was convinced that there would be little activity in the (loan guaranty) program without a higher interest rate and on this basis approved the amendment to increase the interest rate ceiling from 4 ¾ to 5 ¼ percent.[35]

Public Law 86–73 enacted on June 30, 1959 provided additional funding for the direct loan program and authorized and increase in the interest rate on guaranteed loans to a maximum of 5 ¼ percent. Table C-8 summarizes the key provisions.

Table C-8. Public Law 86–73 (June 30, 1959)
Key Provisions

Feature	Provision
Direct loan funding	Provides $100 million in additional funding for use in making direct loans.
Interest rate	Permits VA to set the interest rate on VA guaranteed loans not to exceed 5¼%. Severs linkage between interest rates on VA guaranteed loans and FHA loans.
Suspensions	Permits VA to suspend dealings with builders and lenders who have been suspended by FHA.

Source: Public Law 86–73; Congressional Record—House, February 4, 1959, p. 1634.

[35] Congressional Record—House, February 4, 1959, p. 1634.

Testimony presented on the pieces of legislation discussed in the previous several paragraphs was directed toward making it easier for veterans to obtain either loan guarantees or direct loans. We found no comments by Members about the relation between the legislation and the original intent of the loan guaranty program. The substance of discussion was about the need to assist veterans in obtaining housing through either direct loans or guarantees, and how to amend the law or provide funds to facilitate these outcomes.

However, when the Congress discussed the next extension of the loan guaranty authority in 1960, Members and witnesses raised stiff objections that further extension was contrary to the readjustment concept that they believed justified and underlay the program. Even the President objected.

In the Senate, the minority views on its bill to extend the loan guaranty program for WWII veterans were presented by Senators Goldwater, Dirksen, and Brunsdale, and are summarized below:

> Such a benefit program for these veterans can only be justified on the basis of readjustment assistance, on the assumption that the veteran has not yet had sufficient time or opportunity since his discharge from the service to adjust to civilian life. Fifteen years have elapsed since the end of World War II, a period of time more than ample to provide for readjustment to civilian life. These veterans now average more than 40 years of age and it is doubtful that at this stage in their lives and careers the Government continues to have a special obligation to assist them in acquiring homes, businesses, or farms. Moreover, there is evidence that the disadvantages in respect to home ownership which may have resulted from interruption of careers due to military service have in fact been overcome; approximately the same proportion of veterans as of the general population own homes.[36]

In his budget message in January 1960, the President stated that there was no longer justification for continuing the loan guaranty or direct loan readjustment programs. The VA's report on the extension legislation complied with the Administration's position.[37]

Comments presented to the Senate committee by several private financial sector organizations also opposed extension of the loan guaranty program. The Mortgage Bankers Association stated that "…the association has always recognized that this program was a special program and was never intended to be a permanent part of the lending pattern of the country."[38]

The American Bankers Association stated:

[36] United States Senate, Extending World War II Loan Guaranty Program, 86th Congress, 2nd Session, Report No. 1646, June 22, 1960, p. 12.

[37] Department of Veterans Affairs Legislative History Files, Background of H.R. 7309, 86th Congress, July 5, 1960.

[38] United States Senate, Amending World War II Veterans Rehabilitation Act and Extending World War II Loan Guaranty Program, Hearings Before the Subcommittee on Veterans' Affairs, Committee on Labor and Public Welfare, 86th Congress, 2nd Session, April 20, 1960, p. 29.

> The program at its inception was based on the belief that returning veterans needed assistance in purchasing a home during their period of rehabilitation and return to normal civilian life. Congress did not intend the program to be permanent.
>
> Fifteen years have elapsed since the Second World War, and veterans have long since returned to normal civilian life, which includes the opportunity to save for at least a modest downpayment. Thus, the objective of the program has disappeared.[39]

But extending the loan guaranty also had support in both the House and Senate. Members advocated an extension because many veterans had not yet used their entitlement. For example, in the Senate, Sen. Yarborough stated:

> In advocating the extension of this legislation, I am influenced by two primary considerations. First, present records in the Veterans' Administration indicate that there were well over 9 million World War II veterans who, because of lack of mortgage money—attributable to high interest rates and other reasons—have not taken advantage of their eligibility under the guaranteed loan program.
>
> Second, we all know of the outstanding performance of our veterans in meeting obligations to repay home loans. Only about 1 percent of the 5.5 million home loans have resulted in claims, and the loss on those has been less than one-tenth of 1 percent….The loss that the Government has sustained has been infinitesimal.
>
> On these facts, the conclusion is inescapable that these programs must be extended. By extending these programs as provided in the pending bill, our veterans will continue to receive recognition for their unselfish service and at an insignificant cost to the taxpayers. In addition, this program is a great benefit to our general economy.[40]

In the House, Rep. Teague commented on the floor:

> I take issue with the conclusion that our World War II veterans have had ample opportunity to get a VA home loan….As I have outlined before, the World War II veteran has been the victim of the present administration's tight money policy, that is, our city veterans.
>
> Now, to show you the World War II veterans have not had ample opportunity to get a home loan, we have today over 15 million World War II veterans. Only 4.7 million World War II veterans have obtained a VA guaranteed loan. This leaves

[39] Ibid, p. 30.
[40] Congressional Record—Senate, June 30, 1960, p. 14053.

> 11.3 million World War II veterans who have not obtained a VA guaranteed home loan.[41]

Supporters and opponents also argued about extending the direct loan program. Rep. Adair commented on the House floor in support of extending direct loan authority:

> The main reason the direct loan program is still needed is because about one-third of our veterans live in rural areas where it is virtually impossible to get any other type of loans. These men cannot get other loans because many private loan companies do not need to take the trouble to make loans in scattered rural areas when they have all the business they can handle in the metropolitan areas.
>
> To extend these programs would also be a boost to our Nation's economy. The homebuilding industry is second only to auto manufacturing in size an scope.[42]

Supporters of extending both programs prevailed. The resulting statute, Public Law 86–665 was enacted on July 14, 1960. Its principal provisions are shown in Table C-9.

Table C-9. Public Law 86–665 (July 14, 1960)
Key Provisions

Feature	Provision
Program extension	a) Extends authority for VA to guaranty loans made by WWII veterans for 2 years through July 25, 1962. b) Extends authority for the direct loan program for 2 years through July 25, 1962, and provides $150 million in funding for each additional year. c) Removes the 1-year delimiting date for closing loan guaranty applications that were received on or before the termination date of the program.
Escrow of deposits and downpayments	Requires a veteran's deposit or downpayment to be held by the seller in a trust account until the loan is closed so that it cannot be attached by creditors of the seller.
Revolving fund	Establishes a revolving fund in the Treasury for the VA to ease administration of the loan guaranty program.
Certification of intent to occupy	Permits issuance of a guaranty on a veteran's home loan in cases where there was an administrative oversight regarding certification of intent to occupy as a home at the time the loan is closed.

Source: Public Law 86–665.

As the record illustrates, debate on the extension of authority for loan guaranties and direct loans featured divergent opinions about whether these programs were still appropriate and necessary. A minority made forceful arguments that the original readjustment goals of the GI bill had been achieved and further extension would be contrary to Congress' intent in 1944. The majority[43] argued, however, that even though

[41] Congressional Record—House, June 29, 1960, p. 13928.
[42] Congressional Record—House, June 30, 1960, p. 13929.
[43] The extension authority bill, H.R. 7903, passed the House with by a vote of 395 to 1 with 34 abstentions. Congressional Record—House, June 29, 1960, p. 13931.

many years had passed since the war ended, the opportunity should be preserved for the millions of veterans who, for one reason or another, had still not used the program.

In 1961, Congress again considered legislation to extend expiration dates for the loan guaranty and direct loan programs. The House, Senate, and the Administration appear to have been in agreement on an extension formula that would essentially phase out both the loan guaranty and direct loan programs over a period of years. Separate phase-out schedules were considered for WWII and Korean Conflict veterans. The schedules provided later termination dates for veterans with longer periods of active duty and wartime service.

In a housing message to Congress in March 1961, President Kennedy recommended that the loan guaranty and direct loan authorities be extended, concentrating on veterans who had served their country longest and most recently.[44]

On March 29, 1961, Sen. Yarborough introduced S.1483 to extend the loan guaranty program and to establish a phase out schedule. On the same day, Sen. Sparkman introduced companion legislation, S.1481, to extend and then phase out the direct loan program. Both Senators, and others, acknowledged the fact that many eligible veterans had, for one reason or another, not used their housing entitlement, despite the long time that had passed since the programs were established. Their approach was to extend the deadlines for both programs, and provide sufficient funding for the direct loan program, so that veterans would have ample opportunity to use their benefits before they expired.

Sen. Sparkman provided some rationale for the phased formula in remarks on the Senate floor (though he was speaking about the direct loan program, the same rationale applied to the loan guaranty):

> Each time the expiration date of the direct home loan program has come near, there has always been a surge of applications for such loans, and each time the Congress has not wanted to shut off worthy veterans who wish to use the program to obtain housing for themselves and their families.
>
> We have now moved some 20 years away from the start of World War II….It, therefore, seems logical to phase out this program gradually. By doing so, we now can give notice that the program will come to an end, and all those who wish to take advantage of the program may make their plans to do so.[45]

Members were also mindful, again, of the impact that the VA programs had on the housing sector of the economy. Sen. Yarborough, in floor remarks supporting the extension, commented that:

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[44] Department of Veterans Affairs Legislative Reference File 17–2, Major Veterans' Housing Legislation Supported by Administration in 87th Congress, p. 1.

[45] Congressional Record—Senate, March 29, 1961, p. 4798.

> There is every reason to believe that economic stimulation will result from this extension. We recall that the economy was benefited by the extension of this program in April 1958, at a time—in a recessionary period—when the economy needed assistance toward recovery.
>
> By extending this worthwhile benefit…we furnish an important support to the homebuilding industry….[46]

The House report on the bill (H.R. 5723) included a Statement of Policy, summarized in part, as follows:

> In 1960 the veterans' home loan program reached its lowest point in 15 years despite the fact that more than 14 million veterans of World War II and the Korean conflict have not used their entitlement to a home loan. Only 144,000 GI loans were made during 1960 as compared with 649,000 in 1955. Funds for direct loans to veterans residing in small towns and rural areas have been inadequate and a waiting list of 30,000 has accumulated. This bill provides substantial amounts of direct loan funds for the purpose of liquidating this large waiting list and meeting the home loan needs of veterans residing in small towns and rural areas.
>
> The committee agrees that fundamental improvement in the home loan mortgage market, which would permit a flow of mortgage financing at the present interest rate of 5 ¼ percent, is the most desirable solution to the problem.[47]

Previous laws had gradually increased the maximum permitted interest rate on guaranteed loans. Each rate increase attracted additional mortgage financing to the VA program, but the financing again ebbed as market forces pushed FHA and conventional rates upward. Previously, Congress determined that increasing the maximum rate on a VA guaranteed loan above 5 ¼ percent would not be in the veteran's best interests. These conditions were primarily responsible for the low number of VA guarantee loan applications in the late 1950's and early 1960's. But, by the Spring of 1961, the FHA rate had declined to 5 ¼ percent, making VA mortgages again competitive for lenders.[48] So extending the loan guaranty authority would allow veterans to take advantage of the favorable interest rate climate.

The new law, Public Law 87–84, was enacted on July 6, 1961, and extended the termination dates for the loan guaranty and direct loan programs for both WWII and Korean Conflict veterans based on their length of wartime service. The law also authorized longer extensions for veterans who had service-connected disabilities.

[46] Ibid, p. 4799.
[47] House of Representatives, Providing Home Loans for Veterans in Housing Credit Shortage Areas, 87th Congress, 1st Session, Report No. 194, March 23, 1961, pp.1–2.
[48] House of Representatives, Hearing before the Subcommittee on Housing, Committee on Veterans' Affairs, 87th Congress, 2nd Session, April 4, 1962, pp. 2403–2404.

To assist in working through the large backlog of direct loan applications and ensure that all who needed and qualified for direct loans could obtain them before the program was phased out, the law increased the maximum amount of the direct loan and authorized significant increases in funding through 1966.

Table C-10 summarizes the law's key features.

Table C-10. Public Law 87–84 (July 6, 1961)
Amendments to the Servicemen's Readjustment Act of 1944
Key Provisions

Feature	Provision
Program extension	For WWII veterans: a) Veterans have until July 25, 1962, to obtain a guaranteed or direct loan, or b) Veterans will have 10 years from date of discharge plus an additional year for each 3 months of WWII active service, but in no case beyond July 25, 1967, or c) Veterans with a service-connected disability have until July 25, 1967. For Korean Conflict veterans: a) Veterans have until February 1, 1965, to obtain a guaranteed or direct loan, or b) Veterans will have 10 years from date of discharge plus an additional year for each 3 months of Korean Conflict active service, but in no case beyond January 31, 1975, or c) Veterans with a service-connected disability have until January 31, 1975.
Direct loan maximum	Increases direct loan maximum from $13,500 to $15,000.
Direct loan funding	Authorizes a total of $1.2 billion in additional funding for direct loans to be placed in the direct loan revolving fund as follows: a) Upon enactment: $100 million b) After June 30, 1961: $400 million c) After June 30, 1962: $200 million d) After June 30, 1963: $150 million e) After June 30, 1964: $150 million f) After June 30, 1965: $100 million g) After June 30, 1966: $100 million.

Source: Public Law 87–84, July 6, 1961; House of Representatives, Committee on Veterans' Affairs, Blue Sheet Summary, Extension of Guaranteed and Direct Home Loan Programs and Provision of Additional Funds for Direct Loan Program, July 10, 1961.

Public Law 87–84 accomplished several important objectives. It simultaneously extended the termination dates for new loan guaranties and direct loans, and established what many anticipated would be the final phase-out of both programs. The law also authorized sufficient funding so that all who wanted and qualified for a direct loan could obtain one before their eligibility expired. Finally, as had previous extensions, this law also created the potential for an infusion of funds into the homebuilding and allied industries.

During the period following enactment of Public Law 87–84, Congress passed several technical amendments to the loan guaranty and direct loan programs. These related to waiver of recovery from veterans of indebtedness resulting from loan guaranty claims or default on direct loans (Public Law 88–151, October 17, 1963); payment of interest by the VA on amounts transferred from the direct loan revolving fund to the loan guaranty revolving fund (Public Law 88–274, February 29, 1964); and sale of direct loans at prices below par (Public Law 88–402, August 4, 1964).

Cold War GI Bill

During the early 1960s, both Houses were also considering whether to extend home loan benefits to veterans whose periods of service was confined exclusively to the post-Korean Conflict era. In the Senate, hearings were conducted in four successive Congresses from the 85th Congress to the 88th Congress.

The Veterans' Benefits Readjustment Act of 1966, Public Law 89–358, was eventually enacted on March 3, 1966. The Act provided education and home and farm loan benefits for individuals first entering active service on or after January 31, 1955, the cutoff date for eligibility under the Korean GI bill.

The Senate report on S.9, which was eventually enacted, provides a good discussion of the purposes behind the new benefits.[49] The Senate case was predicated on the fact that Cold War veterans had the same readjustment needs as veterans of WWII and Korea:

> Like their fathers and elder brothers, post-Korean veterans lose time from their competitive civil lives directly because of military service. As a consequence, they lose valuable opportunities ranging from educational advantages to worthwhile job possibilities and potentially profitable business ventures. In addition, after completion of their military service they confront serious difficulties during the transition to civil life.[50]

Another factor that was foremost in the Committee's mind was the presence of the draft. The Committee partially attributed the obligation for readjustment benefits to the draft:

> The committee further finds that this obligation and the need for this legislation are based on the continued existence of the compulsory draft law, which calls only a select group of men away from their private lives to perform military service on behalf of the entire Nation.[51]

[49] A similar measure, S.5, had been introduced in 1963. The Senate Report on S.5. (Cold War Veterans' Readjustment Assistance Act, 88th Congress, 1st Session, Report No. 345, July 2, 1963) contains similar material as presented here in justification of housing benefits for "peacetime" veterans.
[50] United States Senate, Committee on Labor and Public Welfare, Cold War Veterans' Readjustment Assistance Act, 89th Congress, 1st Session, Report No. 269, June 1, 1965, pp. 6–7.
[51] Ibid, p. 7.

The Committee also expressed the opinion that readjustment benefits were necessary regardless of whether the servicemember volunteered or was drafted:

> …the individual's mere act of voluntarily entering service does not cure the problems to which this legislation is addressed….From the standpoint of the ultimate impact of military service, it is therefore a matter of indifference whether a young man volunteers for service …or waits until he is drafted. The crucial fact is that he does serve a substantial period of active military duty, for it is during this period that today's servicemen drop farther and farther behind their civilian contemporaries…In sum, then, irrespective of how a young man enters military service, harmful consequences will flow from the fact that a substantial portion of his life, which would ordinarily be devoted to civil goals, is consumed in the performance of active military service.[52]

These themes had been heard before. When similar legislation had been introduced in 1963, a number of Senators spoke in favor of the bill. In explaining their support, they noted the continuation of the peacetime draft (which had just been extended), and that peacetime veterans had readjustment needs similar to those of WWII and Korean veterans. Several examples of their remarks are summarized below.

> Sen. Hartke: Just a few days ago, Congress extended the peacetime military draft. We are continuing to ask our young men to give their time and their energies to protect our country and to help in the fight to preserve freedom throughout the world. The least we can do in return is to help them when they return to civilian life to further their educations, and purchase adequate and decent housing.[53]

> Sen. Moss: I know the point is often made that those who have served since the end of the Korean hostilities have not, with few exceptions, been under fire, but this can also be said about many of those were in military uniform in the Korean War and in World War II. And the dislocation in the lives of those now called to military service is just as great as those who served in the earlier period….This is equally as disruptive now as it was 10 or 20 years ago.[54]

> Sen. Burdick: Post-Korean veterans have sacrificed a most important portion of their lives in the same manner as "Hot War" veterans, and it seems only fair that the Nation should give them reasonable readjustment assistance.[55]

> Sen. Long: But the fact remains that the lives of thousands of our young men have been interrupted and will be interrupted….It is well to remember at this point that many of those who saw service during the previous conflicts were not engaged in actual fighting nor subject to the hazards of war but rather served at

[52] Ibid, p. 10.
[53] United States Senate, Hearings before the Subcommittee on Veterans' Affairs of the Committee on Labor and Public Welfare, 88th Congress, 1st Session, April 9, 10, 23, 24, and May 7, 1963, p. 232.
[54] Ibid, p. 233.
[55] Ibid. p. 236.

> home or abroad in support of our combat forces. A grateful country provided assistance to all veterans who served during these periods to help them readjust to civilian pursuits. The post-Korean veteran…had to face the prospects of a Hot War constantly….He is called upon by his country to serve, and I believe the country should aid him upon his return to civilian life….[56]
>
> Sen. McGovern: What basic difference in principle is there between aiding these men and the millions of World War II and Korean servicemen who did not see active combat duty? Both groups have performed duties essential to the security of their country; both have faced potential dangers to life and limb; both were required to forsake their normal lives and report for duty at the convenience of the Government; and both have been disadvantaged in their careers, earning capacity, and plans for a family at a crucial time in life.
>
> As long as we require men to perform military service by means of an involuntary draft law, we should not fail to take any step that would mitigate the hardships which this service imposes.[57]

The bill had opponents as well. Five members of the Senate Labor and Public Welfare Committee (Javits, Prouty, Dominick, Murphy, and Fannin) who had jurisdiction over VA issues opposed the enactment of peacetime benefits.[58]

In its 1965 report recommending passage of the bill, the Senate Committee acknowledged that it was appropriate to provide readjustment benefits for Cold War veterans, but that it was also important that the readjustment assistance should reflect the distinction between wartime and peacetime service.

> This aspect of the committee's deliberations was premised upon the fact that the Congress, traditionally, has made a distinction between wartime service and peacetime service in providing veterans' benefits programs. The committee finds …that the traditional distinction should be made in the program of readjustment benefits provided post-Korean veterans by this bill….Accordingly, the committee's recommended legislation contains provisions…which make this distinction by providing considerably less liberal treatment for post-Korean veterans than was afforded World War II and Korean veterans.[59]

These major distinctions were the following:

- ♦ Doubling to 180 days the period of active duty service required for eligibility
- ♦ Limiting eligibility for post-Korea veterans to home and farm loans (no business loans)

[56] Ibid, p. 238.
[57] Ibid. p. 240.
[58] United States Senate Report No. 269, pp. 58–59.
[59] Ibid, p. 15.

- Requiring that post-Korea veterans pay a funding fee of up to one-half of 1 percent.

The primary housing features of the law are summarized in Table C-11.

Table C-11. Public Law 89–358 (March 3, 1966)
Veterans' Readjustment Benefits Act of 1966
Key Provisions

Feature	Provision
Eligibility for post-Korean veterans	Establishes entitlement for loan guarantees and direct loans for homes and farms for veterans entering service after January 31, 1955. Requires 180 days of active duty service to qualify. Reduces loan entitlement by the amount of an entitlement previously used based on a prior period of service during WWII or Korea. Establishes expiration of entitlement as follows: a) 10 years from date of discharge for a period of service that occurred after January 31, 1955, plus 1 additional year for each 3 months of active service performed after January 31, 1955, not to exceed 20 years from the date of discharge. b) 20 years from date of discharge for a service-connected disability. c) January 31, 1975, for direct loans.
Direct loan maximum	Increases direct loan maximum from $15,000 to $17,500 for all eligible veterans.
Funding fee	Requires post-Korea veterans to pay a one-time fee of not to exceed one-half of 1 percent of the amount for a guaranteed or direct loan. Fee may be included in the loan amount. Fees will be deposited in the loan guaranty revolving fund.
Interest rate	Permits VA to set the interest rate on guaranteed loans with the proviso that the VA rate may not exceed the rate established for FHA loans.
Withholding of payments	Prohibits VA from withholding benefit payments to the veteran from other VA programs, such as compensation or pension, as the result of an indebtedness arising from a guaranteed or direct home loan.

Source: Public Law 89–358; Extract from VA report on Enrolled Bill, S.9, February 11, 1966, Legislative Reference File 17–2.

The new "Cold War" GI bill continued the concept of providing readjustment assistance to veterans returning to civilian life following active military service. Continuation of the draft was an important justification for readjustment benefits. The act also embodied the concept that had evolved following WWII and the Korean Conflict—that is, the post-discharge "readjustment" period could be drawn out. This was accomplished through the extended eligibility period for using the program—up to 20 years following separation from service.

Two years later in 1968, Public Law 90–301 authorized additional improvements in VA housing benefits for veterans. The primary changes addressed the maximum guaranty amount and interest rates on VA guaranteed loans.

In considering these changes, Congress was aware of the significant decline in guaranteed loan activity over the previous decade. For example, loan guaranties had declined from a peak of 650,000 in 1955 and 500,000 in 1956 to less than 200,000 per year in recent years.[60]

In 1968, the loan guaranty maximum was calculated as 60 percent of the loan amount, but not to exceed $7,500. When the $7,500 maximum loan guaranty was approved in 1950, the average home loan was approximately $7,800, so that the 60 percent maximum was the constraining part of the formula. For a number of years, this remained the case so that lenders would receive a VA guaranty of 60 percent of the loan amount. However, as housing prices continued their increase, 60 percent of the loan amount eventually exceeded the $7,500 limit. At this point, $7,500 became the maximum guaranty amount and further price increases drove the percentage of the loan guaranteed by VA well below 60 percent. By 1967, the average VA guaranteed loan amount was $17,600, more than twice the average loan amount in 1950.[61] The VA guaranty on typical loans declined to approximately 40 percent.

Both Houses favored increasing the maximum guaranty. The House Bill, H.R. 10477, increased the maximum to $10,000. The Senate amended the increase to $12,500, which was eventually enacted.

Considerable debate erupted over interest rates. The VA was authorized to set the rate on guaranteed loans not to exceed the FHA rate, which had been set at 6 percent for both VA and FHA loans on October 3, 1966.[62] However, this rate was becoming less competitive.

Some Members believed that the solution was to increase the rate. Speaking on the House floor, Rep. Teague stated:

> If the ceiling is kept at a below market rate, as it is doing, it does not actually help the veteran. If he receives a loan, the lender must charge an excessively high discount, which is today running between six and nine points to achieve a competitive yield on his money.
>
> Those who support an unrealistically low ceiling on veterans' loans drive him to this and then take the position that they are protecting the veteran. It is hard to imagine hearings which could be more conclusive on the one point that the interest rate on veterans loans must be made competitive.[63]

The opposing view was that lowering interest rates would not increase the number of guaranteed loans. During the same discussion on the House floor, Rep. Patman asserted:

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[60] House of Representatives, Veterans' Administration Housing Law Amendments, 90th Congress, 2nd Session, Report No. 1171, March 13, 1968, p. 3.
[61] Ibid, pp. 2–3.
[62] Congressional Record—House, March 26, 1968, p. H2218.
[63] Ibid.

> Mr. Chairman, the House is treading on thin ice if it accepts—out of hand—the arguments that an increase in the interest rates will solve the housing problems. This is particularly true when we talk about the flow of funds.
>
> Let us look at our most recent example—1966. In that year of tight money, FHA and VA raised their interest rates three times, jumping from 5 ¼ percent to 6 percent.
>
> What happened? The flow of funds declined to FHA mortgages and we had a 20-percent drop in housing insured under this program in 1966. High interest rates were not a cure-all for housing in 1966 and they will not be in 1968.[64]

The final bill included a provision granting the Secretary of Housing and Urban Development (HUD) with temporary authority to set FHA rates at competitive levels, and thereby permit the VA rate on guaranteed loans to fluctuate accordingly.

The Senate Committee report stated:

> …the committee believes that in order to make FHA and VA mortgages attractive to private investors, and to eliminate high discounts, which are presently required on such mortgages, it is necessary to give the Secretary of HUD temporary authority to increase the interest rate on all FHA mortgages above the present statutory limits in the National Housing Act. As has already been described…the Administrator of VA can set the interest rate on VA guaranteed loans at the same level as prescribed by the Secretary of HUD….[65]

The bill also established a Presidential Commission to make recommendations for ensuring sufficient amounts of mortgage credit would be available at affordable rates. Table C-12 summarizes the key provisions of Public Law 90–301.

[64] Ibid, p. H2221.
[65] United States Senate, VA and FHA Housing Amendments, 90th Congress, 2nd Session, Report No. 1090, April 10, 1968, p. 7.

Table C-12. Public Law 90–301 (May 7, 1968)
Key Provisions

Feature	Provision
Maximum guaranty	Increases maximum loan guaranty from 60% of the loan amount not to exceed \$7,500 to 60% of the loan amount not to exceed \$12,500. Permits the VA to guaranty loans even when the price the veteran pays for the home is greater than the VA-determined reasonable value of the property. The VA loan guaranty will not exceed the reasonable value.
Interest rate	Provides temporary authority until October 1, 1969 for the Secretary of Housing and Urban Development to establish interest rates for FHA loans at levels to meet the mortgage market. Secretary of HUD is required to consult with VA prior to establishing rates. VA may adjust rates on guaranteed and direct loans not to exceed the level established by the Secretary.
Aid to distressed homeowners	Authorizes VA to assist homeowners who relied on VA or FHA construction standards and inspections but experience structural defects affecting livability of their homes. Assistance may consist of the following: a) Correcting defects involved b) Paying the claim of the owner c) Acquiring title to the property.
Commission on interest rates	Establishes a Presidential Commission to study mortgage interest rates and report with recommendations to assure availability of mortgage credit at reasonable costs.

Source: Public Law 90–301; VA report on Enrolled Bill, May 3, 1968, Legislative Reference File on Public Law 90–301.

Veterans' Housing Act of 1970

July 25, 1970, marked the termination date for WWII veterans to make application for a VA guaranteed or direct loan. Unused entitlements after that date expired. Unused entitlements had also expired for some Korean Conflict veterans. Korean Conflict veterans had until February 1, 1965, or 10 years after separation from service plus 3 months for each year of active service during the conflict to use their benefits. Consequently, Korean veterans who had been discharged shortly after the conflict ended would have faced expiration dates in the mid to late 1960s.

The Veterans' Housing Act, Public Law 91–506, enacted on October 23, 1970, made several fundamental changes in the VA housing benefits for veterans. The most significant change was to permanently restore unused entitlements for all WWII and Korean veterans. The statute accomplished this by deleting the sections of law containing the expiration dates and substituting language stating the benefits are restored and will not expire until used.

VA supported this change. Its favorable report to the House was included in the Committee's report. The Committee's concurrence addressed issues of equitable treatment of veterans of different periods, and stated:

> This provision would restore lost unused entitlements of more than 10.3 million WWII and Korean conflict veterans who, for various reasons, may not have been able to use their entitlements or use them fully before they expired (including 2.1 million remaining World War II veterans whose entitlements expired on July 25, 1970). Restoration is justified to provide these veterans whose entitlements expired with equitable treatment in light of the removal of expiration dates for veterans whose entitlements have not yet expired.[66]

Absent from the Committee report was any mention of a nexus between removal of expiration dates and the "readjustment" concept that originally underlay the benefit.

Other sections of the Act significantly expanded the applicability of the loan guaranty and direct loan programs by authorizing purchases of mobile homes or lots, purchases of condominiums, and refinancing of existing loans.

The Senate report highlighted the difficulties that younger veterans, particularly Vietnam veterans, were having finding affordable housing. As a partial solution, 1970 a Congressional Committee on the Vietnam Veteran had recommended that authority be granted for VA to guaranty loans on mobile homes. Consequently, the Committee adopted this recommendation, but only as a temporary program. Applications for loan guarantees or direct loans on mobile homes or lots would be accepted only through June 30, 1975, so there would be time for a comprehensive review before the program was made permanent.[67]

The new law also made condominium purchases eligible for loan guaranties, thereby recognizing that this type of housing was growing into a significant sector of the market.

The Senate Committee recommended termination of the funding fee for post-Korea veterans because it believed that the fee was not necessary for the program's solvency and that it created an inequity between post-Korean veterans and WWII and Korean Conflict veterans, no doubt because many post-Korean veterans had been exposed to combat in Southeast Asia:

> The committee proposes…to eliminate the loan fee (set at one-half of 1 percent of the total loan amount) collected only from post-Korean conflict veterans. Such a fee…is not considered necessary to the solvency of the loan guaranty revolving fund….Thus, removing this discriminatory feature against Vietnam and other post-Korean veterans is a fiscally, as well as morally, sound policy.[68]

Another significant expansion in the new law was authority for veterans to use loan guarantees to refinance existing loans. Table C-13 summarizes the law's key provisions.

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[66] United States Senate, Extension of Veterans' Home Loan Entitlements and Inclusion of Mobile Home Purchases, 91st Congress, 2nd Session, Report No. 91–1230, September 23, 1970, p. 12.
[67] Ibid, pp. 12–15.
[68] Ibid, pp. 15–16.

Table C-13. Public Law 91–506 (October 23, 1970)
Veterans' Housing Act of 1970
Key Provisions

Feature	Provision
Program extension and restoration of entitlement	Removes termination dates for use of VA loan guaranty and direct loan programs for WWII and Korean Conflict veterans. Restores unused and expired entitlements for veterans in these groups.
Refinancing	Authorizes use of guaranteed loans for purposes of refinancing existing (non-VA) loans.
Mobile homes	Permits loan guarantees and direct loans for purchases of mobile home and lots. Establishes limits as follows: a) $10,000 for12 years and 32 days for purchase of a mobile home only b) $15,000 (but not to exceed $10,000 for the mobile home) for 15 years and 32 days for the purchase of a mobile home and undeveloped lot c) $17,500 (but not to exceed $10,000 for the mobile home) for the purchase of a mobile home and a developed lot.
Condominiums	Permits loan guarantees for purchase of single-family condominium units, provided at least one FHA loan had been previously approved in the condominium project.
Funding fee	Terminates ½ percent funding fee for post-Korea veterans.
Special adaptive housing	Authorizes direct loans for purchase of specially adapted housing, regardless of whether the veteran is in a housing credit shortage area.

Source: Public Law 91–506; House of Representatives, Committee on Veterans' Affairs, Veterans' Housing Act of 1970, Blue Sheet, September 15, 1970.

The Veterans' Housing Act of 1970 permanently removed the termination dates for WWII and Korean veterans to use their VA housing entitlements. In addition, the law significantly expanded the types of housing and the purposes for which loans could be guaranteed or direct loans approved.

One inference that can be drawn from the statute and the Committee reports is that this legislation reflected Congress' view that VA housing entitlements may be considered readjustment benefits, but the readjustment period is not limited to the immediate period following military service. In this 1970 Act, the Congress acknowledged that the individual circumstances of the veteran and of the mortgage market might result in exercise of the entitlement long after service is completed. By expanding the types of housing qualifying for assistance, the law made the benefits more flexible and adaptable to veterans' needs, and more reflective of external market trends.

Veterans' Housing Act of 1974

Four years later, with Public Law 93–569, Congress continued the expansion of VA housing benefits for veterans. First, the Act increased the maximum loan guaranty and maximum direct loan from $12,500 to $17,500 in recognition of increased housing costs since the previous increase had been enacted in 1968. In the intervening 6 years, housing prices had increased to a level where the $12,500 guaranty covered less than 50 percent of the average loan amount.[69]

The maturity date of guaranteed home loans was increased from 30 years to 30 years and 32 days to permit monthly payments to be calculated in 360 equal installments.

The law also increased the maximum grant for purchase of SAH from $17,500 to $25,000 in recognition of the higher prices that disabled veterans were paying to obtain this housing.

A third and far-reaching change was authority for VA to restore the entitlement to a guaranteed, direct, or insured loan of any veteran provided the veteran had either 1) repaid the loan in full and disposed of the property, or 2) another eligible veteran assumed the loan and substituted his or her entitlement. Previously, restoration had been available only in limited cases where the veteran had disposed of the property for a "compelling" reason, or the property had been taken through condemnation or destroyed by fire or other natural hazard.

This provision was enacted to legislate practices that VA was already following. The impact was to codify the conversion of the loan guaranty and direct loan programs into entitlements that could be reused innumerable times, provided the requirements for repayment or disposal were satisfied.

In its report on this provision, the Senate Veterans' Affairs Committee commented:

> The amendments providing for the restoration of entitlement recognize the fact that we live in a highly mobile society and also that many veterans desire or find the need for a different or larger house for personal reasons. The Committee believes that if prior loans of these veterans have been paid off or properly assumed by another veteran with eligibility, the veteran should have his entitlement restored in full for the purchase of another home.[70]

The Act also expanded benefits for purchase of mobile homes and made the program permanent. The changes increased the amount of the guaranties and established separate guaranty and direct loan limits for double-wide homes. The details are provided in Table C-14.

For condominium purchases, the Act repealed the requirement that at least one FHA loan be approved in the development before a VA loan could be approved. The purpose of this requirement had been to ensure that a FHA inspection had been performed, because the Congress did not believe VA had sufficient experience to approve and value condominiums. By 1974, Congress agreed to remove the requirement for a previous FHA loan approval, but required VA to develop "appropriate regulations and standards" to "insure that the Veterans' Administration approves only

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[69] United States Senate, Veterans' Housing Act of 1974, 93rd Congress, 2nd Session, Report No. 93–1334, December 11, 1974. p. 9.
[70] Ibid, p. 10.

those condominiums that meet acceptable high standards of quality and that the best interests of the veterans are adequately protected."[71]

Permitting nonsupervised lenders that met VA standards to make these loans increased the number of lending organizations that could process loans on an automatic basis. Primary benefactors were consumer credit and finance companies. The Congress anticipated that this improvement would "greatly speed the loan obtaining process." The House committee also believed the provision would stimulate greater participation in the mobile home loan program.[72]

Finally, the Act repealed authority for farm and business loans because of the restrictive nature of the VA programs, and the availability of more attractive options by the Small Business Administration and the Farmers Home Administration.[73]

Table C-14 summarizes the key provisions of the Act.

[71] Ibid. p. 12.
[72] House of Representatives, The Veterans' Housing Act of 1974, 93rd Congress, 2nd Session, Report No. 93–1232, July 29, 1974, p. 2.
[73] Senate Report No. 93–1334, p. 18.

Table C-14. Public Law 93–569 (December 31, 1974)
Veterans' Housing Act of 1974
Key Provisions

Feature	Provision
Maximum guaranty	Increases the maximum loan guaranty from 60% of the loan amount not to exceed \$12,500 to 60% of the loan amount not to exceed \$17,500.
Special adaptive housing grant	Increases the maximum special adaptive housing grant from \$17,500 to \$25,000.
Loan maturity	Increases maturity date on guaranteed loans from 30 years to 30 years and 32 days.
Restoration of entitlement	Restores the entitlement to a guaranteed, direct or insured loan of any veteran provided a prior VA loan had been paid in full or the property disposed of.
Discounts	Permits veterans to pay discount points under certain circumstances.
Condominiums	Permits loan guarantees for purchase of single-family condominium units, regardless of whether a FHA loan had been previously approved in the condominium project. Requires VA to establish procedures.
Mobile homes	Makes authority for loan guaranties and direct loans for mobile home purchases permanent. Authorizes loan guaranties for the purchase of used mobile homes that met VA construction, design, and acceptability standards. Establishes new limits on guaranteed and direct loans as follows: a) \$12,500 for 12 years and 32 days for purchase of a single-wide mobile home only and an additional amount necessary for site preparation b) \$20,000 for 20 years and 32 days for the purchase of a double-wide mobile home only and an additional amount necessary for site preparation c) \$20,000 (but not to exceed \$12,500 for the mobile home) for 15 years and 32 days for the purchase of a single-wide mobile home and undeveloped lot d) \$27,500 (but not to exceed \$20,000 for the mobile home) for 20 years and 32 days for the purchase of a double-wide mobile home and undeveloped lot e) \$20,000 (but not to exceed \$12,500 for the mobile home) for 15 years and 32 days for the purchase of a single-wide mobile home and a developed lot f) \$27,500 (but not to exceed \$20,000 for the mobile home) for 20 years and 32 days for the purchase of double-wide mobile home and developed lot g) \$7,500 for 12 years and 32 days for the purchase of either an undeveloped lot or a developed lot.
Authorized lenders	Permits any lender that meets VA standards to process loans for automatic guaranty.
Farm and business loans	Repeals authority for guaranteed loans for purchase of farms or businesses.

Source: Public Law 93–569; VA report on Enrolled Bill, December 20, 1974, Legislative Reference File on Public Law 93–569.

The amendments enacted in the Veterans' Housing Act of 1974 were more in a series of changes intended to further expand veterans' opportunities to use the VA housing assistance benefit.

Although restoration of entitlements had been authorized under special circumstances in previous legislation, the more general restoration provision in this Act converted the housing benefit from a one-use program to a potentially permanent entitlement that could be used for multiple home purchases.

Veterans' Housing Amendments Act of 1976

The Veterans Housing Amendments Act of 1976, Public Law 94–324, made additional changes affecting the permanence of the VA housing benefit. Key among these were provisions making the benefit permanent for all veterans serving after January 31, 1955, and permitting use of the program by members still serving on active duty.

The Act also made permanent the direct loan program by removing the date by which the VA must return to the Treasury the balance remaining in the direct loan revolving fund. Increases in the maximum loan guaranty amount and the mobile home guaranty percentage were also enacted. Finally, the Act preempted, under certain conditions, State usury laws and constitutional provisions limiting the maximum interest rate that could be charged on mortgage loans. Comments from the Senate[74] report conveys important information concerning the legislative intent of these changes, and these comments are provided, in part, below.

Eligibility. The Presidential Proclamation marking the official termination of the Vietnam era on May 5, 1975, raised the question of whether the loan guaranty program should be made permanent.[75] The Senate Veterans' Affairs Committee response referenced the importance of the program for both veterans and the economy.

> After careful deliberation, the Committee has concluded that the loan guaranty program should be continued and made permanent.
>
> Over the past 30 years, the VA Loan Guaranty program has in fact been transformed into a permanent, on-going housing program. Through a series of amendments enacted by Congress…the Home Loan program has been converted to a lifetime housing benefit program for generally all veterans released since September 16, 1940.
>
> This group of more than 27 million veterans now have their entire life to utilize this home loan benefit and can use the benefit as many times as they wish if the property has been disposed of and the loan has been paid in full.

[74] This legislation originated in the Senate (S.2529).
[75] Public Law 91–506, enacted on October 23, 1970, permanently restored unused housing entitlements for WWII and Korean Conflict veterans. This action has been identified as making the loan guaranty "permanent," which it did for these groups of veterans. Public Law 94–324, enacted on June 30, 1976, made the VA housing benefits permanent for all veterans serving on active duty after January 31, 1955, including those still on active duty.

> Testimony received by the Committee strongly urged that the housing program be continued….The condition of the housing industry and the labor market are but two reasons why the veterans housing program should be continued.[76]

Making the program permanent was implemented by including language in Chapter 37 of Title 38 that any veteran who served on active duty after January 31, 1955, would be eligible for the benefits in Chapter 37 (Home, Condominium, and Mobile Home Loans) provided the veteran met one of the following conditions:[77]

1) Served for a period of more than 180 days

2) Has served for a period of more than 180 days in active duty status and continues on active duty without a break therein

3) Was discharged or released from active duty after such date for a service-connected disability.[78]

By extending eligibility to veterans whose military service was confined to the period between July 25, 1947, and June 27, 1950, the Act assured equitable treatment of these veterans with respect to all other peacetime veterans serving after January 31, 1955. Approximately 254,000 veterans were affected. The Committee's report on this issue stated:

> The previous compelling qualification of service during a period of war or conflict was eliminated by Congress with establishment of entitlement for all veterans who honorably served after January 31, 1955 (P. L. 89–358). Thus, S.2529, as reported, would extend entitlement under the veterans housing assistance program to veterans who served only during this 1947 to 1950 period.[79]

<u>Manufactured housing</u>. Congress had considered increasing the loan guaranty percentage for mobile home loans in 1974 from 30 percent to 50 percent, but decided to first assess the results of the increases in the maximum loan amounts for single- and double-wide units. However, the 1974 improvements did not yield the increased participation by lenders that the Congress and VA had anticipated. Some of this outcome was attributed to poor economic conditions.

Not unexpectedly, industry representatives testified that increasing the guaranty to 50 percent was absolutely necessary. For example, a witness representing the Manufacturers Housing Institute stated:

> Based on our numerous conversations with members of the financing community, there is a definite and intangible psychological deterrent with the 30 percent figure. Many members simply cannot believe the adequacy of that

[76] United States Senate, Veterans' Housing Amendments Act of 1976, 94th Congress, 2nd Session, Report No. 94–806, May 11, 1976, pp. 9–10.
[77] Also assuming that a discharge or release was under conditions other than dishonorable.
[78] Public Law 94–324, Section 4.
[79] Senate Report 94–806, p. 9.

> figure and have stated bluntly that they do not wish to participate until it is 50 percent.[80]

The Senate Committee was ready to adjust the percentage.

> The Committee, after examining the experience to date under the revised VA mobile home program, and after reviewing new pertinent material, which has been submitted to it, has concluded that any benefit of the doubt should be resolved in favor of increasing the basic loan guaranty.[81]
>
> …the Committee has received considerable evidence directly from financial institutions that the increased guaranty of 30 to 50 percent is important and that if adopted would increase overall participation in the VA mobile home loan program.[82]

Direct loans. The Act also made two important changes in the direct loan program. First, the direct loan maximum was increased from $21,000 to $33,000, and the VA's authority to increase the loan maximum where high-housing-costs-required was repealed. The loan maximum increase was justified to restore the relationship that had existed between the loan guaranty maximum and the direct loan maximum in 1974 before the loan guaranty maximum was increased to $17,500.

The second change in the direct loan program was to make it permanent. The law accomplished this by removing the delimiting date (June 30, 1976) by when the VA must return to the Treasury all remaining funds in the direct loan revolving fund.

In recommending these changes, the Senate Veterans' Affairs Committee used relatively forceful language expressing its opinion that the administration and the VA had not taken full advantage of the direct loan program to assist veterans. The Committee noted the relatively small number of direct loans that had been granted in recent years, cited the large balance in the revolving fund, and reaffirmed its commitment to the program.

> The direct loan program has diminished since an apparent administration attempt to "phase out" the program. In fiscal year 1970, some 8,500 veterans were aided by the direct loan program….By contrast, in 1975 only 2,665 direct loans…were made. The direct loan revolving fund currently has in the drawing account from the U.S. Treasury $1.025 billion of which $855.4 million is available for direct loans.
>
> Congressional intent with respect to the direct loan program has often been frustrated by unnecessary red tape causing long delays, which discourage direct loan applications….Given poor economic conditions and the difficulty many veterans have in securing adequate housing, the Committee believes that there

[80] Ibid, p. 13.
[81] Ibid, p. 12–13.
[82] Ibid, p. 14.

> should be greater flexibility in the program and that greater use should be made of the direct loan fund. The Committee thus reaffirms its commitment to the direct loan program by deleting the scheduled termination date of the direct loan revolving fund, which assumes its continuation as a permanent program.[83]

In introducing S.2529[84] in the Senate, Sen. Hartke further expressed Committee views:

> The result of this extraordinary deliberate red tape has been a severe retrenchment of the program. Through this bureaucratic red tape, poor management, and policy decisions by the administration, the direct loan program has not fulfilled the congressionally intended purpose to provide simple financial mortgage credit for veterans living in housing credit shortage areas.
>
> Extensive review of the operations of the direct loan program is therefore called for. It is my intention to insure that the program does all that Congress intended it to do to aid veterans seeking to buy homes. In the meantime, I believe it important that the programs be continued and made permanent.[85]

Preemption of State usury laws or constitutional provisions. The Act also included a provision to preempt any State laws that would limit the rate of interest charged by a certain class of lenders. This provision was prompted by a 1934 California usury provision in the State constitution that set the usury ceiling at 10 percent, but exempted commercial lenders such as banks and savings and loan associations. Because the amendment had been adopted prior to development of the mortgage banking industry, these institutions were not exempted by the constitution. The outcome was that VA mortgage activity in California was severely restricted when the interest rates approached 10 percent, as occurred in 1969 and 1973. The only “work around” was for mortgage lenders to request that an exempt financial institution close the loan. However, this practice added to the transaction’s cost and many of the exempt institutions refused to engage in the practice.

In view of the obstacles to amending the California constitution, the Congress included a provision in the 1976 Act to preempt existing State laws or constitutional provisions that would apply usury ceilings to VA loans. However, because this preemption applied only to existing State laws, it permitted the States to reassert or restate any usury provision that may have been altered by the passage of the 1976 housing act.[86]

Table C-15 summarizes the provisions of Public Law 94–324.

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[83] Ibid, p. 16.
[84] Eventually enacted as Public Law 94–324.
[85] Congressional Record—Senate, October 20, 1975, p. S18181.
[86] Ibid, pp. 17–19.

Table C-15. Public Law 94–324 (June 30, 1976)
Veterans' Housing Amendments Act of 1976
Key Provisions

Feature	Provision
Program extension	Makes VA housing programs permanent for all veterans serving after January 31, 1955, including those still on active duty. Authorizes VA housing program benefits for veterans whose entire period of active service was between July 25,1947, and June 27, 1950.
Maximum direct loan	Increases the maximum direct loan amount from $21,000 to $33,000.
Direct loan revolving fund	Repeals the date by which the direct loan revolving fund balances must be returned to the Treasury, thereby making the direct loan program permanent.
Mobile home loans	Increases the guaranty on mobile home loans from 30% of the loan amount to 50% of the loan amount.
State usury laws	Preempts State usury laws or provisions in State constitutions that would limit the rate of interest charged by certain classes of lenders.

Sources: Public Law 94–324; VA report on Enrolled Bill, June 18, 1976, Legislative Reference File on Public Law 94–324.

A key outcome of the 1976 Act was that Congress expressly recognized the VA housing benefit as being a permanent benefit for both qualified veterans and active duty members. Veterans from all periods of service since the imposition of the draft in 1940 were now eligible for benefits.

Veterans' Housing Benefits Act of 1978

The 1978 Act, Public Law 95–476, increased benefit maximums and expanded the types of loans that were authorized.

Loan guaranty maximum. As the result of housing price increases since 1974, the $17,500 maximum guaranty on VA loans was limiting the guaranty to less than 60 percent. A 60 percent guaranty on any loan of more than approximately $29,200 exceeded $17,500. By early 1978, the average guaranteed loan was approximately $38,000[87], so that the $17,500 guaranty on loans of this amount represented only 46 percent of the loan.

Consequently, the Act increased the guaranty maximum to $25,000 to increase the guaranty percentage and improve the attractiveness of VA guaranteed loans to prospective lenders. In justifying the increase the House report stated:

> The committee feels that as a result of the increases, which have occurred in the price of homes since 1974, the maximum loan guaranty increase is warranted.

[87] United States Senate, Veterans' Housing Benefits Improvement Act of 1978, 95th Congress, 2nd Session, Report No. 95–1055, July 31, 1978, p. 11.

> In addition, the reported bill would assure a greater degree of protection on loans, thereby encouraging continuing participation of lenders in the program.[88]

An increase in the maximum SAH grant from $25,000 to $30,000 was justified on similar grounds. The average cost of constructing an adapted house had increased from $53,000 in 1974 (the last grant increase) to $66,000 by 1978. The Senate Veterans' Affairs Committee reported that a $30,000 limit would "enable a majority of veterans who were eligible for this benefit to obtain a grant which will approximate 50 percent of the cost of a home and thereby meet the needs of this special group of veterans…."[89]

Manufactured housing. The 1978 Act restructured the mobile home loan program in significant ways. First, the loan benefit was revised to model the loan guaranty for conventional housing. In its original format, the mobile home loan guaranty was 50 percent of the loan up to a maximum loan amount. For a single-wide unit, for example, the guaranty was 50 percent of the loan, but the loan amount was limited to $12,500.

In contrast, the conventional home loan guaranty was 60 percent of the loan amount, not to exceed $25,000—there was no limit on the loan amount, only on the guaranty.

The restructured mobile home loan guaranty, applicable to single-wide, double-wide, and mobile home lots, would provide a 50 percent guaranty of the loan amount, not to exceed $17,500. There is no limit on the amount of the loan; the limit applies only to the guaranty. This new formula would increase the size and quality of manufactured homes that would qualify for the program.

The House Committee hoped that this change would transform the financing method for mobile homes from consumer credit transactions to mortgage transactions, and thereby make the program more attractive to lenders.[90]

The law also increased the amortization period for loans for mobile home lots, or single-wide mobile homes (with or without a lot) from 12 years and 32 days to 15 years and 32 days (the amortization period for double-wide unit loans remained at 20 years and 32 days). The purpose of this change was to reduce monthly loan payments.[91] The law also included provisions addressing VA inspection of the manufacturing and installation of mobile home units, and clarifying the purposes for which guaranteed mobile home loans could be used.

Energy efficiency improvements. The 1978 Act expanded the types of loans that could be covered under the loan guaranty program. First, the law authorized loans for energy related improvements involving installation of solar energy systems or other residential energy conservation measures. Terminology defining solar energy systems was based on the Solar Heating and Cooling Demonstration Act of 1974. Covered energy

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88 House Report No. 95–1332, p. 7.
89 Senate Report No. 95–1055, p. 22–23.
90 Ibid, pp. 19–20.
91 Ibid, p. 20.

conservation measures were explicitly identified in the 1978 Act.[92] The Act also clarified in law that the VA had authority to prescribe a higher interest rate for loans to repair, alter, or improve a home than for loans to purchase a home.[93]

Eligibility. The Act reduced the required amount of active duty service from 181 days to 90 days to qualify for eligibility for the Home Loan Guaranty program for Vietnam-era veterans. This change placed this group of wartime veterans on the same footing as WWII and Korean Conflict veterans. The Senate Veterans' Affairs Committee noted that:

> The Committee believes that the same Chapter 37 eligibility standards applied to veterans of World War II and the Korean conflict should be applied to Vietnam-era veterans....This equitable change would expand VA housing program eligibility to include approximately 168,000 additional veterans with Vietnam-era service.[94]

Condominiums. The Act authorized guaranteed loans for the purchase of condominiums in conversion projects. Previously, guaranteed condominium loans were limited to purchase of units in newly constructed projects. VA had objected to coverage of conversion units because their age could forebode structural or other future problems harmful to the veteran's interest. Nevertheless, the Senate Committee supported the expanded authority and enjoined the VA to adopt HUD departmental inspection guidelines for condominium conversions.[95]

Table C-16 summarizes the 1978 Act.

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[92] Ibid, p. 16.

[93] In its report, the Senate Veterans' Affairs Committee noted that "… the Committee bill is declaratory of existing law on this point, and the Committee specifically affirms its view that the Administrator presently has statutory authority to set different interest rates as appropriate and stresses that the authority in this bill is designed to reflect the Committee's commitment to the importance of energy-related home improvements and to provide appropriate context for coordinated exercise of that authority with respect to home improvement loans for energy-related purposes." Source: Senate Report No. 95–1055, p. 17.

[94] Senate Report No. 95–1055, pp. 12–13.

[95] Ibid, p. 13.

**Table C-16. Public Law 95–476 (October 18, 1978)
Veterans' Housing Benefits Act of 1978
Key Provisions**

Feature	Provision
Maximum guaranty	Increases the maximum loan guaranty from 60% of the loan amount not to exceed $17,500 to 60% of the loan amount not to exceed $25,000.
Special adaptive housing grant	Increases the maximum special adaptive housing grant from $25,000 to $30,000.
Mobile homes	Adopts several revisions to the mobile Home Loan Guaranty program: a) Restructures the program to more closely follow the program for conventional homes. Revises the loan guaranty maximum to be 50 % of the loan amount up to a maximum guaranty of $17,500 b) Increases the amortization period for purchase of mobile home lots, single-wide units, and single-wide units with lots from 12 years, 32 days to 15 years, 32 days c) Clarifies VA responsibilities regarding inspection of mobile home manufacturing and installation.
Vietnam-era veterans	Reduces the active duty service requirement for Vietnam-era veterans from 181 days to 90 days.
Condominiums	Authorizes guaranteed loans for purchase of units in existing structures that have been converted to condominiums.
Energy conservation loans	Authorizes guaranteed loans for home improvements involving installation of solar energy systems or residential energy conservation measures.
Interest rates	Clarifies VA authority to set higher interest rates on guaranteed loans for the repair, alteration, or improvement of a dwelling or for installation of solar energy systems or energy conservation measures.

*Source: Public Law 95–476; VA report on Enrolled Bill, October 6, 1978,
Legislative Reference File on Public Law 95–476.*

The 1978 Act continued the expansion of VA housing benefits by increasing the covered benefit, by adding coverages, and by increasing the number of eligible veterans.

The House Veterans' Affairs Committee, in describing the purpose of the Home Loan Guaranty program, did not attribute to it any transitional features. In its report on the bill to increase the loan guaranty, the House Veterans' Affairs Committee stated its view of the program's purpose as follows:

> The objective of the loan guaranty program is to facilitate and encourage the extension of credit on favorable terms, by private lenders, to eligible veterans for the purchase, construction, repair, alteration, or improvement of homes to be occupied by veteran purchasers.[96]

[96] House of Representatives, Veterans' Housing Improvements Act of 1978, 95th Congress, 2nd Session, Report No. 95–1332, June 29, 1978, p. 3.

Veterans' Compensation and Housing Benefits Amendments of 1980

Public Law 96–385 was enacted October 7, 1980, and made several important changes to the loan guaranty program.

First, it increased the loan guaranty maximum for homes and condominiums from $25,000 to $27,500, and the guaranty maximum for manufactured homes from $17,500 to $20,000.

Second, the law established a SAH grant for veterans who, as the result of service-connected disabilities, are blind in both eyes, or have suffered certain anatomical losses. The maximum grant was established at $5,000.

Finally, the law expanded the scope of the loan guaranty program by authorizing veterans to refinance existing VA guaranteed mortgages on homes, condominiums, or manufactured housing for the purpose of reducing the interest rate. These loans have become known as Interest Rate Reduction Refinancing Loans (IRRRLs).

Table C-17 summarizes Public Law 96–385.

Table C-17. Public Law 96–385 (October 7, 1980)
Veterans' Compensation and Housing Benefits Amendments of 1980
Key Provisions

Feature	Provision
Maximum guaranty	Increases the maximum loan guaranty from 60% of the loan amount not to exceed $25,000 to 60% of the loan amount not to exceed $27,500.
Mobile homes	Increases the maximum loan guaranty from 50% of the loan amount not to exceed $17,500 to 50% of the loan amount not to exceed $20,000.
Specially adapted housing grant	Authorizes new $5,000 SAH grant benefit for veterans suffering from blindness or anatomical loss.
Refinancing loans	Authorizes refinancing of loans on homes, manufactured housing and condominiums for purposes of reducing the interest rate (IRRRLs).

Source: Public Law 96–385.

Veterans' Disability Compensation, Housing, and Memorial Benefits Amendments of 1981

By law, the loan guaranty program required that monthly loan payments be of substantially equal value. This provision precluded graduated payment schemes, such as the adjustable rate mortgages that had become commonplace in the mortgage industry. The 1981 Amendments, Public Law 97–66, removed the requirement for equal payments, paving the way for adjustable rate mortgages. The new law also increased the maximum SAH grant, extended amortization periods for repayment of guaranteed loans for purchase of mobile homes, and addressed required periods of active duty service to qualify for housing benefits.

Graduated payment mortgages. Graduated payment mortgages offered homebuyers an opportunity to make smaller monthly payments during the early years of the mortgage and then larger payments in later years. This opportunity was attractive to first-time homebuyers or younger homebuyers whose limited but growing incomes were compatible with the graduated amortization schedule. Many of these individuals were unable to afford the payments required for a similar home financed with a conventional mortgage.

The concept was to defer interest payments from early years in the repayment schedule to later years. The delayed interest payments were transferred to the loan principal. During the early or "graduation" period of the loan, the monthly payments did not cover principal and interest and the loan balance exceeds the original mortgage amount. In later years, the loan payment amount included payment of the added principal resulting from the transfer of interest from the graduation period, so the monthly payment was larger than what would occur with a conventional mortgage.

By 1981, the FHA had approximately 5 years of favorable experience (i.e., relatively low default rate) with these mortgages. At the same time, rising housing prices and interest rates were forcing many first-time veteran buyers out of the market. The Congress believed these events were sufficient justification to introduce graduated payment mortgages into the VA Home Loan Guaranty program.

The Senate approach, eventually enacted, authorized graduated payment mortgages in two formats. The first option required that the principal amount, including deferred interest, not exceed the value of the property. Because the deferred interest would increase the principal amount of the loan and cause it to exceed the property's value, this option would require a downpayment to equalize the mortgage amount and property value.

The second option would permit VA to guaranty a loan based on the projected value of the property over the life of the loan, that is, recognizing increases in value as housing market prices increased. Specifically, the law permitted the projected value to increase by 2.5 percent per year up to a total of 115 percent over the term of the loan.

The Senate Veterans' Affairs Committee anticipated that the second option would be most used:

> As the graduated-payment plan is offered to benefit younger, lower-income veterans who are less likely to have saved substantial downpayment, the Committee anticipates that the Administrator would design the graduate payment loan program so that veterans would be able to take advantage of the latter option.[97]

Graduated payment mortgages were limited to guaranteed loans for purchase of site-built single-family homes, condominiums, and manufactured housing. Finally, the law

[97] United States Senate, Veterans' Disability Compensation, Housing, and Memorial Benefits Amendments of 1981, 97th Congress, 1st Session, Report No. 97–153, July 16, 1981, p. 28.

was amended to preempt State laws or constitutional provisions prohibiting charging interest on interest (which occurs in the later years on the graduated payment mortgage or requiring minimum amortization of principal (which could be violated during the early years of the mortgage).

During Senate hearings on its bill to permit graduated mortgage payments, testimony was provided that reinforced the notion that the VA housing benefit was seen as having important economic value in addition to assisting veterans. The National Association of Homebuilders witness included the following comment in his assessment of the state of the housing industry:

> One of the strongest aids our industry received during the last recovery period was through the VA Loan Guaranty program. Buyers at the lower end of the for-sale housing market are particularly dependent on…VA guaranteed loans during periods of tight money when lenders in the conventional market tighten up their credit guidelines and require higher downpayments. In this climate, VA housing programs take on particular significance as a valuable countercyclical tool.[98]

Specially adapted housing. The increase in the maximum SAH grant was intended to address the higher price of building specially adapted homes, which had risen to approximately $75,700 by 1981.[99]

Manufactured housing. The 1981 Amendments extended the amortization period for repayment of guaranteed loans on mobile homes to conform with the maximum periods that had been enacted for FHA-insured loans on manufactured housing.

Eligibility. The 1981 Amendments addressed a bar to VA benefits that had been enacted in 1980 by the Fiscal Year 1981 Department of Defense Authorization Act (Public Law 96–342). The Act added Section 977 to Title 10. The new section generally limited eligibility for VA benefits to individuals who had completed two or more years of active service, with exceptions for injury or certain other conditions. In its report recommending the 2-year service requirement, the Senate Armed Service Committee commented:

> The committee has previously expressed a serious concern about the high level of attrition, much of which occurs during the first 6 months of active duty. Current eligibility for benefits at the 6 month provides an incentive for attrition and may contribute to the continuing too high levels of attrition of first term personnel.[100]

The House and Senate Veterans' Affairs Committees noted numerous deficiencies with the bar as enacted. These included that the bar:

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[98] United State Senate, Veterans' Disability Compensation and Survivors' Benefits Amendments of 1981, Hearing before the Committee on Veterans' Affairs, 97th Congress, 1st Session, June 11, 1981, p. 235.

[99] Senate Report No. 97–153, p. 29.

[100] Unites States Senate, Authorizing Appropriations for Fiscal Year 1981 for Military Procurement, Research and Development, Active Duty, Selected Reserve, and Civilian personnel Strengths, Civil Defense, and for Other Purposes, 96th Congress, 2nd Session, Report No. 96–286, June 20, 1980, p. 135.

- Applied only to enlisted members and not officers
- Would apply to individuals whose enlistments were terminated prior to 2 years for the convenience of the government
- Would result in denial of benefits to survivors
- Would result in denial of payment of life insurance benefits under certain circumstances.

In addition, the Committees believed that the subject matter of the provision was more appropriately placed within Title 38 rather than Title 10.

Consequently, the 1981 Amendments included an amendment to Title 38 that retained the 2-year minimum service requirement for VA benefits but corrected the deficiencies in the Authorization Act regarding officers, survivors, life insurance, and other factors.

The new provision also addressed the impact of the service requirement on eligibility for VA housing benefits for active duty servicemembers. Both the Senate and House Veterans' Affairs Committees were specific in their intent that the 2-year requirement not apply to Chapter 37 (Housing) benefits. The House report stated:

> It would clarify the intent of Congress that an individual who has completed more than 6ix months of service but less than 24 months and is performing satisfactorily is entitled to loan guaranty benefits during this period. There is no legislative history to indicate an intent to delay or defer entitlement to loan guaranty benefits unless and until an early departure occurs.[101]

The Senate Veterans' Committee report included a similar view:

> …the Committee notes that it is not designed or intended to prohibit the otherwise available inservice use of any benefits, such as the VA home loan guaranty under Chapter 37 of Title 38, prior to the completion of the minimum service requirements. Under Section 977, it is not entirely clear to the Committee whether such inservice use of benefits was intended to be permitted.[102]

Table C-18 summarizes the key provisions of the 1981 Amendments.

[101] House of Representatives, Veterans' Compensation Amendments of 1981, 97th Congress, 1st Session, Report No. 97–179, July 16, 1981, p. 21.
[102] Senate Report No. 97–153, p. 40.

Table C-18. Public Law 97–66 (October 17, 1981)
Veterans' Disability Compensation, Housing and Memorial Benefits Amendments of 1981
Key Provisions

Feature	Provision
Graduated payment mortgages	Authorizes VA to implement graduated payment mortgages within the loan guaranty program for purchase of single-family housing, condominiums, and mobile homes.
Special adaptive housing grant	Increases the maximum special adaptive housing grant from \$30,000 to \$32,500.
Mobile homes	Increase the amortization period for guaranteed loans for mobile home purchases as follows: a) 15 years and 32 days for purchase of a lot b) 20 years and 32 days for purchase of a single-wide mobile home or a single-wide home and a lot c) 23 years and 32 days for purchase of a double-wide home d) 25 years and 32 days for purchase of a double-wide home and a lot.
Minimum service requirements	Establishes service requirements within Title 38 for eligibility for VA benefits. Generally applies to individuals entering active service after Sept 7, 1980 and requires 24 months of continuous active duty, or full period for which called to active duty with exceptions for disability, and certain VA benefits. Veteran's Committees' intent is that inservice use of loan guaranty program be available after 181 days of active service.

Source: Public Law 97–66.

The most significant feature of the 1981 Amendments was to permit use of adjustable rate mortgages within the loan guaranty program.

Department of Housing and Urban Development-Independent Agencies Act of 1981

Public Law 96–526 limited the direct loan program to SAH. Each year since, Congress has included this limitation in the VA appropriations act and the direct loan revolving fund has dwindled.

Omnibus Budget Reconciliation Act of 1982

The contentious issue of user fees arose again in 1982. First, the President's budget proposed reinstituting the ½ percent loan origination or "funding" fee that had been revoked in 1970. Furthermore, both the House and Senate Veterans' Affairs Committees included the funding fee in their proposed reconciliation packages to meet savings and revenue targets imposed by the First Concurrent Budget Resolution. The fee would apply to both guaranteed and direct loans, but would not apply in the case of loans to veterans in receipt of compensation for a service-connected disability.[103]

[103] Regarding waiver of the fee for veterans with service-connected disabilities, the Senate Budget Committee Report commented, "Veterans with compensable service-connected disabilities would be exempted from the provisions of this section, in keeping with the Committee's long-standing view that

Funding fee receipts were to be deposited with the Treasury as miscellaneous receipts. Estimates were that the funding fee would increase revenues by $89.6 million in 1983.[104]

The Senate Budget Committee endorsed the fee in its report.

> At present, there is no fee charged in connection with these loans comparable to the fee—presently averaging between 3 and 4 percentage points on the total amount of the loan—charged in connection with conventional mortgages.
>
> The 0.5 percent user fee imposed by this section would work out to an average fee of $285 in each individual case, assuming an average principal of $57,000….This section would also afford the individual veteran the option financing it as part of the initial principal amount of the loan.
>
> The Committee is of the view that the imposition of the user fee, with the option of financing, provided for in this section, represents a modest and not unreasonable burden to impose upon beneficiaries of these useful VA loan programs.[105]

When the reconciliation bill reached the Senate floor, several Senators registered significant disagreement with the funding fee. In offering an amendment to strike the fee, Sen. Mitchell argued that the fee would set a bad precedent, that it was not needed to meet reconciliation targets, and that it would harm the housing industry.

> First and most importantly, I believe the imposition of a user fee on the VA Home Loan Guaranty program sets a dangerous precedent of charging veterans for benefits they have in fact earned. If Congress establishes a user fee on the loan guaranty program as a means of raising revenue this year, there is nothing to prevent a future Congress from imposing user fees on other veterans' benefits in future years.[106]

The Committee had already developed $78.5 million in FY 1983 savings from VA entitlement programs and this amount alone met its $77 million reconciliation target for VA programs. But, even though the funding fee was not needed to meet the FY 1983 target, it was needed to meet the fiscal 1984 and 1985 targets.

Sen. Domenici spoke on the Senate floor in favor of the funding fee:

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benefits for service-connected disabled veterans are and should continue to be the highest priority mission of the VA." United States Senate, Omnibus Budget Reconciliation Act of 1982, 97th Congress, 2nd Session, Report No. 97–504, July 26, 1982, p. 248.

[104] House of Representatives, Omnibus Reconciliation Act of 1982, Conference Report, 97th Congress, 2nd Session, Report No. 97–750, August 16, 1982, p. 85.

[105] United States Senate, Omnibus Reconciliation Act of 1982, 97th Congress, 2nd Session, Report No. 97–504, July 26, 1982, p. 248.

[106] Congressional Record–Senate, August 5, 1982, p. S9858.

> The enactment of the loan origination fee of an average of $285 is not going to dash the American dream of buying and owning a home. Unless, and until, we get interest rates down below 15.5 percent for veterans and all Americans who want homes to buy, we are not going to have homes for any of them. High interest rates and a weak economy inhibit the American dream of home ownership. Everyone has to do a little bit to get budget deficits and interest rates down. For anyone to suggest that a $285 average fee will penalize veterans and make it more difficult for them to buy and own a home when mortgage lenders originate conventional loans for $1,000 or more is just not looking at the facts.[107]

Despite supporting arguments by Sen. DeConcini and Sen. Matsunaga, the amendment to remove the fee requirement failed 59 to 38, and the fee was implemented for loans closed after September 30, 1982. The law (Public Law 97–253) included a sunset provision so that the fee would expire 3 years later, on September 30, 1985.

Table C-19. Public Law 97–253 (September 8, 1982)
Omnibus Reconciliation Act of 1982
Key Provision

Feature	Provision
Funding fee	Reinstitutes 0.5% funding fee on guaranteed and direct loans closed between September 30, 1982, and September 30, 1985. Provides waiver from fee for veterans with compensable service-connected disabilities. Fees deposited as miscellaneous receipts in the Treasury.

Source: Public Law 97–253.

Veterans' Compensation and Program Improvements Amendments of 1984

The 1984 Amendments, enacted as Public Law 98–223 on March 2, 1984, revised the requirements for substitution of VA home loan entitlements and changed the provisions for loan guarantees on manufactured homes that are permanently affixed to a lot.

Restoration of entitlement. Under the current law, a veteran's home loan entitlement could be restored when another eligible veteran agreed to assume the VA loan and substitute his or her VA home loan entitlement for that of the "original" veteran. The law further provided that the new veteran must be an "immediate veteran-transferee, that is, a veteran purchasing the home directly from the original veteran."[108]

VA had been receiving many requests for substitution of entitlement in cases where the veteran assuming the loan was not an immediate transferee of the original veteran. Many of these requests resulted from divorce cases where the spouse was awarded the house and later wanted to sell it to a veteran using an assumption. Because the new

[107] Ibid, p. S9861.
[108] United States Senate, Veterans' Compensation and Program Improvements Amendments of 1983, 98th Congress, 1st Session, Report No. 98–249, September 28, 1983, p. 35.

purchaser was not an "immediate" transferee, the original veteran's entitlement could not be restored.

In supporting the change to permit such restorations, the Senate Veterans' Affairs Committee noted:

> The Committee sees no logical reason, in these or any other circumstances, to preclude substitution of entitlement merely because the assuming veteran is not an "immediate" transferee.[109]

Manufactured housing. The second change in the 1983 Amendments permitted VA to guarantee a loan for a manufactured home and lot on the same basis as for a conventional home provided the manufactured home was permanently affixed to the lot. In addition, the unit must be regarded as real estate under State law. The Senate Veterans' Affairs Committee included the provision and its report indicated the provision was intended to provide additional flexibility in the securing of financing for manufactured housing.

> The Committee recognizes that the status of a manufactured home as well as real versus personal property is not altogether clear in many States. The Committee bill, therefore, would permit the veteran and lender to have the option of seeking a guaranty under Section 1810, as a real property mortgage, or under Section 1819, as a traditional manufactured home loan. This would assure that the housing needs of veterans who choose to purchase manufactured homes can be well met.[110]

These provisions are summarized in Table C-20.

Table C-20. Public Law 98–223 (March 2, 1984)
Veterans' Compensation and Program Improvements Amendments of 1984
Key Provisions

Feature	Provision
Restoration of entitlement	Authorizes restoration of home loan entitlements of "original" veterans in cases of loan assumptions when the veteran assuming the loan is not an "immediate" transferee.
Manufactured homes	Authorizes VA to guaranty loans on manufactured homes that are permanently affixed to lots as conventional homes if such units are considered real estate under State law.

Source: Public Law 98–223.

Deficit Reduction Act of 1984

Public Law 98–369, the Deficit Reduction Act of 1984, enacted three cost-saving provisions in the VA housing benefit. This Act was the first that focused primarily on

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[109] Ibid, p. 36.
[110] Ibid, p. 37.

program cost. In the joint explanatory statement of the managers included in the conference report, the conferees stated that:

> These modifications…are designed to maintain the effective functioning of the loan guaranty program and make its operation more economical and, thus, to help ensure that the program will continue to be able to fulfill its basic purpose of assisting eligible veterans to buy homes.[111]

Funding fees. The Act increased the amount of the funding fee on guaranteed and direct loans from one-half of 1 percent to a full 1 percent. The Act also made the fee applicable to vendee loans, and required that the fees collected be deposited into the Loan Guaranty Revolving Fund (LGRF), instead of as miscellaneous receipts with the Treasury. Finally, the delimiting date for the fee authority was extended by 2 years, through September 30, 1987.

In discussing the rationale for these changes, Sen. Cranston commented on the floor during consideration of the conference agreement:

> …we became aware that, in order to sustain the solvency of the LGRF, substantial fiscal year 1984 and fiscal year 1985 appropriations to the fund would be needed.
>
> It was at that point that our committee first took legislative action to help ensure the solvency of the LGRF. On March 6, Senator Simpson and I introduced…a bill to provide for depositing receipts from the collection of the VA home-loan origination fee in the LGRF—rather than in the Treasury, as under current law—and to increase that fee from one-half percent to 1 percent of the loan amount.
>
> Mr. President, the House provisions…incorporate…two substantive changes: First, the fee would be extended to cover loans—so-called “vendee loans”…and, second, the fee would be extended by 2 years…to September 30, 1987.[112]

No-bid formula. The Act included provisions regarding procedures for dealing with foreclosures and property acquisition. The amendment was designed to ensure that VA did not acquire a property when it would be expected to result in a net cost to the VA—after resale—in excess of what VA would pay under the guaranty if it did not acquire the property.

Under the “no-bid” formula, VA was required to follow a prescribed formula in determining whether to acquire the property. If the expected “net” value does not exceed the total indebtedness less the guaranty amount, VA is not permitted to acquire the property. Instead, VA pays the lender a loan guaranty amount equal to the total indebtedness less the amount lender receives when liquidating the property. In determining the net value, VA subtracts from the property’s fair market value all

[111] House of Representatives, Deficit Reduction Act of 1984, 98th Congress, 2nd Session, Report No. 98–861, June 23, p. 1379.
[112] Congressional Record—Senate, June 27, 1984, p. S8402.

estimated costs to VA directly related to acquiring, holding, and disposing of the property. These costs would include property taxes, liens, property maintenance, and improvements. The law required VA to use the "no-bid" formula through September 30, 1987.

Vendee loans. The Deficit Reduction Act imposed an annual limit on the percentage of foreclosed properties that VA could sell on a vendee-loan basis as opposed to a cash basis. The restriction limited the percentage of properties that could be sold using vendee loans to a maximum of 75 percent and a minimum of 60 percent of the foreclosed properties that were acquired during that fiscal year. The VA was given authority to increase the proportion to 80 percent if necessary to maintain effective functioning of the loan guaranty program. Prior to implementation of this limit, approximately 87 percent of the acquired properties were sold on a vendee-loan basis.

From a deficit reduction standpoint, cash sales were preferable because they contributed revenue to the government.

Table C-21 summarizes the key provisions in Public Law 98–369.

Table C-21. Public Law 98–369 (July 18, 1984)
Deficit Reduction Act of 1984
Key Provisions

Feature	Provision
Funding fee	Increased funding fee from 0.5% to 1%; made applicable to vendee loans; directed fees collected be deposited in loan guaranty revolving fund; extended delimiting date for funding fee by two years through September 30, 1987.
Property acquisition	Established guidelines ("no-bid" formula) regarding acquisition of foreclosed properties to preclude losses to VA on these transactions
Vendee loans	Restricts the percentage of VA-acquired foreclosed properties that can be sold on a vendee-loan basis during a fiscal year to a maximum of 75% and a minimum of 60% of all properties so acquired during that year.

Source: Public Law 98–369, House of Representatives, Deficit Reduction Act of 1984 Conference Report, 98th Congress, 2nd Session, Report No. 98–861, June 23, 1984.

Veterans' Benefits Improvement Act of 1984

Public Law 98–543 was enacted on October 24, 1984. The new law increased rates of Dependency and Indemnity Compensation (DIC) and other veteran benefit programs. Section 304 of the Act increased the maximum SAH grant to $35,000 and the maximum grant for veterans suffering from blindness or loss of or loss of use of both upper extremities resulting from a service connected injury to $6,000. The increases were effective on January 1, 1985.

SAH grants. The grant program for blindness or anatomical loss had been authorized at a level of $5,000 in 1980, and this was the first adjustment in the grant maximum.

The most recent SAH grant increase had been approved in 1981. The Senate Veterans' Affairs Committee report on its bill justified the increase as necessary to "…help ameliorate the erosion in the value of this benefit made by increases in construction costs over the last 3 ½ years."[113]

Loan guaranty maximum. Although the law did not increase the loan guaranty maximum, both House and Senate leaders expressed disappointment in this outcome and pledged to seek increases in the next Congress. During Senate consideration of the compromise agreement, Sen. Simpson remarked:

> Regrettably, Mr. President, despite my strong support for these increases in the deliberations on the compromise agreement, it does not contain them. Nevertheless, my support for appropriate increases continues, and I assure my colleagues that I will be pursuing this issue vigorously in the next Congress.[114]

Mr. Shelby made a similar promise on the House floor:

> I am also disappointed that the Senate did not accept our provision to increase the loan guaranty limitation under the Veterans Administration Housing Programs…the Veterans Home Loan Guaranty program is being out priced by housing costs, but the price of a median home has risen approximately 24 percent since the last increase in guaranty in 1980. My subcommittee will look into both of these matters again during the next Congress.[115]

Table C-22 summarizes the provision enacted by Public Law 98–543.

Table C-22. Public Law 98–543 (October 24, 1984)
Deficit Reduction Act of 1984
Key Provisions

Feature	Provision
Special adaptive housing	Increases the maximum grant from $32,500 to $35,500.
Grant for service-connected blindness or anatomical loss	Increases the maximum grant from $5,000 to $6,000.

Source: Public Law 98–543; United States Senate, Veterans' Administration Benefit Rate Increase and Program Improvement Act of 1984, 98th Congress, 2nd Session, Report No. 98–604, September 17, 1984.

[113] United States Senate, Veterans' Administration Benefit Rate Increase and Program Improvement Act of 1984, 98th Congress, 2nd Session, Report No. 98–604, September 17, 1984, p. 51.
[114] Congressional Record—Senate, October 9, 1984, p. S13885.
[115] Congressional Record—House, October 5, 1984, p. H11274. Rep. Shelby's reference to "both" included an increase in the home loan guaranty and a provision regarding gravemarkers.

Veterans' Benefits Improvement and Health Care Authorization Act of 1986

This Act became Public Law 99–576 on October 28, 1986. The Act made no specific increases in any benefit maximums in the VA housing programs. One important provision dealt with the grant for veterans having service-connected blindness or anatomical loss. Previously, housing grants for these veterans had been authorized only to defer the cost of installing adaptive features in a new home under construction. Public Law 99–576 expanded this authority by permitting payment of the grant to also offset the "fair market value" of the adaptive features already installed in an existing home.

The primary focus areas of the new law were credit approvals, foreclosures, and program financing.

<u>Notifications regarding foreclosures</u>. Important background to enactment of this legislation is that VA loan foreclosures had increased during the mid-1980s and VA's inventory of properties was increasing. Payments of guaranties to lenders on defaulted loans, and losses on the sale of reclaimed properties were straining the loan guaranty revolving fund. In 1984 and 1985, a total of $566 million in appropriations to the fund was required to offset fund losses. And, despite the no-bid formula, Congressional concern continued over VA practices regarding the decision about whether to pay the guaranty on a defaulted loan, or to acquire the property for resale.

In a 1985 investigation of foreclosed VA home loans, the VA Inspector General reported that approximately 14 percent of the loans guaranteed by VA in 1982 should not have been approved because the veterans were unsatisfactory credit risks. By 1985, nearly half of these loans had been foreclosed.[116]

As a result of this finding, the new law required that VA establish underwriting and loan processing standards. The standards included debt-to-income ratios for veteran loan applicants, criteria for evaluating the reliability and stability of the veteran's income, and procedures for determining the veteran's monthly income requirements to meet anticipated loan payments. The law also required lenders to certify that they had complied with the standards and imposed penalties in cases of false certifications.

In an effort to increase the opportunities for veterans facing possible foreclosure to "cure" their loans, the law established a requirement for the lender to notify VA after the veteran failed to make two monthly payments. VA then had 15 days to advise the veteran of the consequences of continued default, including foreclosure. Finally, the provision required the lender to begin foreclosure proceedings within 15 days after the fourth payment was due. The VA was also required to identify common contributing factors to defaults on VA guaranteed loans.

The Senate Veterans' Affairs Committee was clear in its intent for these provisions:

[116] United States Senate, Veterans' Compensation and Benefits Improvements Act of 1985, 99th Congress, 1st Session, Report No. 99–200, November 26, 1985, p. 48.

> The Committee intends that correspondence from the VA to veterans with loans in default should be aimed at increasing the cure rate of these loans. The Committee is of the opinion that failure to make two monthly payments in full constitutes a default of a sufficiently serious nature to warrant prompt remedial action.[117]

Fund transfers. The law provided authority for transferring funds from the Direct Loan Revolving Fund (DLRF) to the LGRF. The DLRF had been established in 1950 to fund direct loans to veterans in locales where VA guaranteed loans were unavailable. Repayments of principal plus interest was producing a growing surplus in the fund. When the direct loan program was closed in 1981, except for SAH grants, the number of transactions nearly stopped. In addition, VA had sold nearly the entire portfolio of direct loans on the secondary market. Consequently, there remained significant unobligated balances in the fund that would not be needed for the direct loan or SAH programs.

Consequently, the Act provided permanent authority for the VA to transfer funds from the DLRF to the LGRF as necessary, and required that Congress be kept informed about the transfers.

Loan appraisers. The law included two provisions regarding appraisals. First, the law required that VA establish uniform qualifications for appraisers and use these standards in selecting appraisers for its list of approved appraisers. The law also required that VA select appraisers from the list on a rotating basis. Second, the law required VA to provide a copy of the appraisal to the lender, and permitted the lender to obtain its own appraisal using a VA-approved appraiser. VA would consider both appraisals in issuing the final certificate of reasonable value.

Use of fee-based attorneys. Public Law 98–369 had authorized VA, upon concurrence of the Attorney General, to acquire the service of fee-based attorneys to represent the United States in Federal court to foreclose on VA loans. However, the Justice Department was withholding concurrence for VA to use fee-based attorneys. Consequently, the law permitted VA to acquire the service of these attorneys without Justice Department concurrence, but continued to require that the attorneys be subject to the general direction and supervision of the Attorney General.[118]

Other provisions. To speed the time for VA to dispose of acquired properties, the law required that VA furnish information to real estate professionals about its inventory of foreclosed properties and VA's property disposition procedures.

The Act did not increase the funding fee, but expressed the sense of the Congress that the fee should not be increased above the 1-percent level.

These various provisions are summarized in Table C-23.

[117] Ibid, p. 50.
[118] Ibid, p. 53.

Table C-23. Public Law 99–576 (October 28, 1986)
Veterans' Benefits Improvement and Health Care Authorization Act of 1986
Key Provisions

Feature	Provision
SAH grant for service-connected blindness or anatomical loss	Authorizes grants to cover the "fair market value" of adaptive improvements already installed in existing houses.
Credit underwriting standards	Requires VA to establish underwriting and loan processing standards; requires lenders to certify that underwriting standards have been applied on each loan application.
Notification of foreclosure	Establishes timetable for lender to inform VA and for VA to inform veteran when loan payments have been missed, and to inform veteran of possible VA assistance to "cure" the loan; establishes timetable for commencement of foreclosure when 4th monthly payment is overdue.
Transfer of funds	Permits VA to transfer funds from the direct loan revolving fund to the loan guaranty revolving fund. Requires Congressional notification.
Information to real estate professionals	Requires that VA inform real estate professionals about existence of VA acquired properties and VA disposal procedures.
Funding fee	Expressed sense of Congress that the funding fee should not be increased above the current 1% level.

Source: Public Law 99–576; United States Senate, Veterans' Compensation and Benefits Improvements Act of 1985, 99th Congress, 1st Session, Report No. 99–200, November 26, 1985.

Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987

Public Law 100–198 continued the approach from the 1986 amendments by focusing on the home loan program's solvency. Both House and Senate Veterans' Affairs Committees held extensive hearings that probed into many areas of program operations seeking to identify practices that would reduce program losses while continuing the program's value for veterans.

The following passages, taken from the preambles of the House and Senate Committee reports, are instructive in conveying the contemporary sense of the Congress on the status of the home loan program. The House report stated:

> The program has been enormously successful in terms of helping veterans to become home owners, and has proved to be a powerful stimulus to the nation's economy.
>
> Despite the program's obvious success, actions by the Office of Management and Budget designed to get the Federal Government out of housing programs and recent actions and proposals by this Administration have tended to weaken the program's potential for serving veterans effectively, and to threaten the long-

> term solvency of the Loan Guaranty Revolving Fund. Other areas of significant concern, which were repeatedly highlighted during testimony before the Subcommittee on Housing and Memorial Affairs, include rising foreclosure rates; the VA appraisal process; management of the program's loan assets and property inventory; and program responsiveness to the current housing market.[119]

The Senate report stated:

> More recently, however, high default and foreclosure rates on properties guaranteed by VA loans coupled with a large VA inventory of foreclosed homes acquired at liquidation sales has threatened the viability of the program. In many cases, the cost to the VA of acquiring, managing, and reselling the properties involved has exceeded the income realized by the VA through property sales. As a result, the LGRF has incurred significant deficits requiring an infusion of funds from various sources. In only 6 of the years since 1962 has the LGRF operated at a surplus. In the other 11 years, infusions of additional funds were necessary.
>
> According to the General Accounting Office (GAO), the total cost to the VA of payment of guaranties and acquisition of property rose from approximately $290 million in fiscal year 1984 to approximately $575 million in fiscal year 1986.
>
> The Committee notes that it does not expect that a benefits program will incur no costs. Certainly, however, when the cost of such a program increases significantly, it is essential for the Congress to take a close look to determine the reasons for the increase and to take steps to minimize program costs. The Committee strongly believes, however, that that does not mean changing the fundamental nature of the loan guaranty program by either drastically curtailing it or insisting that it must be paid for in full by those seeking to use it.
>
> It is the Committee's intent to address areas of the loan guaranty program in which changes can be made in order to maintain the program's solvency and reduce its dependency on taxpayers' funds without compromising the basic purposes of the program.[120]

Public Law 100–198 contained many provisions intended to impose additional elements of financial control on the VA housing programs, while maintaining their value for veterans. These provisions are summarized in the following paragraphs.

<u>Funding fee</u>. The Act continued the funding fee for guaranteed and vendee loans for 2 years, from September 30, 1987, to September 30, 1989. The law clarified the funding fee exemption for surviving spouses of veterans dying from service-connected disability,

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[119] House of Representatives, Veterans' Housing Rehabilitation and Program Improvement Act of 1987, 100th Congress, 1st Session, Report No. 100–257, July 30, 1987, p. 12.

[120] United States Senate, Veterans' Home Loan Improvements Act of 1987, 100th Congress, 1st Session, Report No. 100–204, October 21, 1987, pp. 14, 16.

including those dying while serving on active duty, and also clarifying that the exemption applied to surviving spouses who had a loan guaranty entitlement in their own right.[121]

Although both Committees concurred on the 2-year extension of the funding fee, they also rejected the Administration's proposal to increase the fee and to make the fee permanent.

The House report on the bill stated:

> Raising the fee would prevent a substantial number of potential veteran homebuyers from participating in the program….The Committee notes that interest rates are at one of their lowest points and that some veterans are in a position for the first time to buy their own homes. To now impose an increased user fee on these potential homebuyers would place an undue burden on them….[122]

The Senate report read:

> The Committee rejects the Administration's proposal to raise the fee from 1 to 2.5 percent. The Committee reiterates its view…that this program is a benefits program and should not have to be self-sustaining.
>
> Although the VA has proposed making the fee permanent, the Committee has recommended only a short-term extension. The Committee recognizes the need for other actions to address the long-term solvency requirements of the LGRF….
>
> It remains the Committee's intention to continue to review carefully the needs for the fee in terms of both the short-term and long-term solvency and stability of the LGRF.[123]

Loan guaranty amount. There had been no increase in the loan guaranty maximum since the $27,500 limit was enacted in 1980. Over the intervening years, the average cost of an existing house had risen by more than 35 percent to $85,000, and the average cost of a new house had risen by more than 57 percent to $101,600.[124] There was also discussion about whether the straight 60 percent guaranty was causing inequities, because a veteran with a $50,000 guaranteed loan could end up with the same $27,500 foreclosure debt as could a veteran with a $110,000 guaranteed loan.

This issue was addressed by changing the guaranty formula from a straight 60 percent guarantee (not to exceed $27,500) to a stepped guaranty percentage, depending on the amount of the loan, as illustrated in Table C-24.

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[121] House Report No. 100–257, p. 22.
[122] Ibid.
[123] Senate Report No. 100–204, p. 43.
[124] Ibid, p. 17.

Table C-24. Public Law 100–198
Loan Guaranty Amount

Loan Amount	Guaranty Percentage	Minimum Guaranty	Maximum Guaranty*
Not more than $45,000	50%	None	50% of loan amount for loans up to $45,000
More than $45,000	40%	$22,500	40% of loan amount not to exceed $36,000
* Reduced by the amount of entitlement previously used and not restored.			

Source: Public Law 100–198, Section 3.

The smaller guaranty percentage still provided a guaranty that was larger than the 20 or 25 percent downpayment required for a conventional loan. And, by reducing the guaranty percentage on smaller loan amounts, the new formula reduced the VA's exposure in the area of the loan market where the foreclosure risk was highest. Reducing the guaranty maximums also assisted the Committees as they sought to reduce outlays to meet budget reconciliation targets.[125]

The maximum guaranty on manufactured housing, which had been based on whether the unit was single- or double-wide, was changed to a straight 40 percent of the loan, not to exceed $20,000. The loan amount itself was limited to 95 percent of the purchase price.

Financial information and counseling assistance. Studies by the GAO and the VA Office of Program Analysis and Evaluation (PAE) had found that cure rates on defaulted loans improved with loan servicing. Congress believed that although the loan holder was primarily responsible for servicing the loan, the VA, "…as the guarantor of the loan—and as the agency responsible administering services and benefits to veterans—clearly has a strong interest in and responsibility for helping cure defaults and prevent foreclosures."[126]

The GAO report noted the varying counseling practices among VA regional offices and cited staffing as a primary barrier to more comprehensive counseling.

Consequently, the new law included a provision establishing a 3-year trial program of counseling for veterans whose loans were in default. The trial required VA, when notified by the lender that the veteran had missed two monthly payments, to provide the veteran with information about the alternatives to foreclosure, including possible methods of curing the default, and conveying the property to VA in lieu of foreclosure. The law also required VA to inform the veteran about both VA's and the veteran's liabilities in the event of foreclosure.

In conveying this information to the veteran, the Senate Veterans' Affairs Committee strongly encouraged VA to "make personal contact—by telephone or, preferably, in

[125] House Report No. 100–257, p. 16.
[126] Senate Report No. 100–204, p. 23.

person—with all veterans in default in order to increase the effectiveness of its loan servicing and to maximize the potential for curing defaults.[127]

The provision required VA to ensure that sufficient staff was available to implement the requirements to provide information, to the extent that appropriations were available. In this regard, the Senate indicated its expectation that VA would use funds from the LGRF, which would be made available subject to appropriation act provisions, to ensure that sufficient VA personnel were available to meet the new requirements.[128]

The trial program was to run from March 1, 1988, to March 1, 1991.

<u>"No-bid" formula</u>. By 3 years after enactment, the trial no-bid formula seemed to have achieved its objectives of reducing the number of foreclosed properties that VA acquired. VA had acquired approximately 83 percent of foreclosed properties in 1986 compared with nearly 94 percent in 1984, and supported making the no-bid formula permanent.

Mortgage bankers, however, were concerned that the no-bid formula was reducing lender participation in the loan guaranty program. During Senate hearings, a Mortgage Banker Association (MBA) witness claimed there was an average net loss to the lender of $16,500 when VA did not acquire a foreclosed property.[129] In an effort to continue the no-bid approach but also mollify industry concerns, the Committee decided to include a provision in the no-bid formula that would exclude from the calculation of VA costs the interest that accrued during a period of VA-requested forbearance during which VA and the veteran attempt to cure the loan. The interest would also be excluded from the payment to the lender if the VA acquired the property.

The *quid pro quo* was summarized in the Senate report:

> Thus, under the Committee bill, lenders would forego the right to payment for such accrued interest in return for the VA acquiring a greater number of foreclosed properties in such cases.[130]

The law extended the sunset date on the no-bid formula to October 1, 1989.

<u>Vendee loans</u>. The limits on vendee-loan sales of foreclosed properties imposed by the 1984 Deficit Reduction Act had reduced the percentage of these transactions to 66 percent of properties acquired by fiscal year 1986.

The new law further reduced the percentage limit on vendee-loan sales from a range of from 50 to 75 percent to a range of from 50 to 65 percent for a 3-year period ending October 1, 1990. In addition, the amount of the vendee loan was limited to 95 percent

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127 Ibid, p. 26.
128 Ibid.
129 Ibid, p. 28.
130 Ibid, p. 29.

of the purchase price. The VA was also authorized to include in the loan amount expenditures required to rehabilitate the property.

The additional receipts resulting from a higher volume of cash sales and vendee-loan downpayments were used to meet deficit reduction targets levied on the Veterans' Affairs Committees by reconciliation instructions in the Fiscal Year 1988 Concurrent Budget Resolution.[131]

The Senate Veterans' Affairs Committee indicated its intent to continue monitoring how VA was implementing vendee loans and the long-term impacts on the LGRF.

Interest rate reduction refinancing loans. Under current law, VA was authorized to guaranty loans to refinance existing VA-guaranteed mortgages to permit the veteran to take advantage of lower interest rates, or to take equity out of the house. Refinancing loans required, however, that the veteran physically occupy the home securing the loan. This provision was particularly inimical to active duty servicemembers who may have transferred to a new duty station but continued to own the home. Both the House and Senate Veterans' Affairs Committees noted the inequity of this situation.

The new law included several provisions addressing this issue. First, the current occupancy requirement was replaced by a requirement that the veteran, or the veteran's spouse in the case of an active duty servicemember, certify to have previously occupied the house. Second, the length of the mortgage after refinancing could be extended by not more than 10 years, not to exceed the statutory limit of 30 years. Third, the loan guaranteed on a refinancing could not exceed 90 percent of the appraised value.

A separate provision in the law provided that the general occupancy requirements for the loan guaranty program could be met if the spouse of an active duty servicemember occupied the home secured by the loan as his or her residence.

Loan assumptions. Existing law permitted veterans whose VA-guaranteed loans had been assumed to apply to VA for release from liability. The process required that the assumptor pass a credit check, purchase the property under contract, and assume full liability for repayment of the loan. However, only a small percentage of veterans had applied for a release, possibly because the time required to complete the process would have diminished the attractiveness of the assumption. Consequently, if a veteran did not have a release and the party assuming the loan defaulted, the veteran would be responsible for repayment of the loan balance.

Both Committees recognized the need to balance the ease of assumability against the potential detriment to the veteran from allowing unapproved purchasers to assume VA-guaranteed loans. The Senate report stated:

> The Committee recognizes that the easy assumability of VA-guaranteed loans can enhance the marketability of veterans' homes, particularly when interest

[131] Ibid, p. 31.

> rates are rising, and that the expense and delay in processing a credit check and assumption fee could make it somewhat more difficult for veterans to sell their homes. However, these advantages must be balanced against the actual and potential detriment to the LGRF, as well as to the veteran, from allowing unapproved purchasers to assume VA-guaranteed loans. The tremendous increase in defaults on VA-guaranteed loans over the past 4 years demands a strengthening of program—and veteran—protections.[132]

The resulting legislation specified, prospectively, that the veteran would be automatically released from further liability under the loan assumed by a veteran or another person if holder of the loan determined that the loan was current, the assumptor assumed by contract all the veteran's obligations under the original loan, and the assumptor qualified under the same underwriting requirements levied on the veteran.

In addition, the law imposed a funding fee of one-half of 1 percent on the loan amount, payable on transfer of the property.

<u>Qualifications of appraisers</u>. The law established qualification standards to include successful completion of a written test, submission of a sample appraisal, certification of appropriate experience, and recommendations from other appraisers. The law also established a temporary authority for lenders who are authorized to make automatic VA-guaranteed loans to also order an appraisal and determine directly the reasonable value of the property.

<u>Marketing of VA acquired properties</u>. The law required VA to list acquired properties with real estate brokers under arrangements that VA determined to be most appropriate and cost effective. The Senate Veterans' Affairs Committee cited the difficulty VA was having in marketing properties, and noted the losses the LGRF had sustained when VA found it necessary to resort to auction sales. The Committee stated:

> The Committee believes that the current practice of making properties available for sale through participating brokers does not fully utilize the expertise and resources of the real estate community….The Committee intends that under this provision…VA explore alternatives to current marketing practices and that listing properties for sale with a real estate broker will provide the real estate professionals with whom the properties are listed with incentives to market the properties actively.[133]

The provisions enacted in the 1987 legislation are summarized in Table C-25.

[132] Ibid, p. 35.
[133] Ibid, p. 45.

Table C-25. Public Law 100–198 (December 21, 1987)
Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987
Key Provisions

Feature	Provision
Funding fee	Extends the 1-percent fee for 2 years through September 30, 1989.
Maximum guaranty	Implements a new formula for determining the guaranty maximum based on the loan amount: a) For loans not exceeding $45,000, guaranty is 50% of the loan amount b) For loans of $45,000 or more, guaranty is 40% of the loan amount, not to exceed $36,000; minimum guaranty is $22,500.
Financial information and counseling assistance	Requires that VA provide information to veterans in default concerning options for curing the default, and the veteran's and VA's liabilities in the event of foreclosure.
"No-bid" formula	Includes a provision in the no-bid formula that excludes from the calculation of VA costs the interest that accrues during a period of VA-requested forbearance during which VA and the veteran attempt to cure the loan. The interest would also be excluded from the payment to the lender if the VA acquired the property.
Vendee loans	Reduces the percentage limit on vendee-loan sales from a range of from 50% to 75% to a range of from 50% to 65% for a 3-year period ending October 1, 1990. Amount of vendee loans is limited to 95% of the purchase price (i.e., requires 5% downpayment). VA is authorized to include in the loan expenditures required to rehabilitate the property.
Interest rate reduction refinancing loans	Permits these loans if veteran certifies that either the veteran or spouse (in the case of active duty servicemembers) is presently or has previously resided in the home. Permits term of loan to exceed original loan by 10 years NTE 30 years. Also permits satisfaction of the general occupancy requirement for VA-guaranteed loan if spouse of active duty servicemember occupied the house. Amount of loan guaranteed on a refinancing limited to 90% of appraised value of property.
Loan assumptions	Authorizes veteran to be relieved from liability under a VA-guaranteed loan if assumptor agrees by contact to assume all liabilities under the loan and meets VA loan approval underwriting standards.
Appraiser qualifications	Authorizes VA to establish minimum qualification standards for appraisers, including written test, sample appraisals, and recommendations. Also authorizes lenders qualified to make automatic guaranteed loans order an appraisal and to establish the reasonable value of the property.
Marketing of VA-acquired properties	Directs VA to list acquired properties with real estate brokers under arrangement that VA determined to be most appropriate and cost effective.

Source: Public Law 100–198; House of Representatives, Veterans' Housing Rehabilitation and Program Improvement Act of 1987, 100th Congress, 1st Session, Report No. 100–257, July 30, 1987; United States Senate, Veterans' Home Loan Program Improvements Act of 1987, 100th Congress, 1st Session, Report No. 100–204, October 21, 1987.

Within 2 months of passage of Public Law 100–198, Congress passed two amendments in the Veterans' Home Loan Program Emergency Amendments Act of 1988, Public Law 100–253.

The first amendment permitted VA to waive the 5- percent downpayment requirement for vendee loans if local market conditions dictated. Particular concerns were when VA had substantial inventories of unsold foreclosed properties, such as in Houston, Texas. In supporting the amendment on the Senate floor, Sen. Cranston commented:

> The 5-percent downpayment requirement thus may either substantially reduce sales in such areas or force VA to sell properties at unwisely large reductions in prices.[134]

In the House, Rep. Kaptur commented regarding the situation in Houston:

> Due to the economic situation there, the downpayment requirement has had a serious adverse impact. We also believe that throughout the economically depressed areas of the country, the VA will experience difficulty selling certain properties in neighborhoods were real estate prices are depressed.
>
> Therefore, we believe that this provision should be applied on a case-by-case basis.
>
> We expect that regional office personnel, in consultation with local real estate professionals involved in the sale of VA-acquired properties, will carry out the function of setting competitive downpayment levels on individual properties, in line with local market conditions and general policy guidelines issued by the Administrator.[135]

The second amendment was a technical correction to Public Law 100–198 to clarify the way the veteran's remaining entitlement was calculated in cases were the veteran had already used a part of his or her entitlement on a previous VA-guaranteed loan.

Table C-26 summarizes the amendments.

Table C-26. Public Law 100–253 (February 29, 1988)
Veterans' Home Loan Program Emergency Amendments of 1988
Key Provisions

Feature	Provision
Vendee loans	Authorizes VA to waive the 5% downpayment requirement on a vendee loan if local real estate market conditions warrant.
Guaranty maximum	Corrects technical error in Public Law 100–198 regarding calculation of remaining entitlement for veterans who have already used VA-guaranteed home loan program.

Source: Public Law 100–253.

[134] Congressional Record—Senate, February 1, 1988, p. S364.
[135] Congressional Record—House, February 17, 1988, p. H344.

Veterans' Benefits and Services Act of 1988

Public Law 100–322, enacted May 20, 1988, increased the maximum SAH grant from $35,500 to $38,000, and the grant for veterans suffering from blindness or certain anatomical losses from $6,000 to $6,500. (Note: The case file for this P.L. is not presently available in the legislative reference library.)

Veterans' Home Loan Indemnity and Restructuring Act of 1989

This Act, which was Title III of the Veterans' Benefit Amendments of 1989, Public Law 101–237, enacted several significant changes to the VA housing benefit. As with the 1987 amendments, the main thrust of the law was to improve the financial stability of the home loan program. These financial problems were attributable to several causes. They included an economic downturn, particularly in the oil-producing States, that drove home values below loan balances; problems with appraisals, underwriting, loan management, and servicing; and property acquisition, management, and sales. In 1989, the Congress appropriated $778 million to the LGRF to keep the program solvent.[136]

The comments in the Senate Veterans' Affairs Committee report echoed the objectives stated for 1987:

> Despite the best efforts of Congress over the past several years, the VA Home Loan program continues to experience large losses. The Committee is convinced that the program needs a new approach to ensure that this important veterans' benefit survives into the 1990's.
>
> …the Committee bill would restructure the VA Home Loan program and make a variety of improvements designed to enhance its value to veterans, maintain its solvency, and reduce its dependence on taxpayers' funds—without compromising basic program goals.[137]

The changes addressed the maximum loan guaranty amount, financing of the loan guaranty program, funding fees and indemnification after defaults, sale of vendee loans, the no-bid formula, refinancings, waiver of indebtedness, and home loans for Native Americans. Each provision is summarized below.

<u>Maximum guaranty amount</u>. The Act added additional layers to the loan guaranty formula for higher cost homes, as reflected in Table C-27.

[136] United States Senate, Veterans Benefits and Health Care Act of 1989, 101st Congress, 1st Session, Report No. 101–126, September 13, 1989, p. 256.
[137] Ibid, p. 258.

Table C-27. Veterans' Home Loan Indemnity and Restructuring Act of 1989 (Public Law 101–237) Loan Guaranty Amount

Loan Amount	Guaranty Percentage	Minimum Guaranty	Maximum Guaranty*
Existing Guaranty			
Not more than $45,000	50%	None	$22,500
New Guaranty Added in P.L. 101–237			
More than $45,000 but not more than $56,250		$22,500	$22,500
More than $56,250 but not more than $144,000	40%	None	$36,000
More than $144,000	25%	None	$46,000
* Reduced by the amount of entitlement previously used and not restored.			

Source: Public Law 100–198, Section 3; Public Law 101–237, Title III, Section 306.

The loan guaranty increase was intended to allow the purchase of higher valued homes, which were considered to be lower risk mortgages. On the Senate floor, Sen. Cranston cited a GAO study of FHA loans that indicated that higher valued mortgages tended to have lower claims rates. Applied to the VA program, he indicated that including:

> …higher value loans would decrease the average default rate of VA's loan portfolio and actually improve the solvency of the VA loan program—providing more fee income without a disproportionate increase in guaranty liability. This provision will help spread VA's risk more safely across an appropriate cross-section of markets…the current limits on VA-guaranteed loans are forcing VA out of the strongest housing markets in the country.[138]

Guaranty and Indemnity Fund (GIF). In 1989, financing of the VA-guaranteed loan fund was through the LGRF. The LGRF received income from funding fees on new guaranteed loans and on VA loan assumptions, proceeds from the sale of VA acquired homes, and payments and interest from vendee loans. When shortfalls occurred, VA transferred funds from the DLRF (during the early 1980s[139]), or Congress appropriated funds, on an *ad hoc* basis, directly for the LGRF (during the late 1980s).

The Congress intended that the new fund would "allow more accurate evaluation and monitoring of the loan guaranty program as it would be restructured under this bill, unaffected by operations under the current program."[140] The fund would have regular appropriations and increased funding fee income (see below) and, in concept, would be less prone to insolvency.

[138] Congressional Record—Senate, November 20, 1989, p. S16460.
[139] Income from the DLRF diminished because of the limitation of the direct loan program to SAH.
[140] Senate Report No.101–126, p. 260.

Specifically, the fund would apply to VA-guaranteed loans closed after December 31, 1989. The LGRF would continue to operate for loans closed on or prior to that date. For each applicable loan, the Government would contribute to the GIF 0.25 percent of the loan amount for the fiscal year in which the loan was guaranteed and for the next 2 fiscal years.[141] Other sources of income to the GIF would be similar to those to the LGRF, but for loans closed after December 31, 1989. These include funding fee payments, income from the sale of VA-acquired properties, and principal and interest payments from vendee loans. The law required that Treasury invest GIF balances not needed for current expenditures.

The law also required that VA submit annual financial data on both the LGRF and the GIF reflecting fund operations, revenues, and expenditures.

Funding fee. The Act increased the funding fee for loans closed after December 31, 1989, and removed the termination date[142] for the funding fee. The new basic fee on a guaranteed loan would be increased from 1.0 to 1.25 percent. However, the funding fee would be reduced to 0.75 percent if the veteran made downpayment of at least 5 percent but less than 10 percent. If the veteran made a downpayment of 10 percent or more, the funding fee would be 0.5 percent and the Government's total contribution to the GIF (described above) would be reduced from 0.75 percent to 0.5 percent.

In addition, the Government would be required to pay to the GIF an amount equal to the funding fee for a veteran who is exempt from paying the fee (veterans with service-connected disabilities and surviving spouses of veterans dying with service-connected disabilities).

Funding fees for the sale of manufactured housing, direct loans, and vendee loans would remain at 1.0 percent, and fees on assumed loans would remain at 0.5 percent.

Funding fee payments would be made to the GIF for housing loans, to the DLRF for direct loans, to the LGRF for manufactured housing loans, and to either the GIF or LGRF for vendee loans (depending on the date of loan closure).[143]

Indemnification after default. The Act provided that veterans paying the funding fee, or exempt from payment of the fee, would not have any liability to VA for any loss resulting from default, except in the case of fraud. The indemnification, however, would not apply to purchases of manufactured homes, to vendee loans, or assumptions of VA-guaranteed loans.

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[141] For loans made during fiscal year 1990, the Government contribution would be made in two 0.375 percent installments in fiscal years 1991 and 1992.

[142] The current funding fee extension was to expire on September 30, 1989. Public Law 101–110, enacted on October 6, 1989, extended the funding fee through December 1, 1989. Public Law 101–237 then extended the existing fee structure through December 31, 1989. The new increased fee structure, effective on loans closed after January 1, 1990, was enacted without an expiration date.

[143] Explanatory Statement on the Compromise Agreement on H.R. 901 as Amended, The "Veterans Benefits Amendments of 1989, Congressional Record—Senate, November 20, 1989, p. S16468.

Notification requirement. The Act required that lenders notify VA when they refuse a veteran's offer of a partial payment on a defaulted loan, and authorized VA to require a statement from the lender describing the circumstances of the default, the amount tendered by the veteran, the amount of indebtedness, and the reasons for the lender's refusal.

No-bid formula. The no-bid formula expired on October 1, 1989, but VA continued applying the formula following its expiration.[144] The Act extended the statutory requirement for VA to use the no-bid formula and also added a requirement prohibiting VA from including the cost of borrowing funds in determining the property's net value.

Refinancing loans. Prior law limited the amount of a guaranteed loan to refinance a mortgage to 90 percent of the home's appraised value. The new law would exempt from the 90 percent limit loans made to refinance a construction loan, to replace an installment land sales contract with a traditional deed and mortgage loan, or to refinance a conventional or FHA loan with a lower interest rate VA-guaranteed loan. These refinancing loan amounts could not exceed the lesser of the home's reasonable value or the sum of the outstanding balance on the existing loan plus closing costs.

Waiver of indebtedness. The Act would replace VA's discretion in waiving a veteran's home loan indebtedness where collection would be against "equity and good conscience" with a statutory requirement that waivers be granted in these circumstances. The Act also prohibited waivers in cases of fraud, misrepresentation, or bad faith. The Committees indicated their intention "that a borrower's abandonment of a mortgage despite having the financial ability to make the payments be considered 'bad faith' in connection with the default…."[145]

Study of home loans to Native Americans. The compromise agreement on the Act required VA and the Department of the Interior to jointly submit a study addressing the participation of Native Americans[146] in the VA-guaranteed housing program. The study was to address several issues, including whether VA direct loan authority should be used to promote increased home ownership, any effects of the secondary mortgage market, and the willingness of lenders to make home loans on trust lands, and the experience of private lenders in making home loans on trust lands. The report was required to be submitted by June 1, 1990.[147]

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144 Ibid, p. 16464.

145 Ibid, p. 16469.

146 The term Native Americans includes Native Americans, Native-Alaskans, and Pacific-Islanders (including Native-Hawaiians).

147 On February 1, 1988, The Veterans Administration Advisory Committee on Native American Veterans issued a report endorsing a special housing program for Native Americans living on trust lands. The report enumerated the various problems of "assignability" attendant to community ownership of trust lands. The report recommended that VA initiate a study to identify and resolve problems "associated with Native American veterans receiving VA home loans." One of the four recommendations was that VA reimplement the direct loan program and apply it to Native Americans living on trust lands.

The provisions of Public Law 101–237 are summarized in Table C-28.

Table C-28. Public Law 101–237 (December 18, 1989)
Veterans' Home Loan Indemnity and Restructuring Act of 1989
Key Provisions

Feature	Provision
Maximum guaranty	Modifies the loan guaranty maximum to the amounts shown in Table C-24.
Guaranty and Indemnity Fund (GIF)	Establishes a new revolving fund applicable for loans closed after December 31, 1989. Requires Government contributions to the fund of 0.25% of the loan amount for the fiscal year in which the loan is closed and the following two fiscal years (total 0.75% contribution). As an interim measure, requires 0.375% deposits for fiscal year 1990 and 1991 for loans closed in fiscal year 1990.
Funding fee	Increases funding fees for loans closed after December 31, 1989, as follows: a) 1.25% for VA-guaranteed loans with no downpayment b) 0.75% for loans with a downpayment of at least 5% but less than 10% c) 0.50% for loans with a downpayment of 10% or more. Funding fees for the sale of manufactured housing, direct loans, and vendee loans would remain at 1.0%, and fees on assumed loans would remain at 0.5%.
Indemnification	Veterans who pay the higher funding fees shown above (or those exempt from paying the fee) would be indemnified from any liability to the VA in the case of default on the loan, except in the case of fraud. Indemnification would not apply to purchases of manufactured homes, to vendee loans, or assumptions of VA-guaranteed loans.
Notification	Requires lenders to notify VA if they refuse to accept a tender from a veteran in default on a guaranteed loan.
No-bid formula	Extends required use of the no-bid formula through October 1, 1991; prohibits VA from including the cost of borrowing funds in determining the property's net value.
Refinancing loans	Provides exemption from the 90% limit on the amount of a refinancing loan with a "cash out" in cases of the following; a) Construction loans b) Loans to replace an installment land sales contract with a traditional deed and mortgage loan c) Loans to refinance a conventional or FHA loan with a lower interest rate VA-guaranteed loan.
Waiver of indebtedness	Requires VA to waive indebtedness if collection would be against equity and good conscience.
Study of Native American participation	Requires that VA and Dept. of Interior deliver a study by June 1, 1990, addressing participation by Native Americans in the loan guaranty program, and to include experiences of private sector lenders and the secondary market with home loans on trust lands.

Source: Public Law 101–237; Congressional Record—Senate, November 20, 1989, pp. S16464–S16469.

Omnibus Budget Reconciliation Act of 1990

The Reconciliation Act, enacted as Public Law 101–508 on November 5, 1990, was a deficit reduction measure containing provisions that would either increase revenues or decrease outlays. Two sections of the Act affected the VA Home Loan program.

Section 8032 imposed a temporary increase in the funding fee for VA-guaranteed loans closed between November 1, 1990, and September 20, 1991. The increase was 0.625 percent of the loan amount. The resulting temporary fees collected were as shown in Table C-29. This temporary increase did not affect the funding fee on assumed loans, which remained at 0.5 percent of the loan amount.

**Table C-29. Public Law 101–508 (November 5, 1990)
Omnibus Budget Reconciliation Act of 1990
Funding Fee Provisions**

Amount of Downpayment	Basic Funding Fee (Public Law 101–237)	Temporary Funding Fee for Loans Closed between Nov 5, 1990, and Sept. 20, 1991 (Public Law 101–508)
None	1.25%	1.875%
At least 5% but less than 10%	0.75%	1.375%
10% or more	0.50%	1.125%

Source: Public Law 101–508; House of Representatives, Omnibus Budget Reconciliation Act of 1990 Conference Report, Report No. 101–964, October 27, 1990, pp. 993–994.

The CBO estimated that the temporary funding fee increase would produce additional revenues of $79 billion in fiscal year 1991.[148]

In Section 8031, the Act modified the procedure for paying the loan guaranty in the case of foreclosure on a manufactured housing loan. Under current law, VA would not make payment of the guaranty until the lender had disposed of the property. The guaranty payment was the difference between the sale price and the veteran's debt. The Reconciliation Act added another option for payment of the guaranty. The lender would be permitted to choose between the current practice or a new provision under which VA would pay the guaranty immediately based upon VA's estimate of the property's value. In this case, the guaranty amount would be the difference between VA's estimate of value and the veteran's debt. CBO estimated that this provision would result in outlay savings of $4 million in fiscal year 1991.[149]

[148] House of Representatives, Omnibus Budget Reconciliation Act of 1990 Conference Report, Report No. 101–964, October 27, 1990, p. 994.
[149] Ibid, p. 993.

Part 2 Summary

During the 40-year period from 1952 to 1991, eligibility to use the program was continued and broadened to new populations of veterans and certain survivors; the scope of the housing benefit was expanded; and the financing of the program became an important concern.

Delimiting dates for WWII and Korean Conflict veterans to use their VA housing benefits were extended numerous times until the program was made permanent in 1970. Eligibility was extended to Vietnam-era veterans, as well as to veterans whose service was restricted to peacetime periods—the “Cold War” veterans—so that each individual serving after September 16, 1940, was potentially eligible. Eligibility was extended to certain surviving spouses and to active duty members. Provisions for restoration of entitlement were enacted that made the benefit reusable.

The cumulative effect of these changes was to stretch the notion of readjustment in new directions. During this period, the original, narrowly focused purpose of assisting WWII veterans was blurred as the program continued and expanded to include new groups of participants. Over the objections of some, the Congress eventually affirmed that transition assistance in the form of housing benefits was an important permanent benefit for all veterans leaving service, regardless of whether they had been conscripted, were volunteers, or were wartime veterans. The interruption of their lives for service to country was found to be sufficient justification for this assistance.

On occasion, Congress also acknowledged that VA housing benefits served an important secondary purpose of contributing to the Nation’s economic vitality. Some of the changes enacted during the period responded to industry pleas for a housing stimulus.

Congress enacted changes that made the various housing benefits easier to use. Congress widened its recognition of veterans’ housing needs by establishing direct loans in areas where mortgage financing was unavailable to veterans, by providing grants for SAH, and by opening consideration for a special loan program for Native Americans living on trust lands.

It also responded to the evolution in housing construction and financing trends by increasing the guaranty amount as housing prices increased, providing interest rate flexibility, authorizing loans for manufactured housing and condominiums, and authorizing IRRRLs.

Congress also acted to control growing program costs by requiring underwriting standards for loan approvals, by establishing a system of user fees (but providing waivers for veterans with compensable service-connected disabilities), and by invoking a formula to assist in assessing the acquisition of foreclosed properties.

In 1961, the Congress and the administration were poised to terminate the loan guaranty and direct loan programs. That year, Public Law 87–84 established firm expiration dates for WWII and Korean Conflict veterans. Floor speeches and report language signaled that this would be the last extension. Nevertheless, these deadlines were extended, a Cold War GI Bill was enacted in 1966, and the housing benefit was made permanent in 1970.

By 1991, what Congress had envisioned in 1944 as a short-term transition housing assistance benefit had evolved into a universal, permanent veterans' housing program. The legislative record reveals this outcome occurred mainly by chance rather than by design. The periodic legislative initiatives were most frequently written to address particular problems of the moment, under the general presumed consensus that the VA housing program was an effective veterans' benefit and should be sustained.

PART 3: PERSIAN GULF TO PRESENT

Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act of 1991

In the Spring of 1991, following cessation of Operation Desert Storm hostilities, Congress passed legislation addressing a number of personnel issues arising from the deployment of the armed forces. Section 332 of Public Law 102–25, enacted on April 6, 1991, included the Persian Gulf War within the meaning of a "period of war." The law defined the period as beginning on August 2, 1990, and ending on a date as yet to be prescribed by the President. This action placed veterans serving during this period on the same footing as veterans of WWII, the Korean Conflict, and the Vietnam era.

Section 341 of the Act established eligibility for VA-guaranteed home loan benefits to Gulf War veterans who served for at least 90 days and who also met the requirement for veterans entering active service after September 7, 1980. That is, they must also serve at least 2 years or for the full period for which they were ordered to active duty (unless discharged early for hardship, service-connected disability, or certain other circumstances). This later provision applied primarily to reservists whose period of activation was generally between 89 and 180 days.[150] In its legislative history of the housing benefits, VA indicated that discharge orders were worded so that veterans deactivated prior to the maximum period for which they were called to active duty would not be deprived of this benefit.

During House consideration of the Conference Report, Rep. Montgomery traced the history of the loan guaranty program from its inception in 1944. His comments were repetitive of similar historical tracings by other Members on other occasions. His comments follow:

> As World War II drew to a close, Congress sought ways to ease the economic and sociological readjustment of service men and women to civilian life. The program was an innovative means of affording veterans favorable credit that would allow them to purchase a home. Many of these veterans, because of their service in the Armed Forces, had missed an opportunity for establishing personal credit or for accumulating enough money for a substantial downpayment on a home. By substituting the guaranty of the United States, with little or no downpayment, these veterans were better able to enter the home buying market on a competitive level with their nonveteran counterparts.
>
> Although the objectives of the legislation were designed to assist in the readjustment of returning veterans, rather than to influence the economy as a whole, the Home Loan Guaranty program was perceived as a means of

[150] Joint Explanatory Statement—Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act of 1991, Congressional Record—Senate, March 21, 1991, p. S3869.

> stimulating the economy and averting to some degree the possibility of postwar depression.
>
> Over the years, Congress has enacted many changes to the program to enhance its viability and to respond to developments in the economy and to changes in the needs of veterans. There is now no delimiting date for a veteran to make use of this benefit, and entitlement may be regained once the veteran has paid off the initial loan in full….
>
> Historically, wartime veterans were eligible for this benefit if they had served at least 90 days. With the advent of the All Volunteer Force during peacetime, eligibility requirements were changed to require completion of 24 months of continuous active duty or the full period—at least 181 days—for which the person was called or ordered to active duty.
>
> The compromise does not change current law on the amount of time a person must have served on active duty to be considered a veteran, however it does provide...guaranteed home loan eligibility for service in the Persian Gulf War after 90 days on a similar basis as other wartime veterans.[151]

Rep. Montgomery's comments provide several insights into Congressional perception of the home loan program—insights that were evident from the accumulated legislative history to present.

First, the program began as one of several tools to assist veterans in transitioning from WWII military service to civilian life. The loan guaranty was one means of providing equity for veterans who had been deprived by wartime service of the opportunity to hold a civilian job and save for a future home purchase. But in the process of assisting veterans in acquiring a home, an important goal itself, the program also had important economic consequences by increasing the demand for housing and providing a stimulus for the construction and allied industries.

As time passed following the end of WWII, the eligibility dates for using the program were extended and ultimately removed. The concept of transition was stretched to include transition from peacetime military service. The Home Loan Guaranty program, with the addition of expanded active duty service requirements, also became a retention incentive supporting an all-volunteer military force. The addition of eligibility for Gulf War veterans was not a change in direction but only the next step following similar actions for the Korean Conflict and the Vietnam era.

[151] Congressional Record—House, March 21, 1991, p. H1995.

Extending Certain Authorities Relating to the Administration of Veterans Laws

Public Law 102–291 was enacted on May 20, 1992. Its principal purpose was to extend expiring authorities for several VA programs. An important additional provision (Section 5) provided temporary authority for VA guaranties on payment of principal and interest on certificates or other securities backed by vendee loans.

Under current practice, VA pooled vendee loans and sold them to a trust that issued mortgage-backed securities.[152] Investors bought the securities in anticipation of receiving income generated from payments on the vendee loans. VA guaranteed the loan payments to the trust, but not the payments on the securities issued by the trust.

As noted by Sen. Cranston during floor consideration of the bill:

> The direct Government guaranty provided by this provision would qualify these mortgage-backed securities to be purchased by certain institutions and other investors whose own rules allow investments only in Government securities or similar assets.
>
> Since the underlying loans already are guaranteed by VA, the direct Government guaranty on the securities should not add any additional risk…to the Government. However, the increased market for the direct-guaranteed securities would make these securities relatively more valuable, thereby increasing VA's income from these loan-asset sales by approximately $5 million a year.[153]

In its letter to the Office of Management and Budget (OMB) on the enrolled bill, VA commented that, in anticipation of enactment, it had delayed a May 1992 loan sale and expected to earn an additional $2.18 million as a direct consequence of the certificate guaranty.[154] The sale actually produced an additional $5 million.[155]

The new certificate authority applied to securities issued or approved before January 1, 1993.

Department of Veterans Affairs and Department of Housing and Urban Development Appropriations Act for Fiscal Year 1993

Public Law 102–389 was enacted on October 6, 1992, and included a provision requiring VA to include "losses sustained on the resale of the property" in the net value

[152] These vehicles are known as Real Estate Mortgage Investment Conduits (REMICs).
[153] Congressional Record—Senate, April 30, 1992, p. S5870.
[154] Department of Veterans Affairs report to the Office of Management and Budget on enrolled enactment of S.2378, May 15, 1992.
[155] Department of Veterans Affairs report to the Office of Management and Budget on enrolled enactment of H.R.939, October 16, 1992.

calculation in the no-bid formula used for determining disposition of foreclosed mortgages.

The Conference Report on the appropriations bill projected the provision would reduce the number of acquired properties and produce outlay savings in the loan guaranty program of approximately $407 million, savings needed to help resolve an increase in outlays from the VA medical account.[156]

Veterans' Home Loan Program Amendments of 1992

Public Law 102–547, enacted on October 28, 1992, included nine significant changes to the loan guaranty program. One outcome was to modernize the program with respect to loan practices being used in the private sector mortgage industry. Others were to expand coverage to include qualified members of the reserve components and to provide direct loans to Native Americans. Each new provision is described in the following paragraphs.

Loan guaranty benefits for the Selected Reserve. The law authorized participation in the loan guaranty program for members who had completed 6 years of service in the Selected Reserve, and who either continued serving in the Selected Reserve, were honorably discharged, or were transferred to the Standby Reserve or another element of the Selected Reserve. The authority would expire 7 years following the date of enactment. In recognition of the differences in the conditions of service, reservists would be required to pay a funding fee that was 0.75 percent higher than the fee paid by active duty servicemembers or veterans of the regular armed forces.

Congress noted several reasons for extending loan guaranty benefits to the Selected Reserve. First, the reserve components had served well during the Gulf War, and the reserves were carrying out an increasingly large share of the national defense mission. As these members were more frequently serving along side active duty members, and experienced some of the same vicissitudes of service, they should be afforded some of the same benefits. As the House Veterans' Affairs Committee Report indicated:

> The change to afford home loan entitlement to reservists is needed at this time to recognize the expanded responsibilities of the reserves in this Nation's defense. An overwhelming majority of reservists responded willingly to the call to active duty, but the recent call-up (Gulf War) did disrupt lives and in many cases caused real economic hardship.[157]

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[156] House of Representatives, Making Appropriations for the Departments of Veterans Affairs and Housing and Urban Development, and for Sundry Independent Agencies, Commissions, Corporations, and Offices for the Fiscal Year Ending September 30, 1993, and for other Purposes, Report No. 102–901, September 24, 1992, p. 12.

[157] House of Representatives, Veterans' Housing Amendments of 1991, 102nd Congress, 1st Session, Report No. 102–292, Part I, November 6, 1991, p. 6.

Second, as the reserves continued to absorb more of the defense mission, the House Committee also viewed the loan guaranty benefit as a potential recruiting and retention tool for the reserve components. Again, quoting from the House report:

> Whether or not members of the guard and reserve continue to serve in the reserve components depends, in part, on the relief and benefits that are made available to them. With the reduction of the active military forces, the reserve components will be relied on to provide an adequate, cost effective Total Force. Hence, incentives to recruit and retain reservists and national guardsmen may become even more important, particularly in light of the personal sacrifices required of recently recalled reservists.[158]

The Senate Veterans' Affairs Committee had a somewhat different opinion about reserve recruiting and retention. Although it endorsed a trial program for extending loan guaranty benefits to reservists, it believed the Department of Defense had primary responsibility for establishing reserve recruiting and retention programs. This view was forcefully presented in its report:

> The Committee does not intend that this be considered a precedent of treating reservists as veterans for the purpose of any other veterans benefit. The Committee recognizes and respects the important contributions of reservists to our Nation's defense, but also believes that the Department of Defense should bear the primary responsibility of providing appropriate incentives to recruit and retain reservists and benefits to compensate them for their service.[159]

Third, reservists were viewed as a more mature population and therefore a lower risk group for foreclosure on a VA-guaranteed loan. This was seen as having a possible salutary effect on the program's financial stability. In this regard, the House report stated:

> Reservists obtaining loans guaranteed by the Department of Veterans Affairs would be creditworthy. They are, generally, an older, more mature and more stable group with long-time civilian job histories. Many are familiar with the costs and responsibilities of home ownership. Therefore, this group may help to financially stabilize the program through an influx of loan fees with fewer claims to be paid on their behalf.[160]

Coverage of reservists further diluted the transition objective of the loan guaranty program as it was originally established. Since most reservists who would qualify for the benefit were primarily rooted in a private sector occupation with all the stability that that life afforded, their "transition" needs following completion of 6 years in the Selected Reserve would be, in most cases, minimal compared with those of a veteran ending a full enlistment on active duty. Consequently, the "recognition" factor of the growing

[158] Ibid.
[159] United States Senate, Veterans' Home Loan Program Revitalization Act of 1992, 102nd Congress, 2nd Session, Report No. 102–405, September 16, 1992, p. 17.
[160] House Report No. 102–292, Part I, p. 6.

defense role of the reserve forces, the need for reserve recruiting and retention incentives, and the cash flow aspects were the prominent motivators for including reservists.

Adjustable Rate Mortgages (ARMs). The Act implemented a 3-year test program for ARMS during fiscal years 1993, 1994, and 1995. The VA ARM was to be structured similarly to the FHA ARM. The program had safeguards to prevent a significant escalation in rate from one year to the next (1 percentage point) and an overall limit on the cumulative escalation over the term of the loan (5 percentage points). VA was also directed to establish separate underwriting standards for approving ARMs to minimize the chances of the veteran defaulting on the loan as (or if) the interest rate increased.

Including ARMs was seen as an important modernization in the VA Home Loan Guaranty program. By the early 1990s, ARMs had become an accepted mortgage product. As this financing option had matured, many of the initial problems that caused higher foreclosure rates had been corrected. These corrections involved limits on rate increases from year to year, and better education of borrowers about this type of loan.

By 1992, the VA Loan Guaranty program was the only major mortgage market participant without the authority to issue an ARM. During opening statements for House Veterans' Committee hearings on the Loan Guaranty program, Rep. Payne commented that:

> The adjustable rate mortgage has been the mortgage of choice in the last 5 years among homebuyers in today's market. However, the DVA is the only major mortgage market participant without such an ARM. Allowing the DVA to provide adjustable rate mortgages for qualified veterans will make the DVA housing program more fully responsive to market developments and more able to help our veterans.[161]

In authorizing the ARM demonstration, both the House and Senate Veterans' Affairs Committees were diligent in incorporating safeguards to prevent or minimize the potential for default problems. These included a program design similar to the FHA program, strict underwriting requirements for ARM guaranteed loans, and annual reporting requirements so that the Congress could monitor experience with the demonstration. The House report expressed the shared concern about helping veterans obtain housing without exposing them to financial difficulties.

> The Committee wishes to emphasize that this demonstration project is not intended to put veterans in houses they can't afford. Rather, it is simply to test another financing option.[162]

Security guaranty. Public Law 102–291 provided temporary authority for VA to guaranty payment of principal and interest on certificates or other securities backed by vendee

[161] House Veterans' Committee, Oversight Hearings of DVA Loan Guaranty Program, H.R. 939, and H.R. 1384, 102nd Congress, 1st Session, Serial No. 102–10, May 2, 1991, p. 3.
[162] House Report No. 102–292, Part I, p. 9.

loans (REMICs). The new certificate authority applied to securities issued or approved through December 31, 1992.

The House bill would have made the authority permanent and the Senate Bill would propose to extend the authority for 3 additional years. Public Law 102–547 contained the Senate position, extending this authority for 3 years to cover securities issued or approved through December 31, 1995.

<u>Funding fee on Interest Rate Reduction Refinancing Loans (IRRRLs)</u>. The law reduced the funding fee on IRRRLs from 1.25 percent to 0.5 percent for conventional housing. The reduced fee also applied to IRRRLs on manufactured housing only if the interest rate on the new loan was lower.

<u>Guaranty amount on IRRRLs</u>. Under current law, IRRRLs secured by a home or manufactured housing could include certain closing costs, fees, and discount points. In addition, the guaranty amount on the IRRRL could not exceed the guaranty amount on the loan being refinanced.

The maximum principal amount of an IRRRL is the sum of the principal balance of the original loan, plus closing costs, fees, and discount points. Because the guaranty amount may not exceed the guaranty on the original loan, the ratio of the guaranty amount to the loan amount can drop below the minimum allowable 25 percent. In these cases, the veteran must make a downpayment to meet the lender's security requirements.[163]

Section 5 of the new law would ensure that the VA guaranty on IRRRLs would be at least 25 percent of the amount of the new loan, so that downpayments would not be required.

<u>Extension of Lender Appraisal Processing Program (LAPP)</u>. Under LAPP, qualified lenders were permitted to determine a property's reasonable value based on an appraisal submitted directly to it by the appraiser. This circumvented the process whereby the appraiser submitted the appraisal to VA for a determination of reasonable value. LAPP resulted in speedier closings, thereby assisting the veteran. The existing authority for the LAPP expired on December 31, 1992.

Section 6 of the new law extended LAPP for 3 years, through December 31, 1995.

<u>Pilot program for direct loans to Native Americans</u>. Under current law, VA was authorized to make direct loans to veterans under two programs: 1) direct loans to veterans living in "housing credit shortage" areas; and 2) direct loans for veterans requiring SAH. However, since 1981, appropriations acts had prevented use of direct loans in "housing credit shortage" areas. Furthermore, direct loans required clear title to the property to provide adequate security for the loan.

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[163] Joint Explanatory Statement for H.R. 939, The Proposed Veterans' Home Loan Amendments of 1992, Congressional Record—House, October 5, 1992, p. H11700.

Public Law 101–237 in 1989 had required VA and the Department of the Interior to submit a joint report on the use of the VA Home Loan Guaranty program by Native American veterans.

The new law established a 5-year pilot program for direct home loans to Native American veterans living on trust lands. The authority imposed requirements relating to ownership of tribal lands so that the loans would be adequately secured and the Government's interests protected. For example, the program would require, as a condition of a direct loan, a memorandum of understanding between VA and the tribal government providing that: 1) the veteran would have a meaningful interest in the trust-land property on which the home would be built; 2) the veteran would provide VA by an appropriate instrument a security interest in the veteran's interest in the property; 3) VA would have access to the trust land in connection with the loan; 4) the tribal government would have established procedures for foreclosures and resale of the veteran's interest in the property in the event of default; and 5) the tribal government would agree to other terms and conditions as VA might require.

The maximum direct loan under the program was set at $80,000 (but VA could increase the amount administratively in areas with high housing costs). The interest rate would be determined by VA but would not exceed the rate on guaranteed loans, and VA would establish special underwriting criteria. The veteran would be required to pay closing costs and the applicable funding fee. VA would be required to establish outreach and education programs to increase awareness of the program within tribal governments.

The new law also established a separate revolving account in the Treasury to provide a funding mechanism for the program. A separate appropriations act included $5 million for the pilot program.[164]

Demonstration program for Energy Efficient Mortgages (EEMs). The Senate Veterans' Affairs Committee considered that the current VA program for EEMs was successful but under used because the current:

> …procedural requirements have made EEMs…impractical and inconvenient. Many borrowers and lenders are unaware that the lender can consider potential energy savings that would result from energy efficiency improvements financed as part of the original loan. Indeed, very few veterans know that VA EEMs are available, or how to apply for one, before they learn about them in the course of obtaining a VA-guaranteed loan.[165]

Section 9 of the new Act added a new EEM program authorizing VA-guaranteed loans for EEMs for improvements to a veteran's current home or to finance the combined cost of acquiring an existing home and making energy efficiency improvements. Veterans could finance the cost of these improvements up to $3,000 (or $6,000 if the increase in the monthly mortgage payment did not exceed the anticipated reduction in monthly

[164] Ibid, p. H11701.
[165] Senate Report No. 102–405, pp. 12–13.

utility costs resulting from the improvements). The amount of the EEM financing would not affect the maximum loan guaranty amount.

To overcome the lack of awareness, VA was required to notify eligible veterans, lenders, and realtors about the new program. Finally, VA was required to issue annual reports to Congress summarizing experience with the new program.[166]

Negotiated interest rates. Under current law, VA administratively established the maximum interest rate for the VA Home Loan Guaranty program. In addition, veterans are prohibited from paying discount points to purchase or construct a home, or to purchase a farmhouse or condominium.

There was concern that by not allowing veterans to negotiate their own interest rate arrangements, including points, the current law was limiting veterans' access to housing.

For example, when the administratively controlled VA interest rate lagged, the market, sellers would normally seek to make up the interest rate differential by requiring payment of discount points. However, since the payment of points was prohibited by law, the seller would make up the difference by increasing the sales price of the house. The consequence was that the veteran may not be able to purchase the home with a VA-guaranteed loan or may have to pay a higher price.

There was also a concern that lenders could engage in unfair practices if veterans were able to negotiate their own interest rate terms.

The conferees adopted the Senate provisions to permit VA to conduct a limited test of negotiated interest rates. The law permitted VA to establish either: 1) a uniform maximum interest rate and prohibit veteran borrowers from paying discount points; or 2) procedures for allowing borrowers and lenders to negotiate the interest rate, and also permit the veteran to pay reasonable discount points. VA would be able to change from one option to the other at any time.

The Senate Veterans' Affairs Committee summarized its support for the new authority in its report on the bill as follows:

> …the Committee bill would make it possible for VA to allow veterans to compete equally with potential purchasers who plan to use conventional, FHA-insured, or other types of mortgage loans. Veterans who want to use their VA-guaranteed home-loan entitlement would not start at a disadvantage when they bid for a house against these other potential purchasers.
>
> In the highly competitive mortgage lending industry, the Committee believes that the interest-rate competition that the Committee bill would allow ultimately will reduce veterans' cost for housing[167]

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[166] Congressional Record—House, October 5, 1992, p. H11701.

The Committee also attempted to quell the concerns that had been raised about negotiated interest rates.

> The Committee believes that veterans will not be overcharged by lenders as a result of this provision. Because the market is highly competitive, it clearly is against a lender's interest to attempt to require an exorbitant interest rate on VA-guaranteed loans.[168]

The provisions of Public Law 102–547 are summarized in Table C-30.

Table C-30. Public Law 102–547 (October 28, 1992)
Veterans' Home Loan Program Amendments of 1992
Key Provisions

Feature	Provision
Loan guaranty benefits for the Selected Reserve	Authorizes 7-year program (through October 27, 1999) for extending home loan guaranty benefits for qualified members who completed 6 years in the Selected Reserve and were honorably discharged or transferred to the Standby Reserve or another element of the Selected Reserve. Requires reservists to pay 0.75% higher funding fee.
Adjustable Rate Mortgages (ARMs)	Implements 3-year test of ARMs through FY1995. Imposes limit of 1% annual change in interest rate and a cumulative total of 5% change over life of the loan. Requires VA to establish separate underwriting standards for guaranteed ARMs, and to provide annual reports to Congress.
Security guaranty	Extends VA authority for 3 years through December 31, 1995, to issue certificates guarantying payment of principal and interest on securities backed by sales of vendee loans.
Funding fee on IRRRLs	Reduces the funding fee on IRRRLs from 1.25% to 0.5%.
Guaranty amount on IRRRLs	Ensures that the VA guaranty on IRRRLs would be at least 25% of the amount of the new loan.
Extension of LAPP	Extends the Lender Appraisal Processing Program (LAPP) for 3 years through December 31, 1995.
Direct loans to Native Americans on trust lands	Establishes 5-year pilot program (through September 30, 1997) authorizing direct loans for the purchase of homes by Native-American veterans living on trust lands. Establishes maximum loan amount at $80,000. Requires memorandum of agreement between VA and tribal organization so that the loan would be adequately secured and the Government's interests protected. Requires VA outreach program.
Demonstration program for EEMs	Establishes a 3-year demonstration program (through December 31, 1995) for Energy Efficient Mortgages (EEMs). Authorizes VA-guaranteed loans for EEMs for improvements to existing or a purchased of up to $3,000 (or $6,000 in some cases). EEM financing does not affect the veteran's maximum guaranty amount.
Negotiated interest rates	Authorizes 3-year test program (through December 31, 1995) for VA to establish either: 1) uniform max interest rate and prohibit veterans from paying discount points; or 2) permit veteran to negotiate interest rate and pay discount points.

Source: Public Law 102–547; Joint Explanatory Statement for H.R. 939, The Proposed Veterans Home Loan Amendments of 1992, Congressional Record—House, October 5, 1992, pp. H11699–H11701.

[167] Senate Report No. 102–405, p. 15.
[168] Ibid.

Omnibus Budget Reconciliation Act of 1993

Public Law 103–66, enacted on August 10, 1993, made two changes in the VA Home Loan program. Title XII of the Act was cited as the "Veterans Reconciliation Act of 1993." As a budget reconciliation measure, the Act made changes to the loan guaranty program to increase revenues or decrease outlays to meet concurrent budget resolution targets.

In Section 12006, the Act extended the expiration date for the no-bid formula by 5 years, including loans closed through September 30, 1998. This section also codified the language from Public Law 102–389, requiring that, in applying the no-bid formula, the net value of a foreclosed property be determined "including losses sustained on the resale of the property."

Section 12007 imposed a temporary increase or surcharge in the funding fee by 0.75 percent. The increase was effective for 5 years for loans closed between October 1, 1993, and September 30, 1998. The fee increase did not apply to direct loans, guaranteed loans on manufactured housing, vendee loans, IRRRLs, or assumptions of VA-guaranteed loans.[169]

Table C-31 illustrates the impact of the funding fee increase for veterans and members of the Selected Reserve.

Table C-31. Public Law 103–66 (August 10, 1993)
Omnibus Budget Reconciliation Act of 1993
Temporary Funding Fees

	Current Law	Including 0.75% Temporary Funding Fee Increase in P.L. 103–66
Veterans		
No downpayment	1.25%	2.00%
5% but less than 10% downpayment	0.75%	1.50%
10% or more downpayment	0.50%	1.25%
Selected Reserve		
No downpayment	2.00%	2.75%
5% but less than 10% downpayment	1.75%	2.25%
10% or more downpayment	1.25%	2.00%

Source: House of Representatives, Omnibus Budget Reconciliation Act of 1993, 103rd Congress, 1st Session, Report No. 103–111, May 25, 1993, p. 434.

This section also established a temporary funding fee of 3 percent of the loan amount for a veteran who had previously obtained a VA-guaranteed home loan. The fee would

[169] House of Representatives, Omnibus Budget Reconciliation Act of 1993, 103rd Congress, 1st Session, Report No. 103–213, August 4, 1993, p. 513.

not apply if the veteran made a downpayment of 5 percent or more. The fee would apply to second or subsequent loans closed during the 5-year period between October 1, 1993, and September 30, 1998.[170]

Uniformed Services Employment and Reemployment Rights Act of 1994

Public Law 103–353, enacted October 13, 1994, increased the maximum guaranty amount on loans above $144,000 from $46,000 to $50,750. This increase would permit veterans to use their VA loan guaranty benefit to purchase higher cost homes, raising the maximum loan amount from $184,000 to $203,000.[171]

Sen. Rockefeller had introduced separate legislation, S.1510, to accomplish this purpose, but his bill was added as an amendment to H.R. 995, which became Public Law 103–353.

Speaking on behalf of the increase, he noted that the high cost of housing in cities such as Boston, New York, Washington, DC, San Francisco, and Los Angeles was pricing veterans out of the market. He also noted that other housing entities had already recognized this fact and increased their loan limits.

> For example, on January 1, 1993, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), two Federally chartered private for-profit corporations established to provide funds for residential mortgages, increased their limits to $203,150 on single-family conventional mortgages in which these companies invest.[172]

With this change, the loan guaranty schedule was as illustrated in Table C-32.

Table C-32. Uniformed Services Employment and Reemployment Rights Act of 1994 (Public Law 103–353) Loan Guaranty Amount

Loan Amount	Guaranty Percentage	Guaranty Amount*
Not more than $45,000	50%	50% of loan amount up to maximum loan amount of $45,000
More than $45,000 but not more than $56,250	50% down to 40%	$22,500 (minimum and maximum)
More than $56,250 but not more than $144,000	40%	$36,000
More than $144,000	25%	$50,750
* Reduced by the amount of entitlement previously used and not restored.		

Source: Public Law 100–198, Section 3; Public Law 101–237, Title III, Section 306; Public Law 103–353, Section 7.

170 Ibid, p. 514.
171 Following the rule that lenders required that the guaranty be at least 25 percent of the loan amount.
172 Congressional Record—Senate, November 2, 1993, p. S14887.

Veterans' Benefits Improvements Act of 1994

Approximately 2 weeks later, Public Law 103–446 was enacted on November 2, 1994. This law corrected several "inequities" in loan guaranty benefits between veterans and members of the Selected Reserve, and made other changes that facilitated use of the program by veterans in certain circumstances. Each change is summarized below.

Loan guarantees for reservists and surviving spouses of reservists. Under current law, veterans discharged from active duty for a service-connected disability prior to completion of their term of service retained eligibility for the loan guaranty program. In addition, surviving spouses of veterans dying while in active service, or from a service-connected disability, were eligible for the loan guaranty program. Neither of these provisions, however, applied to members of the Selected Reserve or to their surviving spouses.

Section 901 of Public Law 103–446 included provisions making reservists who were discharged with a service-connected disability prior to completing 6 years of qualifying service eligible for VA-guaranteed home loans. The new law also enabled participation by surviving spouses of Selected Reservists who died while on reserve duty or from a service-connected disability. The House Veterans' Committee report supported these changes as necessary to "correct this disparity in loan guaranty benefits" between these two groups.[173]

One-time restoration of entitlement. Under current law, restoration of the loan guaranty entitlement required that the veteran pay off the loan and dispose of the property. Section 902 of the new law authorized a one-time restoration of entitlement if the veteran repaid the loan but did not dispose of the property. This change was intended to address cases in which an active servicemember was transferred but did not dispose of the property, or a servicemember lost the property in a divorce settlement.

Include the cost of energy efficiency improvement in IRRRLs. The cost of energy efficiency improvements of up to $6,000 could be included in VA-guaranteed home loans, but they could not be included in IRRRLs. Section 904 permitted these additional costs to be included. In supporting this change, the Conferees concluded:

> We believe that any increased risk from an increase in the loan-to-value ratio would be slight and would be offset to a significant degree by the reduced payments resulting from lower interest rates.[174]

Conversion of ARM to a fixed rate mortgage. Some veterans who had taken ARMs desired to convert to fixed rate mortgages when interest rates declined. Even though the fixed rate was higher than the current rate under the ARM, in some cases it was advantageous over the long term for a veteran to convert to the higher fixed rate. Such

[173] House of Representatives, Veterans' Housing Amendments of 1994, 103rd Congress, 2nd Session, Report No. 103–629, July 28, 1994, pp.2–3.
[174] Congressional RecordHouse, October 7, 1994, p. H11351.

conversions were not then permitted, but Section 905 of the new law added authority for veterans to use IRRRLs for this type of refinancing.

Inspection requirements for manufactured housing. VA was required by law to make inspections of the manufacturing process and to perform random onsite inspections in connection with approval of guaranteed loans for manufactured housing. In practice, VA had used other statutory authority to delegate to HUD the responsibility for inspection of manufactured home plants.

According to the House Veterans' Committee report, VA had stated that the HUD inspections were sufficient to ensure that manufactured homes sold to veterans were properly constructed. Furthermore, no loans for purchase of manufactured housing were guaranteed unless the home bore a seal indicating it was manufactured in accordance with HUD standards.[175]

Section 906 of the new law repealed the requirement for VA to inspect the manufacturing process and conduct onsite inspections. It provided that a manufactured home bearing a seal indicating it was built in compliance with HUD manufactured home construction and safety standards would be eligible for VA financing. The section also eliminated the annual reporting requirement to Congress regarding guaranteed loans on manufactured housing.

Acceptance of foreclosed property. When a VA-guaranteed loan is in default, VA was required by law to conduct a no-bid evaluation, whereby it determines the difference between the "net value" of the property, and the total indebtedness less the guaranty amount. The lesser of these values was known as the "specified" amount. If, at the foreclosure sale, the lender's bid exceeded the specified amount, even by $1, VA could not acquire the property.[176]

Section 907 of the law permitted VA to acquire the property at the specified price, even though the lender's bid at the foreclosure sale exceeded that price.

Minimum active duty service requirement. Current law required that individuals first becoming members of the armed forces after September 7, 1980, serve the minimum of 24 months or the full time ordered or called to active duty. Exceptions were permitted in the case of release for disability or hardship. As the House Veterans' Affairs Committee report noted:

> The minimum active duty service requirements…were added to the law at a time when the Armed Forces were having a great deal of difficulty recruiting and retaining a sufficient number of qualified personnel.[177]

However, by 1994, the Defense Department was in the midst of a significant force reduction and many servicemembers were being discharged or released prior to

[175] House Report No. 103–629, p. 5.
[176] Ibid, pp. 5–6.
[177] Ibid.

24 months or the completion of their periods of obligated service. Consequently, the Congress believed it was inequitable to deny these veterans access to guaranteed home loan benefits.

> Equitable considerations would dictate that veterans discharged early as the result of downsizing should not forfeit the loan guaranty eligibility to which they would have become entitled had they been allowed to complete their contract.[178]

Section 908 modified the 2-year minimum active duty service requirement, making it inapplicable in the case of personnel released from active duty due to a reduction in force, for the convenience of the Government, or for certain medical conditions.

Table C-33 summarizes the loan guaranty provisions of Public Law 103–446.

Table C-33. Public Law 103–446 (November 2, 1994)
Veterans' Benefits Improvements Act of 1994
Key Provisions

Feature	Provision
Eligibility	Extends eligibility for VA-guaranteed home loans to Selected Reservists who are discharged with a service-connected disability prior to completing 6 years; extends eligibility to surviving spouses of Selected Reserve members dying while performing reserve service, or dying as the result of a service-connected disability.
Restoration of entitlement	Authorizes a one-time restoration of entitlement if a veteran has repaid the guaranteed loan but not disposed of the property.
Energy efficiency improvements and IRRRLs	Authorizes inclusion of amounts up to $6,000 for energy efficiency improvements to be financed in conjunction with an IRRRL.
Conversion of ARMs	Permits veterans to convert VA-guaranteed ARMS to VA-guaranteed fixed rate mortgages, even if fixed rate of interest if higher than the current rate under the ARM.
Manufactured housing inspections	Repeals requirement for VA to inspect manufactured housing construction process. Provides that manufactured house bearing a certificate of conformity to HUD standards is eligible for VA financing. Eliminates annual reporting requirement to Congress on manufactured housing.
Procedures on default	Authorizes VA to purchase foreclosed home at the "specified" price notwithstanding the lender's overbid.
Minimum active duty service requirement	Waives statutory active duty service requirement if veteran is discharged as the result of a force reduction, for the convenience of the Government, or for certain medical conditions.

Source: Public Law 103–353, Joint Explanatory Statement for H.R. 4386, The Veteran's Benefits Improvements Act of 1994, Congressional Record—House, October 7, 1994, pp. H11360–H11361; Department of Veterans Affairs Report to OMB on the Enrolled Bill, October 24, 1994.

[178] Ibid.

National Defense Authorization Act for Fiscal Year 1996

Section 2822 of this Act was entitled the "Military Housing Assistance Act of 1995" and was intended to provide additional housing assistance for active duty servicemembers stationed at installations with military housing shortages.

The Act established a 3-year pilot program (through September 30, 1998) in which VA could make periodic or lump-sum assistance payments on behalf of an eligible veteran to buy down the interest rate for a VA-guarantee home loan. The buy-down period was limited to 3 years.

The program was limited to locations that the Secretary of Defense designated as "housing shortage areas," meaning military housing facilities were inadequate. In addition, participation was limited to enlisted members, warrant officers, and commissioned officers in grades O-3 and below who had not previously used their VA home loan entitlement.

VA was required to establish underwriting standards for these loans, and to provide comprehensive prepurchase counseling to servicemembers before they could apply for the program. Counseling was to include a description of the increase in monthly payments over the first 5 years of the loan. In addition, VA was authorized to assign personnel to housing shortage areas to provide this counseling.

The law required the Department of Defense to reimburse VA for amounts paid to buy down interest rates, and required VA to submit a report to Congress addressing the program's effectiveness.

Extension of Authority for Certain Veterans' Affairs Programs and Activities

Public Law 104–110, enacted on February 13, 1996, made permanent or extended expiring authorities for several VA home loan provisions, but allowed the test program for ARMs to lapse.

The decision to terminate ARM authority appears to have been entirely outlay driven. In his justification for not extending ARMs, Sen. Simpson indicated that he had preferred to extend the program for 2 years and then make it permanent. However, this intention had been reversed by CBO cost estimates that indicated the ARM program would produce additional VA outlays of $36 million in fiscal year 1996 and $33 million in 1997.

> …the Veterans Affairs Committee has operated under the belief that VA guaranteed ARMs would 'perform' better than other ARMs—and that the Government, therefore, would not be exposed to inordinate loss. We had hoped

> to extend this 'demonstration project' to see, through a review of VA's Actual loss data, if that belief was well grounded.[179]

However, he commented further that based on CBO data he had recently received:

> If this legislation were to propose an extension in this 'demonstration project,' it would also have to propose money-saving legislation to 'offset' the costs, which CBO estimates would be incurred if the ARM extension were to be enacted. The committee has no such legislation to propose at this time; all cost-saving measures the committee was able to approve are already contained in the…Balanced Budget Act now before the Congress. Accordingly, the chairman's amendment, which I have proposed today, would remove the ARM extender….[180]

The law made permanent VA's authority to guarantee two types of loans: 1) loans on which the veteran has negotiated the interest rate with the lender; and 2) loans that include the costs of energy efficiency improvements. The law also made permanent the Loan Appraisal Processing Program (LAPP).

The law extended for 1 year through December 31, 1996, VA's authority to guarantee payment of interest and principal on securities backed by vendee loans.

Table C-34 summarizes these provisions.

Table C-34. Public Law 104–110 (February 13, 1996)
Extension of Authority for Certain Veterans' Affairs Programs and Activities
Key Provisions

Feature	Provision
ARMs	Allows VA's authority to guaranty ARMs to lapse.
Negotiated interest rates	Made permanent VA authority to guarantee loans on which the veteran has negotiated the interest rate with the lender, and to include discount points in the loan amount.
Demonstration program for EEMs	Makes permanent VA authority to include cost of energy efficient improvements up to $6,000 in VA-guaranteed loans.
LAPP	Makes LAPP permanent.
Security guaranty	Extends by 1 year through December 31, 1996, VA's authority to guarantee payment of interest and principal to purchasers of REMICs containing vendee loans.

Source: Public Law 104–110; Congressional Record—Senate, January 30, 1996.

[179] Congressional Record—Senate, January 5, 1996, p. S104.
[180] Ibid.

Veterans' Benefits Improvements Act of 1996

The security guaranty that was extended in February 1996 was extended by an additional year through December 31, 1997, by Public Law 104–275, enacted on October 9, 1996.

This law also expanded the definition of the "Vietnam era" to include the period from February 28, 1961, to August 4, 1964, for veterans serving in the Republic of Vietnam during that period. This extension was seen as equitable because some veterans had Vietnam service that occurred exclusively during this period and were therefore not qualified as "wartime" veterans for eligibility to certain benefits in Title 38. February 28, 1961 was generally regarded as the date on which U.S. forces began accompanying Vietnamese counterparts on combat operations.[181]

This provision had the practical effect of extending VA loan guaranty entitlement to veterans with 90 days or more of active service, one day of which was during that period.

The law also included a provision authorizing refinancing of direct loans under the Native American Housing Loan Pilot Program. The provision permitted refinancing of direct loans to Native Americans when the interest rate dropped 1 percent or more below the rate on the original loan. As noted by the Senate Veterans' Affairs Committee:

> The Committee intends that Native American borrowers, like all borrowers, have the benefit of refinancing in situations where interest rates have dropped significantly.[182]

Provisions of Public Law 104–275 are summarized in Table C-35.

Table C-35. Public Law 104–275 (October 9, 1996)
Veterans' Benefits Improvements Act of 1996
Key Provisions

Feature	Provision
Security guaranty	Extends by 1 year through December 31, 1997, VA's authority to guarantee payment of interest and principal to purchasers of REMICs containing vendee loans.
Definition of Vietnam era	Expands definition of Vietnam era to include the period from February 28, 1961, to August 4, 1964, for veterans serving in the Republic of Vietnam during that period.
Direct loans to Native Americans on trust lands	Authorizes refinancing of these direct loans when the interest rate drops by at least 1% below the rate on the original loan.

Source: Public Law 104–275; Explanatory Statement on S.1171, as Amended, Congressional Record—Senate, September 28, 1996, pp. S11781–S11783.

[181] United States Senate, Veterans' Benefits Improvements Act of 1996, 104th Congress, 2nd Session, Report No. 104–371, September 24, 1996, pp. 20–21.
[182] Ibid, p. 24.

Balanced Budget Act of 1997

Public Law 105–33 was a deficit reduction measure. Title VIII of the Act was entitled the "Veterans Reconciliation Act of 1997." The changes it enacted to the VA Home Loan Guaranty program were ones that would either increase revenues or reduce outlays. There was no indication in the record that the Veterans' Affairs Committees viewed these changes as affecting the intent of the loan guaranty program.

Security guaranty. Section 8011 extended by 5 years through December 31, 2002, VA's authority to guaranty payment of interest and principal to purchasers of REMICs containing vendee loans.

Funding fees. Public Law 103–66 had added a temporary 0.75 percent surcharge to the existing funding fees required for most first-time users of VA-guaranteed loans (see Table 29 for a summary of funding fees applicable at the time). The temporary surcharge was scheduled to expire for loans issued after September 30, 1998.

Public Law 103–66 had also added a temporary funding fee charge of 3 percent for all second and subsequent home loans unless the veteran made a downpayment of at least 5 percent. This provision also expired for loans issued after September 30, 1998.

Section 8012 of the new law extended both surcharges for 4 additional years for loans closed prior to October 1, 2002.

Under current law at the time, purchasers of homes using vendee loans were required to pay a funding fee of 1 percent of the loan amount. Section 8032 of the Act increased this fee to 2.25 percent on a permanent basis. This change brought VA practice into line with the equivalent FHA funding fees.[183]

No bid formula. Section 8013 extended for 4 years through October 1, 2002, the authority for VA to use the no-bid formula in determining the appropriate disposition of property in foreclosure.

Withholding of payments and benefits. Law at the time prevented VA from offsetting Federal payments such as salaries or tax refunds to recover losses incurred by VA resulting from defaults on VA-guaranteed loans unless the veteran consented in writing. Offsets without consent were permitted from veterans' or survivors' benefits.

Section 8033 of the Act brought VA practice into conformance with other Federal debt collection laws by authorizing withholding from salaries or tax refunds without consent provided VA made appropriate notifications to the veteran or surviving spouse.[184]

Table C-36 summarizes the loan guaranty provisions of Public Law 105–33.

[183] VA Report to the Office of Management and Budget on the Enrolled Enactment of H.R. 2015, the Balanced Budget Act of 1997, August 1, 1997, p. 3.
[184] Ibid, p. 4.

**Table C-36. Public Law 105–33 (August 5, 1997)
Balanced Budget Act of 1997
Key Provisions**

Feature	Provision
Funding fees	Makes the following changes in funding fees on VA-guaranteed loans: a) Extends for 4 years to October 1, 2002, the 0.75% funding fee surcharge b) Extends for 4 years to October 1, 2002, the 3% surcharge on second and subsequent loans if the veteran does not make a downpayment of at least 5% c) Permanently increases the 1% funding fee on vendee loans to 2.25%.
Security guaranty	Extends by 5 years through December 31, 2002, VA's authority to guarantee payment of interest and principal to purchasers of REMICs containing vendee loans.
No-bid formula	Extends VA's authority to use the no-bid formula for 4 years through October 1, 2002.
Withholding of payments	Authorizes VA to withhold payments from Federal salaries or tax refunds for veterans to offset debts to the Government resulting from foreclosure on a VA-guaranteed home loan. Requires appropriate notifications by VA.

Source: Public Law 105–33; Conference Report on H.R. 2015, Balanced Budget Act of 1997, Congressional Record—House of Representatives, July 29, 1997, p. H6277; VA Report to the Office of Management and Budget on the Enrolled Enactment of H.R. 2015, the Balanced Budget Act of 1997, August 1, 1997.

Veterans' Benefits Act of 1997

Approximately 3 months following enactment of the Balanced Budget Act, Congress passed and the President signed Public Law 105–114 on November 21, 1997. This Act included a number of improvements in veterans' benefits. The only provision relating to the loan guaranty program was an extension of the program for direct loans to Native Americans living on trust lands.

The measure began as a separate bill introduced by Sen. Akaka to make the program permanent. In his floor comments when introducing the bill, he commented that the program had been "remarkably successful," citing the fact that 127 Native Americans had used the program and none of the loans had gone into default.[185]

Regarding the importance of continuing the program, he criticized the VA request for a 2-year extension, commenting that the VA proposal:

> …fails to address the basic reason for this program—equity. Native American veterans who reside on trust lands should be afforded the same benefits available to other veterans. Without this program, home loan benefits to Native Americans living on trust lands will cease. This is the only program available for Native American veterans who live on trust lands to finance a home for themselves and their families. There are no alternatives available.

[185] Congressional Record—Senate, May 7, 1997, p. S4114.

> Permanent authorization for this program will ensure that Native American veterans are provided equal access to services and benefits available to other veterans.[186]

The Senate Veterans' Affairs Committee, however, was not prepared to make the program permanent because of low use and lack of sufficient information upon which to base a permanent decision. Several illustrative passages from the Committee's report follow.

> Since the inception of the…Pilot Program in 1993, there have been fewer loans made than anticipated….It would appear that, while Pacific Islanders have made considerable use of the benefits…the program has been underutilized by North American Indians, and other Native American populations.
>
> As noted…the program has been underutilized…a factor that makes program assessment difficult. Further…there have been no extreme fluctuations in interest rates, general economic downturns, or other events that might demonstrate how the program works under economic conditions different from those which have existed in the broader economy since 1993. In light of these considerations, the Committee bill does not make the program permanent. Rather, it extends the program for a finite, but relatively lengthy period….[187]

Ultimately, Section 201 of Public Law 105–114 extended authority for 4 years through December 31, 2001. In addition, the new law included Committee language requiring VA to increase its outreach to Native Americans on trust lands. VA would be required to consult with the major tribal organizations and attend tribal conferences and conventions. The Committee expressed its intention that:

> …VA use these, and similar, events to provide information, training, and assistance to tribal organizations and Native American veterans regarding the availability of housing benefits.[188]

The new law required VA to submit annual reports describing the operation of the program, its outreach activities, and the pool of Native American veterans who were eligible for participation.[189]

Veterans' Programs Enhancement Act of 1998

Section 603 of Public Law 105–368, enacted on November 11, 1998, extended the 5-year pilot program authorizing qualified members of the Selected Reserve to participate

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[186] Ibid.

[187] United States Senate, Amending Title 38, United States Code, to Make Permanent the Native American Veteran Housing loan Pilot Program of the Department of Veterans Affairs, 105th Congress, 1st Session, Report No 105–123, October 30, 1997, pp. 5–6.

[188] Ibid, p. 6.

[189] Joint Explanatory Statement for S.714, the Proposed "Veterans' Benefits Act of 1997", Congressional Record—House, November 9, 1997, p. H10447.

in the VA Home Loan Guaranty program. The current authority was due to expire on September 27, 1999.

In its report on the bill, the House Veterans' Affairs Committee argued for making the authority permanent.

> VA data indicates that the foreclosure rate on mortgages to members of the Selected Reserve is approximately one-half that experienced on other VA loan guaranty programs. Given that success, the Committee believes that making the program permanent is one small way the nation can recognize the increased responsibilities being placed on the Selected Reserves.[190]

In its final form, the extension was granted for 4 years through September 30, 2003. In addition, the law extended the 0.75 percent funding fee surcharge for reservists to September 30, 2003 (this fee had been extended to October 1, 2002 by Public Law 105–33).

In discussing the final version on the Senate floor, Sen. Rockefeller commented that he believed the program was important for recruiting and retention purposes.

> This program has provided an invaluable recruitment and retention incentive. VA has guaranteed approximately 43,000 loans to date, of which about 67 percent were made to first-time home buyers. The foreclosure rate on these loans, according to VA, is approximately one-half that of other VA loan guaranty programs. Given the increased use of Reservists in military deployments, it is only fitting that this program be continued.[191]

Veterans' Millennium Health Care and Benefits Act

Public Law 106–117 was enacted on November 30, 1999, and included two provisions affecting the loan guaranty program.

The first provision, Section 501, reinstated the entitlement of remarried surviving spouses of veterans whose marriages were severed by death or divorce. According to the Conference Report, this provision extended to the loan guaranty program legislation passed during the previous Congress (Public Law 105–178) that reinstated entitlement to Dependency and Indemnity Compensation (DIC) for similarly situated remarried surviving spouses.[192]

The second provision, Section 711, extended VA's authority to guaranty loans for qualified members of the Selected Reserve. The current delimiting date of September 30, 2003, had just been enacted the prior year by Public Law 105–368. So, even

[190] House of Representatives, Veterans' Benefits Improvement Act of 1998, 105th Congress, 2nd Session, Report No. 105–627, July 15, 1998, p. 8.
[191] Congressional Record—Senate, October 21, 1998. p. S12935.
[192] House of Representatives, Veterans' Millennium Health Care and Benefits Act, 106th Congress, 1st Session, Report No. 106–470, November 16, 1999, p. 81.

though the expiration date was nearly 4 years away, the Congress passed another extension, this time to September 30, 2007. This action is more understandable, however, when considered in light of the House attempt to make the authority permanent (Section 301 of H.R. 2280). The Conferees settled on a 4-year extension.[193]

Veterans' Benefits and Health Care Improvement Act of 2000

Public Law 106–419 was enacted November 1, 2000, and included extension of several expiring home loan authorities as well as a provision relating to joint ownership of property securing a direct SAH loan.

One of the cornerstones of this law was a group of significant improvements in veteran education benefits. H.R. 4268 had been drafted to include recommendations from the Congressional Commission on Servicemembers and Veterans Transition Assistance that had been submitted in January 1999. Extension of several expiring loan guaranty authorities was identified as a source of funding for the expanded education benefits. As noted by Rep. Evans on the House floor speaking in favor of H.R. 4268 (which was eventually rolled into Public Law 106–419):

> To offset the costs of H.R. 4268, Section 8 of the bill…would extend temporary authorities to 2008 that would otherwise expire on September 30, 2002.[194]

The following three extensions were approved: 1) VA's authority to guarantee payment of interest and principal on to purchasers of REMICs containing vendee loans; 2) the 0.75 percent funding fee surcharge; and 3) use of the no-bid formula in determining disposition of foreclosed properties.

The second major change repealed regulations that limited the maximum amount of a SAH grant when the veteran co-owned the property with someone other than a spouse. Consequently, if the veteran had joint (50/50) ownership with a non-spouse, such as a sibling, the maximum grant permitted was half of the grant amount or $21,500.

This situation arose with a West Virginia veteran of the Gulf War. Sen. Rockefeller recalled his constituent's story on the Senate floor:

> I became aware of that there was a problem with the adaptive housing regulations when I was contacted by the family of Darren Frederick, a West Virginia Gulf War veteran who lost his ability to walk when he developed ALS, also known as Lou Gehrig's disease. Darren owned a house with his brother and applied for a grant from VA to adapt his home for his wheelchair. But because he owned the house with someone other than a spouse, VA regulations required that the grant be reduced by half. Still, this young, disabled veteran needed a whole ramp, not half a ramp, into his home.

[193] Ibid, p. 90.
[194] Congressional Record—House, May 23, 2000, p. H3554.

> The regulation VA was applying was written in 1947 to protect veterans from unscrupulous people who might take advantage of them. However, I am certain that this provision has hurt far more people than it has helped. That is why I am pushed to eliminate it, and am pleased to say that it is no longer going to be the law.[195]

Table C-37 summarizes the provisions of Public Law 106–419.

**Table C-37. Public Law 106–419 (November 1, 2000)
Veterans' Benefits and Health Care Improvement Act of 2000
Key Provisions**

Feature	Provision
Funding fees	Extends for 6 years to October 1, 2008, the 0.75% funding fee surcharge.
Security guaranty	Extends by 6 years through December 31, 2008, VA's authority to guarantee payment of interest and principal to purchasers of REMICs containing vendee loans.
No-bid formula	Extends VA's authority to use the no-bid formula for 6 years through October 1, 2008.
SAH grants	Authorizes VA to make non-reduced grants for SAH in cases where title to the housing unit is not vested solely in the veteran.

Source: Public Law 106–419; Conference Report on S. 1402, Congressional Record—House of Representatives, October 17, 2000.

Veterans' Education and Benefits Expansion Act of 2001

Title IV of Public Law 107–103, enacted December 27, 2001, increased the maximum guaranty amount for high-cost homes, increased the maximum SAH grant amounts, and extended several authorities. These improvements are summarized in the following paragraphs.

<u>Loan guaranty amount</u>. Section 401 increased the maximum guaranty for loan amounts of more than $144,000 from $50,750 to $60,000. The guaranty amount had not been increased since 1994. The resulting schedule was as shown in Table C-38.

[195] Congressional Record—Senate, October 12, 2000, p. S10514.

Table C-38. Veterans' Education and Benefits Expansion Act of 2001 (Public Law 107–103) Loan Guaranty Amount

Loan Amount	Guaranty Percentage	Maximum Guaranty*
Not more than $45,000	50%	50% of loan amount up to maximum loan amount of $45,000
More than $45,000 but not more than $56,250	50% down to 40%	$22,500 (minimum and maximum)
More than $56,250 but not more than $144,000	40%	$36,000
More than $144,000	25%	$60,000
* Reduced by the amount of entitlement previously used and not restored.		

Source: Public Law 107–103, Section 401.

In its report on the bill, the Senate Veterans' Affairs Committee cited Federal Housing Finance Board data that indicated average home prices as being above $203,000 (the current maximum VA guaranteed loan amount) in several parts of the country. In addition, the FHA loan guaranty was above $203,000. The Senate Committee actually recommended an increase to $63,175, but the Conferees agreed on an increase to $60,000.[196] The new loan guaranty maximum would support a loan of up to $240,000.

<u>SAH grants</u>. Section 404 increased the maximum SAH grant from $43,000 to $48,000. The maximum grant for adaptations for veterans suffering from blindness or certain anatomical losses was increased from $8,250 to $9,250.[197]

<u>Direct loans for Native Americans on trust lands</u>. This program was scheduled to expire on December 31, 2001. Section 402 extended the program by 4 additional years through December 31, 2005. The law was also changed to remove the requirement that the tribal organization have a memorandum of understanding with the VA if there is already a memorandum regarding direct loans in place with any other department or agency, providing the memorandum is acceptable to the VA.

<u>Loan guarantees for reservists</u>. Section 406(a) extended VA's authority to guaranty loans for members of the Selected Reserves by 4 years from September 30, 2007, to September 30, 2011. The Senate Veterans' Affairs Committee report cited the need for the extension to provide a recruiting and retention incentive.

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[196] United States Senate, Veterans' Benefits Improvement Act of 2001, 107th Congress, 1st Session, Report No. 107–86, October 15, 2001, p. 20.

[197] Section 8204 of Public Law 105–178, the Transportation Equity Act for the 21st Century, had increased the maximum grants for SAH and blindness/anatomical loss to $43,000 and $8,250, respectively.

> Congress acknowledged that reservists responded willingly to the call of duty during the Gulf War, but also that the call up disrupted lives and caused economic hardship. It was felt that whether or not reservists continued to serve depended partially on the benefits that were made available to them. With the reduction of the active duty military force, reservists will be increasingly relied upon to provide an adequate portion of the total military force. Incentives to recruit will become increasingly important, especially in light of the personal sacrifices required of recently recalled reservists.[198]

Extension of other authorities. Section 406 also extended three other authorities through October 1, 2011, although none was due to expire until 2008. These extensions applied to funding fees, use of the no-bid formula, and the security guaranty for purchasers of REMICs, and ensured that the revenues produced by these program features would continue for at least 4 more years.

Loan assumption notification requirement. Under current law, VA loans and security instruments were required to contain clearly visible notice on the first page that the loan was not assumable without approval of VA or its authorized agent. Section 403 modified this requirement by providing that at least one instrument contain a notice of substantially the following form, “This loan is not assumable without the approval of the Department of Veterans Affairs or its authorized agent.”

Table C-39 summarizes the changes made by Public Law 107–103.

Table C-39. Public Law 107–103 (December 27, 2001)
Veterans’ Education and Benefits Expansion Act of 2001
Key Provisions

Feature	Provision
Loan guaranty maximum	Increases the maximum loan guaranty from $50,750 to $60,000.
SAH grants	Increases the SAH grant from $43,000 to $48,000 and the grant for veterans suffering from blindness or anatomical loss from $8,250 to $9,250.
Direct loans for Native Americans on trust lands	Extends authority for direct loans for 4 years to December 31, 2005. Permits substitution of memorandums of agreement regarding direct housing loans with other departments or agencies for the requirement that the tribal organization have a memorandum in place with VA as a condition of approving loans.
Funding fees	Extends for 4 years to October 1, 2011, the 0.75% funding fee surcharge.
Security guaranty	Extends by 4 years through December 31, 2011, VA’s authority to guarantee payment of interest and principal to purchasers of REMICs containing vendee loans.
No-bid formula	Extends VA’s authority to use the no-bid formula for 4 years through October 1, 2011.
Assumption notification	Modifies current law regarding notice required to loan documents indicating loan is not assumable without approval of VA or its authorized agent.

Source: Public Law 107–103; Conference Report on H.R. 1291 Congressional Record—Senate, December 13, 2001.

[198] Ibid, p 21.

Veterans' Benefits Act of 2002

Public Law 107–330, enacted on December 6, 2002, included two provisions affecting the loan guaranty program.

Section 303 implements a 2-year test of a hybrid interest rate program to run during fiscal years 2004 through 2005. Similar to the pilot program established by Public Law 102–547 in 1992, the new authority places restrictions on the amount of increase in the interest rate from year to year and over the life of the mortgage. For example, the maximum year-to-year increase or decrease is limited to 1 percentage point. Over the term of the mortgage, the maximum increase above the initial contract interest rate is 5 percentage points. The initial rate of interest must remain fixed for a minimum of 3 years, and annual adjustments thereafter will be based on a national interest rate index approved by VA, subject to the 1 percentage point cap on annual adjustments. The provision also requires VA to develop underwriting standards for hybrid mortgages.

In its report on the bill, the Senate Veterans' Affairs Committee supported the test of hybrid interest rates, commenting that the loan guaranty program should provide financing options that are competitive with practices in the private mortgage market.

> The VA Home Mortgage Loan Guarantee program, established in 1944 by Public Law 78–346, was meant to help veterans readjust to civilian life following service in World War II. As private mortgage lending practices have evolved, this VA guaranty program has not kept pace.
>
> For more than a decade, adjustable rate mortgages (hereinafter "ARMs") have been commonplace in the home loan market…
>
> More recently, hybrid adjustable rate mortgages have gained prominence within the home mortgage industry…
>
> Currently, VA is the only major mortgage market participant without authority to guarantee ARMs and hybrid ARMs. These options are available under the Federal Housing Administration's loan insurance program. The Committee believes that a pilot program should be established to determine if these loan options would significantly benefit veterans seeking to purchase a home by creating greater flexibility in financing options.[199]

Section 307 increases, through September 30, 2003, the funding fee on loan assumptions from 0.5 percent to 1.0 percent. The amount of the fee is determined on the basis of the unpaid balance on the date of transfer. House and Senate Veterans' Affairs Committee staff indicate that the purpose of the funding fee increase is to cover additional costs of the new hybrid adjustable rate mortgage program.

[199] United States Senate, Veterans' Hearing Loss Compensation Act of 2002, 107th Congress, 2nd Session, Report 107–234, August 1, 2002, pp. 12–13.

Part 3 Summary

From 1991 to present, the housing benefit continued to expand in several directions. Certain reservists were made eligible, a new program for Native Americans was implemented, the loan guaranty maximum was increased for high cost houses, an alternative financing method was tested, and revenue generating and cost containment provisions were extended and expanded.

Heavy reliance on the Selected Reserve during the Persian Gulf War made eligibility for these individuals nearly inevitable. The enabling legislation established a 7-year authority that has been extended three times and now expires in 2009. Committee report language cited the importance of recruitment incentives, such as the VA Home Loan Guaranty program, in fully staffing the growing reserve forces. The Committees and the legislation recognized, however, the differences between active and reserve service by imposing higher funding fees for reservists.

In 1992, Congress acted to extend benefits to veterans who were previously unable to use loan guaranties by establishing a 5-year pilot program for direct loans to Native Americans living on trust lands. The program has been extended twice and now expires in 2005. In the 1997 extension, Congress also enacted guidance requiring VA outreach programs to broaden awareness and stimulate participation.

Congress enacted a series of technical changes that brought the program into conformance with some private sector practices, made it more useable, or addressed “inequities.”

For example, veterans were authorized to negotiate interest rates with the lender and to include discount points in the loan amount. The loan guaranty amount for high cost houses was increased so the program would support guaranteed loan amounts up to $240,000. Veterans who had taken out ARMs were permitted to refinance them even though the new rate was higher than the current rate on the ARM. Veterans who had repaid their VA loans but had not disposed of the property were granted a one-time restoration of their entitlement. A 3-year program was established to assist active duty members by buying down interest rates in areas where military housing was inadequate. A new hybrid loan pilot program was enacted.

The definition of the Vietnam era was expanded for some to include the period when U.S. forces began accompanying Republic of Vietnam forces into combat. This enfranchised some additional veterans whose only service in country was during that period, before the original commencement date of the Vietnam era. The SAH program was modified so that veterans having joint ownership with someone other than a spouse would still qualify for the full maximum grant. The minimum active duty service requirement was waived if the member was separated for the convenience of the government—a typical outcome of force reductions.

Program administrative practices were streamlined as well. For example, the requirement for VA to inspect manufactured housing construction was repealed, replaced by a provision that houses bearing a certificate of compliance with HUD standards would qualify for a guaranteed loan. LAPP was made permanent.

During this period, Congress continued revenue-producing features and extended cost-reduction practices. For example, Congress extended then-current funding fees and increased others. The original ARM test program was allowed to lapse over fears that outlays would exceed deficit reduction targets. Use of the no-bid formula and the security guaranty were extended, now to 2011.

Considered individually, these legislative amendments addressed often unconnected and narrowly defined problems or issues. Considered together, they reveal the mosaic of a veteran's benefit slowly but surely evolving—weak spots and gaps filled in and buttressed—strong points expanded and fortified. Coincident with the evolution of its features has been an evolution of intent. The legislative record since 1991 has been more focused on improving the program than on justifying its existence. Although the Congress continues acknowledgement of why the program was established in 1944 and that transition benefits remain important, it now seems more intent on ensuring the benefit meets the housing needs of today's veteran.

FINDINGS

Our analysis of the legislative history leads to the following findings about the VA Home Loan Guaranty program:

- The original purpose of the WWII housing benefit was to assist veterans in transitioning into civilian life quickly following demobilization. Transition assistance was intended to "level the playing field" for veterans whose lives were interrupted by service to country.
- Friction, caused by benefit design and administration and by national economic factors, delayed many veterans' opportunities to use the loan guaranty. Congress responded by extending delimiting dates until many years after the war. These postponements blurred the original intent of immediate postwar transition.
- The program's intent has evolved from its original conception into the premise that transition assistance can be justifiable for any period of active service, not just wartime service, because the service removes the veteran from civil life. In addition, Congress has recognized that the VA housing benefit provides incentive value for the volunteer military. For these reasons, the program has been made permanent and benefits have been extended to qualifying members still on active duty, to members serving in the Selected Reserve, and to certain surviving spouses.
- The VA housing benefit provides a positive stimulus to the home construction and allied industries. This is an important but secondary outcome.
- Since the benefit was enacted in 1944, the Congress has continually sought to expand coverage, to improve features, and to maximize the program's appeal and utility to veterans. Congress has been attentive to the housing needs of special groups of veterans, such as those with service-connected disabilities and Native Americans residing on trust lands
- Congress has exercised stewardship over the benefit by raising protections against substandard construction and unfair appraisal and lending practices. Congress has also delayed incorporation of new financing methods until it could be assured they posed no potential harm for veterans.
- Cost containment has emerged as an important constraint affecting legislative action and program improvements.

APPENDIX D

SUMMARIES OF SYSTEMS

APPENDIX D

SUMMARIES OF SYSTEMS

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APPENDIX D: SUMMARIES OF SYSTEMS

Summaries of systems and the impact of current IT initiatives on them include:

ACE

The Automated Certificate of Eligibility (ACE) system provides automated determination of amount of entitlement available to Veteran. This browser-based internet application is available on the Veterans Information Portal (VIP) hosted at the Philadelphia, PA Information Technology Center (ITC). VA LGY plans to enhance ACE by incorporating functionality from three other existing inquiry applications (GIL, LGY Index, and Loan Inquiry). Once complete, GIL, LGY Index and Loan Inquiry can then be retired. An additional initiative is in place to open the eligibility determination functionality to all veterans. A careful assessment of the impact on the VA LGY technology infrastructure should be performed prior to extending access to this application to the whole veteran population. With over 2.5 million active loans, VA LGY needs to have the capacity to ensure a high level of service and availability to their veteran population.

GIL

The Guaranteed and Insured Loan (GIL) system provides historical reporting capability on VA home loan originations, guaranties, and dispositions. This COBOL/ACL batch system is resident on the mainframe at the Austin, TX ITC. VA LGY plans to retire GIL upon migration of GIL functionality to the ACE application.

LGY Index

LGY Index is a COBOL/ACL batch system providing on-line inquiry using GIL data. It is resident on the mainframe at the Austin, TX ITC. VA LGY plans to retire LGY Index upon migration of its functionality to the ACE application.

Loan Inquiry

Loan Inquiry is a browser-based inquiry system resident on the Roanoke VA Regional Office. VA LGY plans to retire Loan Inquiry upon migration of its functionality to the ACE application.

ALPS

The Automated Loan Processing System (ALPS) provides support for origination and guaranty of new VA Home Loans. ALPS is a corporate standard three-tiered client server application resident on the VBA Sun computer in the Austin, TX ITC. VA LGY plans to migrate this application to the Veterans Information Portal (VIP).

ELI

The Expanded Lender Information (ELI) system provides support for centralized lender management functions. ELI is a corporate standard three-tiered client server application resident on the VBA Sun computer in the Austin, TX ITC. VA LGY plans to enhance ELI by incorporating functionality from three other existing applications (ELF, NCL, and CPB). VA LGY also plans to migrate this application to the Veterans Information Portal (VIP).

ELF

The Electronic Lender Folder (ELF) is a Local Area Network (LAN)-based application that provides support for local lender management functions. It is resident at Regional Loan Centers and at the VA Central Office. VA LGY plans to retire ELF upon migration of its functionality to ELI.

NCL

The National Control List (NCL) is browser-based Internet application listing disbarred lenders, builders, and so forth. It resides at the Philadelphia, PA ITC. VA LGY plans to retire NCL upon migration of its functionality to ELI.

CPB

The Automated Condominium, Planned Unit Development and Builder System (CPB) provides information on whether a condominium or PUD is VA-approved or if a particular builder is eligible to participate in the Loan Guaranty program. VA LGY plans to retire CPB upon migration of its functionality to ELI.

TAS

The Appraisal System (TAS) is a browser-based Internet application that enables lenders to order VA appraisals online, tracks the status of appraisals, provides online veteran eligibility information for Specially Adapted Housing (SAH), and tracks loans and grants used for SAH. TAS is available on the Veterans Information Portal (VIP) hosted at the Philadelphia, PA ITC.

FFPS

The Funding Fee Payment System (FFPS) is a browser-based Internet application providing support for automated collection and reporting of funding fees associated with the VA Home Loan Program. The funding fee data and some processes are resident in the mainframe in the Austin, TX ITC. The core application is resident in and operated by Department of Treasury. VA LGY plans to provide access to this application through the Veterans Information Portal (VIP) hosted at the Philadelphia, PA Information Technology Center (ITC).

LS&C

The Loan Service and Claims (LS&C) system provides on-line supplemental servicing support and claims processing. LS&C is a corporate standard three-tiered client server application resident on the VBA Sun computer in the Austin, TX ITC. LS&C may be accessed through the Veterans Information Portal (VIP) hosted at the Philadelphia, PA Information Technology Center (ITC). VA LGY plans to migrate functionality of LS&C to a new system, the VA Loan Event Reporting Interface (VALERI).

CPTS

The Centralized Property Tracking System (CPTS) is a browser-based Internet application supporting property management. CPTS is available on the Veterans Information Portal (VIP) hosted at the Philadelphia, PA ITC.

PMS

The Property Management System (PMS) provides centralized accounting and reporting capability for property management. This COBOL/ACL batch system is resident on the mainframe at the Austin, TX ITC. VA LGY plans to retire PMS upon migration of PMS functionality to the CPTS application.

CCSE

The Centralized Code Sheet Elimination (CCSE) system is a FOCUS application provides on-line data entry for PMS. It is resident on the mainframe at the Austin, TX ITC. VA LGY plans to retire CCSE upon migration of its functionality to the CPTS application.

LRA/RAS

The Loan Guaranty Rapid Access System (LRA/RAS) is a COBOL application providing on-line inquiry using PMS data. It is resident on the mainframe at the Austin, TX ITC. VA LGY plans to retire LRA/RAS upon migration of its functionality to the CPTS application.

APPENDIX E

ANALYSIS OF MAXIMUM LOAN AMOUNT

APPENDIX E

ANALYSIS OF MAXIMUM LOAN AMOUNT

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APPENDIX E: ANALYSIS OF MAXIMUM LOAN AMOUNT

Background

The VA Home Loan Guaranty program was enacted in 1944. Veterans may use the program to purchase a home without a down payment. VA guarantees to pay the lender a certain percentage of the loan amount if the veteran, or a subsequent owner who assumes the VA loan, defaults on the loan. The current maximum guaranty amount that can be paid on a claim is $60,000, and this amount is effective for loans closed on or after December 27, 2001.

However, there is no maximum amount that can be financed with a VA loan. The amount that a lender will be willing to finance usually depends on what the secondary market will accept. For example, if the lender plans to sell the VA mortgage, then the lender will probably not be willing to finance more than four times the guaranty amount, or $240,000. However, if the lender plans to keep the loan or if the veteran makes a large down payment, then the lender may be willing to finance a considerably larger sum. Nevertheless, for ease of presentation, we use the term “VA loan maximum” in the remainder of the appendix as meaning $240,000.

The loan guaranty maximum is not indexed, so it cannot be increased unless legislation is enacted. Table E-1 shows a historical summary of the maximum guaranty and maximum loan amounts that have resulted from congressional action since 1944.

Table E-1. Historical Summary of Maximum VA Loan Guaranty Amounts and Maximum Loan Amounts

Year Limit Became Effective	Maximum Loan Guaranty (Residential Homes)	Maximum Loan Amount and Percent of Loan Amount Covered by Guaranty
1944	$2,000	$4,000 (50% guaranty)
1945	$4,000	$8,000 (50% guaranty)
1950	$7,500	$12,500 (60% guaranty)
1968	$12,500	$20,833 (60% guaranty)
1974	$17,500	$29,166 (60% guaranty)
1978	$25,000	$41,666 (60% guaranty)
1980	$27,500	$45,833 (60% guaranty)
1987	$36,000	$90,000 (40% guaranty)
1989	$46,000	$184,000 (25% guaranty)
1994	$50,750	$203,000 (25% guaranty)
2001	$60,000	$240,000 (25% guaranty)

Source: Study Team Research

The current maximum loan guaranty, which was enacted in December 2001, was the first adjustment since the limit was increased to $50,750 in 1994. The historical record indicates that Congress increased the loan guaranty maximums in response to increases in housing prices. In support of the 2001 increase, for example, the Senate Veterans' Affairs Committee cited Federal Housing Finance Board data showing that average home prices exceeded $203,000 in certain parts of the country.[1]

In addition to the VA Home Loan Guaranty program, another Federal home financing program that veterans may use is operated by the Federal Housing Administration (FHA) within the U.S. Department of Housing and Urban Development (HUD). In this program, the Government will insure qualifying mortgages on home purchases, but limits apply to the maximum amount of the mortgage. In 1992, Congress linked the FHA maximum mortgage limit for its insured loans to Freddie Mac's conforming loan limit on conventional loans. The law established a nationwide minimum ("floor") and maximum ("ceiling") for the loan limit for FHA insured loans. Separate limits are determined by county for one-, two-, three-, and four-unit dwellings. The limits in each county fall between the national floor and ceiling amounts.

The statutory floor for a single-unit dwelling is 48 percent of the Freddie Mac conforming loan limit. The statutory ceiling for a single-unit dwelling is 87 percent of the Freddie Mac conforming loan limit.[2] The county limit is the lesser of 95 percent of the area median house price or the statutory ceiling.[3]

Table E-2 illustrates how the FHA loan limit for 2003 was established for single-unit dwellings in Colorado Springs, Colorado.

Each year HUD publishes new floors and ceilings, based on the change in the Freddie Mac conforming loan limit. Freddie Mac adjusts the conforming loan limit annually on the basis of increases in the average price of single-family homes purchased with conventional financing, as reported by the Federal Housing Finance Board. The percentage change in the Freddie Mac conforming loan limit is effective each January 1 and is equal to the percentage increase in average prices during the 12-month period ending with the previous October.[4]

[1] United States Senate, Veterans' Benefits Improvement Act of 2001, 107th Congress, 1st Session, Report No. 107-86, October 15, 2001, p. 20.

[2] When indexing was implemented in 1992, the floor and ceiling were established at 38 and 75 percent, respectively, of the Freddie Mac conforming loan limit. The percentages were increased to 48 and 87 percent, respectively, by the Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act for Fiscal Year 1999 (Public Law 105–276, enacted October 21, 1998).

[3] The statutory authority is found in 12 U.S.C. 1709.

[4] 12 U.S.C. 1454(a)(2).

Table E-2. FHA Insured Loan Maximum—Single-Unit Dwelling, Colorado Springs, Colorado (El Paso County), 2003

Step	Item	Amount
1	Freddie Mac Conforming Loan Limit for 2003[1]	$322,700
2	Statutory Floor: 48% of Freddie Mac Conforming Limit	$154,896
3	Statutory Ceiling: 87% of Freddie Mac Conforming Limit	$280,749
4	Area Median Housing Price (HUD)	$204,318
5	95% of Area Median Housing Price	$194,102
6	FHA Insured Loan Maximum (minimum of Step 3 and Step 5)	$194,102

[1] Except Alaska, Hawaii, Guam, and the Virgin Islands. The conforming loan limit is $484,050 for these locations, or 150% of the Freddie Mac conforming loan limit of $322,700.

Source: U.S. Department of Housing and Urban Development, Mortgage Letter 2002-27, December 27, 2002, and Study Team

Area median housing prices (Step 4 in Table E-2) are determined by the HUD Secretary. By law, “area” is defined to mean metropolitan statistical area (MSA). The county median used in Step 4 is the median price of the county within the MSA that has the highest median price.

In this manner, the FHA maximum for insured loans is indexed to increases in national and local housing costs.

Approach

The Study Team developed four study questions:

- What are the maximum and average loan amounts in the general housing market as reflected in a representative grouping of housing cost areas?
- Are veterans being “frozen out” of home purchases in high-cost areas?
- Has the maximum loan amount kept pace with the cost of housing?
- What approaches are possible for indexing the loan guaranty maximum?

Our approach was to obtain and analyze housing price and mortgage loan data from multiple sources. We obtained mortgage loan data for VA loans and for the general housing market from the Federal Financial Institutions Examination Council (FFIEC). FFIEC receives and processes home mortgage data from lending institutions, in compliance with the Home Mortgage Disclosure Act (HMDA). HMDA data for each mortgage application include information about the location of the property, the type and amount of financing, annual income, disposition of the application, and reason for denial. We used HMDA data rather than VA’s Guaranteed and Insured Loan (GIL) data file as the primary source of information on VA loans because we made numerous comparisons between VA and non-VA loans. The Study Team considered it more consistent to use the same data set for information about both types of loans. However, we did compare information about VA loans from HMDA and GIL.

Table E-3 compares the average VA loan amount for each MSA from HMDA and GIL data for loans originated in calendar year 2001. For all 30 MSAs combined, there is a difference of less than 2 percent between the average VA loan amount in the two data sets, although there is larger variability in some MSAs.

Table E-3. Average Loan Amounts for VA Loans by Metropolitan Statistical Area (MSA), 2001 Home Mortgage Disclosure Act Data and Guaranteed and Insured Loan (GIL) Data

MSA	VA Average Loan GIL Data ($1,000s)	VA Average Loan HMDA Data ($1,000s)	Percent Difference from HMDA
All 30 MSAs	$137,318	$140,000	-1.9%
Buffalo–Niagara Falls	$96,560	$96,000	0.6%
Pittsburgh	$98,709	$100,000	-1.3%
Shreveport	$104,158	$104,000	0.2%
Oklahoma City	$104,747	$105,000	-0.2%
Mobile	$109,621	$110,000	-0.3%
San Antonio	$116,121	$113,000	2.8%
Houston	$123,104	$121,000	1.7%
Cleveland–Lorain–Elyria	$121,635	$123,000	-2.6%
St. Louis	$119,852	$123,000	-1.1%
Jacksonville	$124,250	$124,000	0.2%
Cincinnati	$127,854	$126,000	1.5%
Indianapolis	$125,675	$127,000	-1.0%
Kansas City	$128,300	$128,000	0.2%
Orlando	$122,537	$130,000	-5.7%
Norfolk–VA Beach–Newport News	$130,434	$130,000	0.3%
Tucson	$132,110	$133,000	-0.7%
Nashville	$132,172	$133,000	-0.6%
Ft. Lauderdale	$139,225	$141,000	-1.3%
Salt Lake City	$144,627	$145,000	-0.3%
Chicago	$140,887	$148,000	-4.8%
Honolulu	$154,938	$155,000	0.0%
Tacoma	$155,552	$156,000	-0.3%
Colorado Springs	$157,455	$158,000	-0.3%
Riverside–San Bernardino	$161,197	$159,000	1.4%
Washington, DC	$161,111	$161,000	0.1%
Minneapolis–St. Paul	$159,668	$163,000	-2.0%
Boston	$157,133	$168,000	-6.5%
San Diego	$176,774	$177,000	-0.1%
Los Angeles–Long Beach	$159,104	$181,000	-12.1%
New York–Northern NJ–LI	$169,656	$192,000	-11.6%

Source: Home Mortgage Disclosure Act (HMDA) data and GIL data

Not all financial institutions are required to report mortgage data by HMDA. For example, institutions with assets of less than $31 million, institutions that do not have a home or branch office in an MSA, and institutions that are not federally insured or regulated do not furnish data to FFIEC. We believe that the number of loans originated by these institutions composes a small percentage of total home loan originations, particularly in MSAs, and excluding them would not affect the validity of the conclusions we draw from the analysis of HMDA data.

The Study Team obtained data on single-family home prices from the National Association of Realtors (NAR). These data were at the MSA level and included median home prices for 1988 through 2001.

We downloaded housing price and mortgage amount data from the Federal Housing Finance Board (FHFB) Web site. These data provided monthly and annual averages for single-family homes purchased with conventional financing from 1973 through 2001; the data are collected from the FHFB Monthly Survey of Rates and Terms on Conventional Single-Family Non-Farm Mortgage Loans. The survey is required by law and excludes refinancings, nonamortized and balloon loans, and FHA insured loans and VA guaranteed loans.

The Study Team obtained single-family loan maximums for FHA insured loans from the HUD Web site. Data were available at the MSA and county level for 2002.

In addition, we examined veterans' responses from the 2001 National Survey of Veterans regarding their reasons for not using the VA home loan.

The Study Team used the MSA as the unit of analysis and selected the 30 MSAs that represent a cross section of characteristics (Table E-4). Twelve of the MSAs were in regions including or adjacent to the military housing areas that we selected in our analysis. The group of 30 included MSAs with median housing prices that ranged from near the highest to near the lowest in the United States. Individually and collectively, the MSAs included large veteran populations. For example, the set of 30 MSAs included one-third of all veterans, and veterans made up between 4 and 21 percent of the total populations in each of the MSAs. VA approved this list of MSAs before we conducted our analysis.

Table E-4. Metropolitan Statistical Areas (MSAs) for Study Purposes

MSA	Median Housing Price[1]	Number of Veterans[2]	Percent of All Veterans Residing in This MSA	Veterans as a Percent of the Total Population Residing in This MSA
Boston	$356,000	258,400	1.5%	9.5%
Honolulu	$299,000	71,800	0.4%	10.9%
San Diego	$298,000	254,700	1.5%	12.1%
New York–Northern NJ–LI	$258,000	289,800	1.7%	4.2%
Los Angeles–Long Beach	$241,000	377,400	2.2%	5.1%
Washington, DC	$213,000	436,700	2.5%	11.3%
Chicago	$198,000	453,700	2.6%	11.0%
Colorado Springs	$173,000	76,700	0.4%	17.5%
Minneapolis–St. Paul	$172,000	243,300	1.4%	10.9%
Ft. Lauderdale	$168,000	124,900	0.7%	8.9%
Tacoma	$159,000	118,100	0.7%	21.3%
Riverside–San Bernardino	$157,000	295,300	1.7%	11.6%
Salt Lake City	$147,000	87,600	0.5%	8.7%
Kansas City	$135,000	180,800	1.0%	11.6%
Nashville	$134,000	109,000	0.6%	11.1%
Cincinnati	$130,000	139,700	0.8%	11.6%
Tucson	$128,000	88,900	0.5%	13.7%
Cleveland–Lorain–Elyria	$125,000	221,900	1.3%	11.7%
Orlando	$124,000	171,500	1.0%	12.4%
Houston	$122,000	246,300	1.4%	7.9%
Indianapolis	$117,000	106,300	0.6%	8.6%
St. Louis	$116,000	245,800	1.4%	12.6%
Norfolk–VA Beach–Newport News	$112,000	205,200	1.2%	18.0%
Jacksonville	$109,000	153,700	0.9%	17.5%
Mobile	$106,000	64,900	0.4%	14.2%
San Antonio	$103,000	223,100	1.3%	15.7%
Pittsburgh	$97,000	212,000	1.2%	11.6%
Oklahoma City	$95,000	108,100	0.6%	12.0%
Shreveport	$88,000	61,700	0.4%	13.6%
Buffalo–Niagara Falls	$84,000	115,600	0.7%	11.7%

Sources: [1] National Association of Realtors, 2001; [2] Current Population Survey, December 2001

What Are the Maximum and Average Loan Amounts for VA and Non-VA Home Loans?

The Study Team extracted selected data elements from the 2001 HMDA data file for each loan originated in the 30 MSAs. For each MSA, we organized the data by loan type so that we could examine and compare results for VA guaranteed loans with FHA, as well as conventional and other types of financing ("non-VA loans"). The Study Team limited the data to loans for home purchases where the owner occupied the dwelling as a principal residence. Our approach was to examine average, median, and maximum loan amounts by MSA for VA and non-VA loans. We captured the reason code for loan applications that were not approved so we could analyze denied applications (which will be discussed later in the appendix).

The Study Team also examined gross annual incomes of individuals obtaining VA and non-VA loans and compared the approval rates for both types of loans to gain some additional insight into the differences between users of the two types of loans.

We first computed the average and median loan amounts for VA and non-VA loans for each MSA, using the HMDA data. Table E-5 compares the results of these computations. The middle column shows the ratio of the average VA loan amount divided by the average non-VA loan amount for each MSA. The table data are sorted in ascending order according to this column. The right column shows the ratios of VA to non-VA median loan amounts. When a ratio is less than 1.0, the VA loan is less than the non-VA loan for that MSA. When a ratio is more than 1.0, the VA loan is greater than the non-VA loan. If a ratio is 1.0, the VA and non-VA loans are the same. The average and median loan values are provided in Table E-6.

Table E-5. Average and Median Loan Amounts for VA and Non-VA Loans by Metropolitan Statistical Area (MSA), 2001 Home Mortgage Disclosure Act Data

MSA	Ratio of Average VA Loan to Average Non-VA Loan	Ratio of Median VA Loan to Median Non-VA Loan
All 30 MSAs	0.89	1.05
Boston	0.75	0.88
Honolulu	0.76	0.82
San Diego	0.82	0.84
New York–Northern NJ–LI	0.85	0.88
Los Angeles–Long Beach	0.87	1.02
Chicago	0.88	1.01
Washington, DC	0.93	1.07
Pittsburgh	0.98	1.12
Jacksonville	0.99	1.15
Kansas City	1.01	1.11
Cleveland–Lorain–Elyria	1.01	1.11
Cincinnati	1.01	1.12
Indianapolis	1.02	1.09
Houston	1.03	1.20
Nashville	1.03	1.12
Ft. Lauderdale	1.04	1.21
Buffalo–Niagara Falls	1.04	1.10
Colorado Springs	1.05	1.13
Orlando	1.06	1.18
Salt Lake City	1.06	1.20
Norfolk–VA Beach–Newport News	1.06	1.20
St. Louis	1.06	1.22
Minneapolis–St. Paul	1.07	1.12
Mobile	1.10	1.19
Tucson	1.10	1.24
Tacoma	1.13	1.16
Riverside–San Bernardino	1.13	1.25
San Antonio	1.13	1.26
Shreveport	1.14	1.23
Oklahoma City	1.14	1.25

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Table E-6. Average and Median Loan Amounts for VA and Non-VA Loans by Metropolitan Statistical Area (MSA), 2001 Home Mortgage Disclosure Act Data

MSA	VA Average Loan Amount ($1,000s)	Non-VA Average Loan Amount ($1,000s)	VA Median Loan Amount ($1,000s)	Non-VA Median Loan Amount ($1,000s)
All 30 MSAs	$140	$157	$138	$132
Boston	$169	$225	$183	$208
Honolulu	$155	$205	$161	$195
San Diego	$177	$217	$183	$217
New York–Northern NJ–LI	$203	$237	$187	$212
Los Angeles–Long Beach	$181	$207	$180	$177
Chicago	$149	$168	$149	$148
Washington, DC	$161	$173	$164	$153
Pittsburgh	$100	$101	$91	$81
Jacksonville	$124	$125	$121	$105
Kansas City	$126	$127	$128	$115
Cleveland–Lorain–Elyria	$123	$122	$119	$107
Cincinnati	$127	$125	$122	$109
Indianapolis	$126	$124	$123	$113
Houston	$121	$117	$119	$99
Nashville	$133	$128	$128	$114
Ft. Lauderdale	$139	$134	$139	$115
Buffalo–Niagara Falls	$96	$92	$87	$79
Colorado Springs	$158	$150	$160	$142
Orlando	$130	$122	$128	$108
Salt Lake City	$145	$137	$142	$131
Norfolk–VA Beach–Newport News	$130	$122	$128	$107
St. Louis	$123	$116	$122	$100
Minneapolis–St. Paul	$163	$153	$161	$144
Mobile	$110	$100	$102	$86
Tucson	$132	$120	$129	$104
Tacoma	$156	$138	$157	$135
Riverside–San Bernardino	$158	$140	$166	$134
San Antonio	$113	$99	$110	$87
Shreveport	$104	$91	$98	$80
Oklahoma City	$105	$92	$100	$80

Source: Home Mortgage Disclosure Act (HMDA) data

Table E-5 shows that in high-cost areas such as Boston, Honolulu, San Diego, New York–northern New Jersey–Long Island, and Los Angeles–Long Beach, the average VA loan is less than the average non-VA loan. For example, in Boston, the average VA loan is only 75 percent of the average non-VA loan. This contrasts with results in lower cost areas, where the average VA loan is larger than the average non-VA loan. The average VA loan in Oklahoma City, for example, is 14 percent larger than the average non-VA loan. Considering all 30 MSAs together, the average VA loan is 89 percent of the average non-VA loan.

The relationship between the medians for VA and non-VA loans differs from the relationship between the averages. For each MSA in Table E-5, the ratio of VA to non-VA medians is larger than the ratio of averages. In Boston, for example, the median VA loan is 88 percent of the median non-VA loan, but the average VA loan is only 75 percent of the average non-VA loan. In Oklahoma City, the median VA loan is 25 percent larger than the median non-VA loan. For all 30 MSAs, the median VA loan is 5 percent larger than the median non-VA loan.

The average and median loan amounts in each MSA are more similar for VA loans than they are for non-VA loans (see Table E-6). This is because of the presence of high-value non-VA loans in many MSAs. Large loan amounts have a much more significant effect on increasing the average loan than on increasing the median loan. In the highest housing cost areas, VA loans are less than non-VA loans, whether we consider the average or the median.

Table E-7 shows the 2001 maximum loan amounts for VA and non-VA loans for each MSA. The table data are sorted in ascending order according to the maximum VA loan amount. The loan guaranty maximum was $50,750 through December 27, so the maximum VA loan amount was $203,000 for all but 4 days of 2001.

In each MSA, the maximum VA loan is less than the maximum non-VA loan. VA guaranteed loans may be approved for more than four times the guaranty amount. This condition is clearly illustrated in Table E-7. Large VA loan amounts were found in high-cost areas, such as San Diego, Los Angeles–Long Beach, New York–northern New Jersey–Long Island, and Washington, DC, but also in MSAs that are not typically viewed as high-cost areas, such as San Antonio, St. Louis, and Indianapolis.

Table E-7. Maximum Loan Amounts for VA and Non-VA Loans, Metropolitan Statistical Area (MSA), 2001 Data

MSA	Ratio of Maximum VA Loan to Maximum Non-VA Loan	Maximum VA Loan Amount ($1,000s)	Maximum Non-VA Loan Amount ($1,000s)
All 30 MSAs	0.05	$720	$14,700
Buffalo–Niagara Falls	0.24	$203	$860
Shreveport	0.17	$207	$1,250
Pittsburgh	0.09	$219	$2,500
Honolulu	0.16	$224	$1,400
Oklahoma City	0.18	$233	$1,320
Nashville	0.12	$234	$2,000
Mobile	0.14	$241	$1,750
Tacoma	0.33	$244	$750
Cleveland–Lorain–Elyria	0.09	$252	$2,700
Ft. Lauderdale	0.05	$260	$5,760
Tucson	0.18	$265	$1,500
Jacksonville	0.08	$275	$3,475
Kansas City	0.04	$275	$6,168
Cincinnati	0.11	$275	$2,400
Norfolk–VA Beach–Newport News	0.21	$279	$1,354
Salt Lake City	0.16	$310	$1,950
Houston	0.05	$360	$7,000
Indianapolis	0.18	$364	$2,060
Colorado Springs	0.25	$380	$1,500
Chicago	0.04	$440	$10,000
San Antonio	0.32	$480	$1,500
St. Louis	0.19	$500	$2,625
Orlando	0.10	$504	$5,000
Boston	0.08	$552	$6,860
San Diego	0.09	$584	$6,300
Washington, DC	0.20	$600	$3,000
Riverside–San Bernardino	0.26	$621	$2,349
New York–Northern NJ–LI	0.07	$650	$10,000
Minneapolis–St. Paul	0.17	$650	$3,778
Los Angeles–Long Beach	0.05	$720	$14,700

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Next, the Study Team examined descriptive information about VA and non-VA loan holders and applicants. We compared gross annual incomes for home purchasers using VA and non-VA loans.[5] Table E-8 shows the ratio of average and median annual income for VA loan users, compared with that of non-VA loan users. The data in the table are sorted in descending order according to the ratio of average gross annual income (middle column). Table E-8 indicates that in each MSA, VA loan users have lower average gross annual incomes than do non-VA loan users. Also, the relative income of VA loan users is lower in high-cost areas, such as Boston, New York–northern New Jersey–Long Island, and San Diego. Users of VA loans have higher median annual incomes than do users of non-VA loans in 12 MSAs. However, median incomes for VA loan users are also relatively lower in the high-cost areas.

The Study Team also compared approval rates for VA and non-VA loans. Table E-9 shows the approval percentage for VA and non-VA loans by MSA, with HMDA data for 2001. The rates are sorted in ascending order according to the approval rate for VA loans.

For each MSA, a higher percentage of VA loans was approved, compared with non-VA loans. The approval rate for VA loans was not correlated with the average loan amount (R^2 = 0.06). This indicates that approval rates and house prices are not related; therefore, there is no trend in approval rates for VA loans from low- to high-cost areas. The approval rate for non-VA loans was more highly correlated with the average loan amount (R^2 = 0.32).

[5] Gross income captured in the HMDA data is the income used by the lending agency in making the credit decision. This income may be the veteran's income or total household income, depending on what was submitted on the credit application.

Table E-8. Average and Median Gross Annual Income for VA and Non-VA Loan Users by Metropolitan Statistical Area (MSA), 2001 HMDA Data

MSA	Ratio of Average Gross Annual Income: VA Loan Users to Non-VA Loan Users	Ratio of Median Gross Annual Income: VA Loan Users to Non-VA Loan Users
All 30 MSAs	0.71	0.86
Riverside–San Bernardino	0.93	1.02
Buffalo–Niagara Falls	0.90	1.00
Oklahoma City	0.89	1.04
Shreveport	0.89	1.02
Mobile	0.88	1.07
St. Louis	0.87	1.02
Salt Lake City	0.86	1.04
Kansas City	0.86	1.00
Tacoma	0.86	0.95
Indianapolis	0.85	1.00
Minneapolis–St. Paul	0.85	0.97
Tucson	0.85	1.00
San Antonio	0.84	1.02
Orlando	0.81	0.98
Nashville	0.81	0.96
Norfolk–VA Beach–Newport News	0.80	0.93
Cincinnati	0.79	0.93
Colorado Springs	0.79	0.92
Los Angeles–Long Beach	0.78	0.92
Cleveland–Lorain–Elyria	0.78	0.95
Ft. Lauderdale	0.77	1.00
Pittsburgh	0.77	0.89
Houston	0.75	0.92
Jacksonville	0.75	0.91
Chicago	0.72	0.88
Boston	0.71	0.82
Washington, DC	0.69	0.80
Honolulu	0.67	0.73
New York–Northern NJ–LI	0.66	0.87
San Diego	0.64	0.71

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Table E-9. Approval Rates for VA and Non-VA Loans by Metropolitan Statistical Area (MSA), 2001 Data

MSA	Approval Rate for VA Loans (Percent)	Approval Rate for Non-VA Loans (Percent)
All 30 MSAs	93%	86%
New York–Northern NJ–LI	86%	84%
Ft. Lauderdale	88%	85%
Mobile	88%	74%
San Diego	89%	97%
Houston	89%	82%
Nashville	89%	83%
Los Angeles–Long Beach	90%	84%
Orlando	91%	83%
Cincinnati	91%	84%
Riverside–San Bernardino	92%	85%
Pittsburgh	92%	83%
Honolulu	92%	92%
Indianapolis	92%	86%
Jacksonville	92%	78%
Buffalo–Niagara Falls	92%	88%
Chicago	92%	90%
Salt Lake City	92%	82%
Tacoma	92%	83%
Oklahoma City	93%	81%
Cleveland–Lorain–Elyria	94%	87%
Tucson	94%	84%
St. Louis	94%	83%
San Antonio	94%	76%
Colorado Springs	95%	86%
Boston	95%	92%
Kansas City	95%	87%
Washington, DC	95%	92%
Minneapolis–St. Paul	96%	90%
Shreveport	96%	71%
Norfolk–VA Beach–Newport News	96%	86%

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

We compared the reasons why VA and non-VA loan applications were denied. HMDA allows the financial institution to record up to three reasons for denial of a loan. Table E-10 summarizes the results of reasons given by lenders for denying VA and non-VA loans. The percentages reflect the cumulative occurrences for each type of denial.

Table E-10. Loan Denials by Reason, 30 MSAs, 2001 HMDA Data

Reason for Denial	Percentage of VA Loans Denied	Percentage of Non-VA Loans Denied
Insufficient Cash for Closing Costs or Down Payment	6%	6%
Debt-to-Income Ratio	18%	22%
Credit History	33%	44%
Other Reasons[1]	43%	28%
Total	100%	100%

[1] Employment history, collateral, unverifiable information, application incomplete, mortgage insurance denied, other.

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Table E-10 indicates that VA loans are denied less frequently than non-VA loans are for unacceptable debt-to-income ratios or credit histories.

The Study Team compared VA and non-VA loan amounts for 30 representative MSAs, using HMDA data for 2001. We found that the average VA loan was smaller than the average non-VA loan in high-cost MSAs, such as Boston, Honolulu, San Diego, New York–northern New Jersey–Long Island, Los Angeles–Long Beach, and Washington, DC. Conversely, we found that the average VA loan was larger than the average non-VA loan in low-cost housing areas. We discovered similar results when we compared VA and non-VA median loan amounts, although median loan amounts were generally smaller than average loan amounts for both types of loans.

The Study Team found that the maximum non-VA loan was significantly larger than the maximum VA loan in each MSA. We also found that in many MSAs, there was a sizable number of VA loans above the $203,000 maximum that was in effect when these data were collected. For example, the maximum VA loan in 11 MSAs was over $400,000. The largest VA loan in the data set was for $720,000.

When the Study Team compared gross incomes of VA and non-VA loan users, we found that in each MSA, the average annual gross income for individuals purchasing homes with VA loans was less than the income for individuals purchasing homes with non-VA loans. The relative income of VA loan users was lowest in MSAs where housing costs were highest.

We also compared approval rates for VA and non-VA loans and found that in each MSA, the approval rate for VA loans was higher than that for non-VA loans. Approval rates for VA loans were unrelated to average loan amounts. Thus, the Study Team found high VA loan approval rates in both high- and low-cost areas.

The highlights of our findings are as follows:

- ♦ Overall, for the 30 MSAs, the average VA loan is smaller than the average non-VA loan. However, average VA loans are larger than non-VA loans in low-cost MSAs and smaller than non-VA loans in high-cost MSAs.
- ♦ The maximum VA loan is less than the maximum non-VA loan in each MSA, and this difference increases in high-cost MSAs.
- ♦ Some veterans are able to use a VA loan to finance homes costing significantly more than the maximum loan amount.
- ♦ Veterans purchasing homes with VA loans have gross annual average incomes that are lower than those of individuals purchasing homes with non-VA loans. The relative income of VA loan users is lower in high-cost areas.
- ♦ In each of the MSAs we examined, the approval rate for VA loans is higher than the approval rate for non-VA loans.

Are Veterans Being “Frozen Out” of Home Purchases in High-Cost Areas?

One of our findings is that the average VA loan is smaller than the average non-VA loan in high-cost areas. This finding raises the question of whether veterans are unable to obtain VA financing for homes that they wish to purchase. That is, are veterans being “frozen out” of the housing market in these areas?

The Study Team approached this question in three ways. First, we examined the distribution of VA and non-VA loan amounts overall and by MSA. Second, we examined VA loan participation rates. Third, we examined veterans’ responses to questions about the use of the VA home loan included in the 2000 National Survey of Veterans.

We believe that an important factor to consider in answering this question is the distribution of housing prices around the average price within an MSA. If prices in a local area are concentrated closely around the average and if the VA loan limit is sufficiently above the average, then most veterans would be able to use VA financing to purchase a wide price range of homes; that is, they would have full access to the housing market with a VA loan. However, if housing prices in the area are widely dispersed around the average and if the average price is close to or above the VA loan limit, then most veterans would have access to VA financing only for homes at the low end of the price range.

Our first step in investigating this approach was to compare the average VA loan amount in the 2001 HMDA data with the $203,000 loan maximum.

Table E-11 shows the average VA loan amount[6] and the ratio of the average loan to $203,000 for each of the sample MSAs. The table data are sorted according to the average VA loan in ascending order.

The average VA loan becomes a larger percentage of the VA loan maximum with the shift from low- to high-cost MSAs. In New York–northern New Jersey–Long Island, which has the largest VA loan average, the average VA loan is equal to the VA loan maximum.

Even though the average VA loan is smaller than the loan maximum in all but one MSA, there may be veterans who want to use their VA home loan to purchase housing above the average price but are unable to do so.

Next, the Study Team examined the distribution of VA loans in the 2001 HMDA data to understand how the loan amounts were dispersed around both the average and the $203,000 maximum. Figure E-1 illustrates the distribution of VA loans for all 30 MSAs. The distribution is fairly symmetrically distributed around the average in the shape of a bell-shaped or normal curve. Ninety-two percent of the loans are below the VA loan maximum of $203,000.

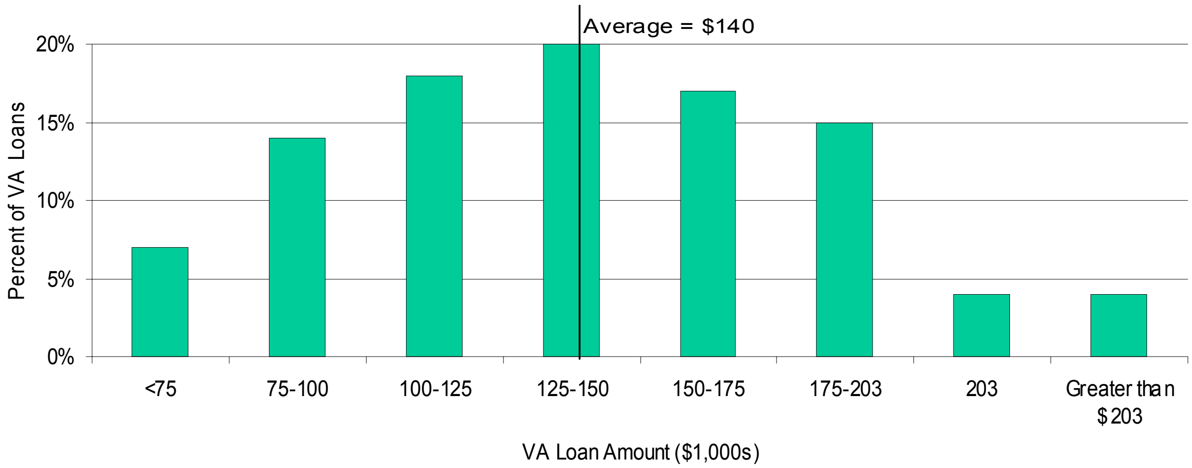
[6] Ideally, we would use housing price data for this analysis, but because we had only aggregate price data, we could not determine the distribution around the average. Consequently, we used HMDA data, which reflect mortgage amounts. Because veterans may use the VA loan to purchase a home with no down payment, we believe there is a close equivalency between the home price and the loan amount. Data from VA's GIL computer system indicate that the average ratio of loan amount to purchase price is 1.01, compared with 0.76 for conventional loans in 2001, as reported by FHFB.

Table E-11. Comparison of Average VA Loan Amounts with VA Loan Maximum by Metropolitan Statistical Area (MSA), 2001 Data

MSA	Average VA Loan	Ratio of Average VA Loan to VA Loan Maximum ($203,000)
All 30 MSAs	$140,000	0.69
Buffalo–Niagara Falls	$96,000	0.47
Pittsburgh	$100,000	0.49
Shreveport	$104,000	0.51
Oklahoma City	$105,000	0.52
Mobile	$110,000	0.54
San Antonio	$113,000	0.55
Houston	$121,000	0.59
Cleveland–Lorain–Elyria	$123,000	0.61
St. Louis	$123,000	0.61
Jacksonville	$124,000	0.61
Indianapolis	$126,000	0.62
Cincinnati	$127,000	0.62
Kansas City	$128,000	0.63
Orlando	$130,000	0.64
Norfolk–VA Beach–Newport News	$130,000	0.64
Tucson	$132,000	0.65
Nashville	$133,000	0.65
Ft. Lauderdale	$139,000	0.69
Salt Lake City	$145,000	0.71
Chicago	$149,000	0.73
Honolulu	$155,000	0.76
Tacoma	$156,000	0.77
Colorado Springs	$158,000	0.78
Riverside–San Bernardino	$158,000	0.78
Washington, DC	$161,000	0.79
Minneapolis–St. Paul	$163,000	0.81
Boston	$169,000	0.83
San Diego	$177,000	0.87
Los Angeles–Long Beach	$181,000	0.89
New York–Northern NJ–LI	$203,000	1.00

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Figure E-1. Percentage Distribution of VA Loans by Loan Amount for 30 MSAs, 2001 HMDA Data



Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

The distribution of VA loan amounts in each MSA is shown in Table E-12. We aggregated the data into a smaller number of categories than those shown in Figure E-2, so we could simplify the presentation. The data in Table E-12 are sorted in decreasing order according to the column for loan amounts “Greater than $203K.” This presentation of the data highlights how the mix of large and small loans changes from high-cost areas to low-cost areas. For example, in New York–northern New Jersey–Long Island, 36 percent of the VA loans are for more than $203,000, and only 8 percent are for less than $100,000. In Shreveport, however, only 1 percent of VA loans are for more than $203,000, and 51 percent are for less than $100,000.

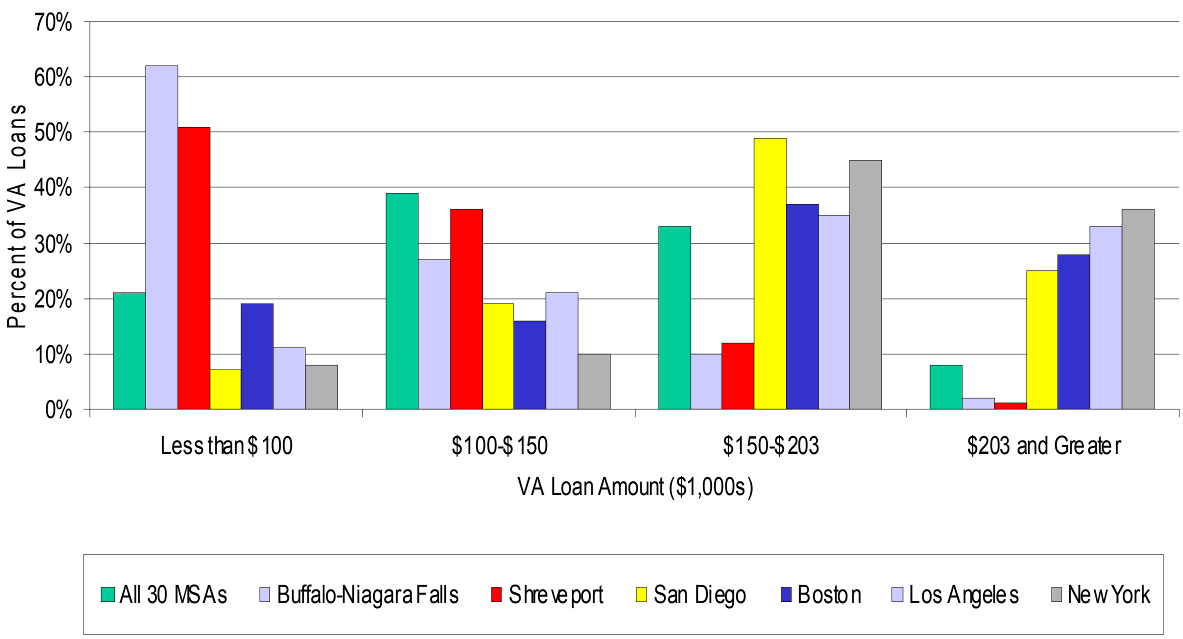
Table E-12. Percentage Distribution of VA Loan Amounts, 2001 HMDA Data

MSA	Less than $100K	$100K to $150K	$150K to $203K	Greater than $203K	Total
All 30 MSAs	21%	39%	33%	8%	100%
New York–Northern NJ–LI	8%	10%	45%	36%	100%
Los Angeles–Long Beach	11%	21%	35%	33%	100%
Boston	19%	16%	37%	28%	100%
San Diego	7%	19%	49%	25%	100%
Riverside–San Bernardino	14%	24%	45%	17%	100%
Honolulu	17%	23%	44%	16%	100%
Washington, DC	7%	30%	48%	14%	100%
Minneapolis–St. Paul	5%	33%	50%	13%	100%
Colorado Springs	5%	34%	53%	9%	100%
Chicago	12%	39%	41%	8%	100%
Ft. Lauderdale	19%	40%	36%	5%	100%
Tacoma	5%	37%	54%	5%	100%
Salt Lake City	6%	53%	36%	4%	100%
Nashville	19%	50%	27%	4%	100%
Norfolk–VA Beach–Newport News	25%	42%	29%	4%	100%
Orlando	22%	50%	25%	3%	100%
St. Louis	32%	40%	25%	3%	100%
Tucson	13%	59%	25%	3%	100%
Kansas City	26%	44%	27%	3%	100%
Indianapolis	23%	51%	23%	3%	100%
Cincinnati	26%	49%	23%	2%	100%
Cleveland–Lorain–Elyria	30%	48%	20%	2%	100%
Houston	32%	46%	20%	2%	100%
Buffalo–Niagara Falls	62%	27%	10%	2%	100%
Pittsburgh	57%	39%	11%	2%	100%
Jacksonville	24%	55%	20%	1%	100%
Oklahoma City	49%	39%	11%	1%	100%
Mobile	47%	38%	13%	1%	100%
San Antonio	39%	45%	15%	1%	100%
Shreveport	51%	36%	12%	1%	100%

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

Figure E-2 shows information from Table E-12 aggregated for all 30 MSAs and for selected low- and high-cost MSAs. The figure clearly demonstrates the clustering of VA loan amounts below $203,000 for low-cost areas (Buffalo–Niagara Falls and Shreveport) and above $203,000 for high-cost areas (Boston, Los Angeles–Long Beach, and New York–northern New Jersey–Long Island).

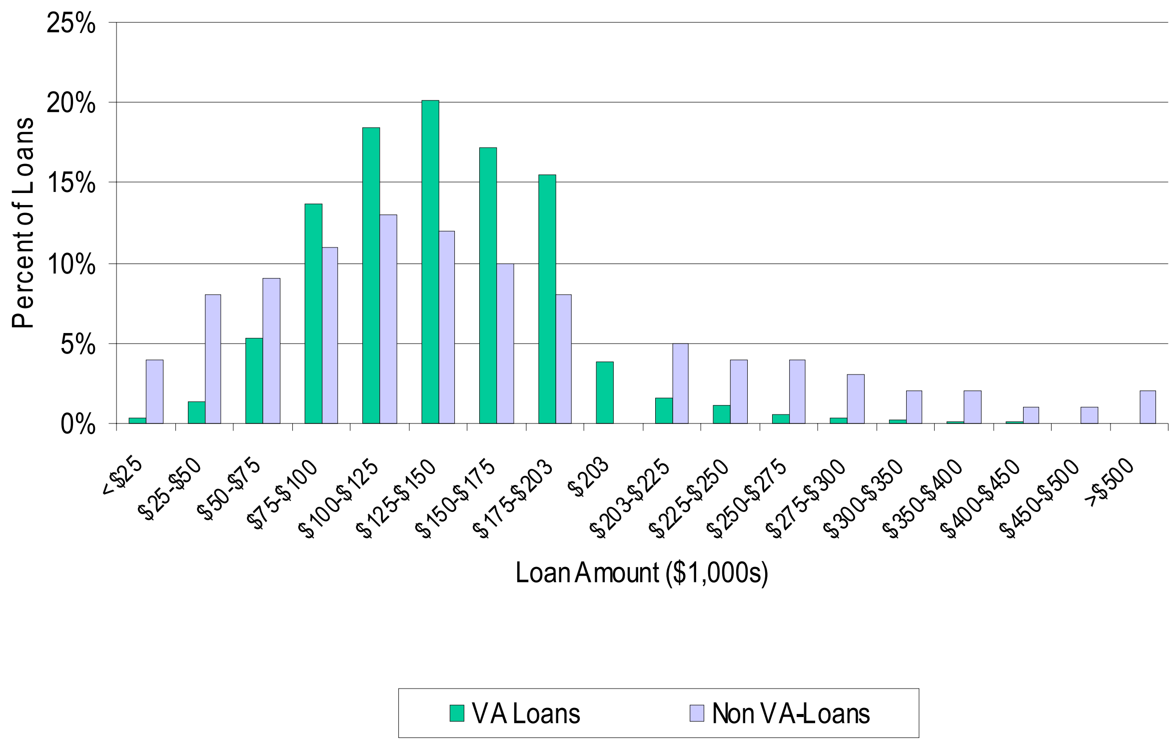
Figure E-2. Distribution of VA Loans by Loan Amount
2001 HMDA Data



Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

To get a perspective of the distribution of loans in the non-VA market, the Study Team compared the distribution of VA and non-VA loans. Figure E-3 illustrates the comparison. Non-VA loans have a larger percentage of loans for amounts greater than $203,000. Twenty-four percent of non-VA loans are for more than $203,000. The data are presented in $50,000 increments for loan amounts greater than $300,000.

Figure E-3. Comparison of the Distribution of VA and Non-VA Loans by Loan Amount 2001 HMDA Data



Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

We computed the standard deviation of the VA and non-VA loan amounts for each MSA to further refine our view of how the loans are distributed. The standard deviation indicates how widely dispersed individual loan amounts are around the average. Approximately two-thirds of the loans would be within one standard deviation above or below the average if loan amounts are normally distributed in the typical bell-shaped curve (which appears to generally be the case, as seen in Figure E-3). The Study Team then compared the standard deviation with the average loan amount for each MSA by computing the ratio of standard deviation to the average. The smaller this ratio, the more concentrated the individual loan amounts are around the average. These results are shown in Table E-13 for both VA and non-VA loans. Data in Table E-13 are sorted in descending order according to the ratio of the standard deviation to the average for VA loans (fourth column from the left).

Table E-13 clearly shows that for each of the 30 MSAs we examined, VA loans are more tightly concentrated around the average loan amount than are non-VA loans. Overall and in each of the MSAs, the ratio of standard deviation to average loan is smaller for VA loans, compared with non-VA loans. This means that non-VA loans are more widely dispersed around the average loan amount.

Table E-13 also shows that the ratios of the standard deviation to the average for VA loans are larger in high-cost areas than in low-cost areas. This means that there is a wider dispersion of loan amounts in high-cost areas, most likely resulting from the higher proportion of loan amounts above $203,000, as shown in Table E-12 and as illustrated for several high-cost areas in Figure E-2.

The information in Table E-13 shows cases of a scenario, described earlier, of an MSA with a high average housing cost and a large dispersion of costs around the average. In the case of New York–northern New Jersey–Long Island, for example, when the standard deviation of VA loans is added to the average, the result is $297,000, well above the national VA loan maximum.

Because the price-to-loan ratio for VA loans is approximately 1.0, the loan data are also representative of housing price data. This means that in high-cost areas, there is a wider distribution of home prices financed by VA loans, as compared with that in low-cost areas.

If we assume that non-VA loans represent a more comprehensive picture of the overall housing market in each MSA,[7] then average housing prices are significantly above the VA loan maximum in high-cost areas. For example, applying the FHFB loan-to-price ratio of 0.76 in 2001, the average non-VA loan of $237,000 in New York–northern New Jersey–Long Island would translate into an average home price of approximately $310,000.

[7] Our sample of 30 MSAs included approximately 52,000 VA loans and approximately 1,260,000 non-VA loans.

Table E-13. Standard Deviation of VA and Non-VA Loans by MSA, 2001 HMDA Data (Dollars in Thousands)

MSA	VA Loans			Non-VA Loans		
	Std Dev	Avg	Std Dev/ Avg	Std Dev	Avg	Std Dev/ Avg
All 30 MSAs	$48	$140	0.34	$130	$157	0.83
Boston	$82	$169	0.49	$161	$225	0.72
New York–North NJ–LI	$94	$203	0.46	$202	$237	0.85
Los Angeles–Long Beach	$76	$181	0.42	$186	$207	0.90
Buffalo–Niagara Falls	$40	$96	0.42	$58	$92	0.63
Pittsburgh	$40	$100	0.40	$84	$101	0.83
St. Louis	$44	$123	0.36	$85	$116	0.73
Shreveport	$37	$104	0.36	$63	$91	0.69
Oklahoma City	$37	$105	0.35	$64	$92	0.70
San Antonio	$37	$113	0.33	$74	$99	0.75
Mobile	$36	$110	0.33	$74	$100	0.74
Houston	$39	$121	0.32	$102	$117	0.87
San Diego	$57	$177	0.32	$166	$217	0.76
Riverside–San Bernardino	$51	$158	0.32	$89	$140	0.64
Orlando	$40	$130	0.31	$92	$122	0.75
Kansas City	$39	$128	0.30	$89	$127	0.70
Cleveland–Lorain–Elyria	$37	$123	0.30	$83	$122	0.68
Norfolk–VA Beach–Newport News	$39	$130	0.30	$80	$122	0.66
Indianapolis	$38	$126	0.30	$79	$124	0.64
Ft. Lauderdale	$40	$139	0.29	$107	$134	0.80
Cincinnati	$37	$127	0.29	$88	$125	0.70
Chicago	$42	$149	0.28	$117	$168	0.70
Honolulu	$44	$155	0.28	$132	$205	0.64
Minneapolis–St. Paul	$45	$163	0.28	$92	$153	0.60
Jacksonville	$33	$124	0.27	$105	$125	0.84
Nashville	$36	$133	0.27	$89	$128	0.70
Washington, DC	$41	$161	0.25	$127	$173	0.73
Tucson	$33	$132	0.25	$82	$120	0.68
Colorado Springs	$33	$158	0.21	$86	$150	0.57
Salt Lake City	$31	$145	0.21	$76	$137	0.55
Tacoma	$31	$156	0.20	$72	$138	0.52

Source: Study Team (based on Home Mortgage Disclosure Act [HMDA] data)

On the basis of our analysis of average loan amounts and the distribution of loan amounts, we conclude that a veteran who wants to purchase housing that is at an average or below average price will be able to use VA financing in each of the MSAs in our sample. However, a veteran who wants to purchase a home priced well above the average could be frozen out of the market in any of the MSAs, although this would be more likely to occur in high-cost areas. The Study Team found a few occurrences in the data where veterans were able to secure VA financing on loans well above four times the guaranty maximum.

Our second approach to this study question was to compute the participation rate for VA loans by dividing the number of VA loans originated, as reported in HMDA data for 2001, by the number of veterans residing in the MSA, as reported in the December 2001 Current Population Survey (see Table E-4). Table E-14 summarizes the participation rates, sorted in decreasing order.

Table E-14 presents a mix of information. The lowest participation rates occurred in two high-cost MSAs, Boston and New York–northern New Jersey–Long Island. Pittsburgh and Buffalo–Niagara Falls, both low-cost areas, also had low participation rates. The highest participation rates occurred in Colorado Springs and Norfolk–Virginia Beach–Newport News, areas that are not normally considered to be high-cost areas. A relatively high participation rate also occurred in Washington, DC, which is a high-cost area. When we correlated loan participation against median housing price from NAR, we obtained an R^2 value of 0.086. On the basis of data in Table E-14, we do not believe that there is any systematic relationship between housing prices and VA loan program participation.

Our third approach to the study question was to examine results from the 2000 National Survey of Veterans related to use of VA home loans. The survey included questions about whether the respondent used a VA home loan and, if not, why the respondent chose not to participate in the program. Respondents who had not used the VA loan were able to select from a variety of responses, one of which was that the amount they needed to finance was larger than the maximum loan amount.

Table E-14. VA Loan Program Participation Rates by MSA, 2001

MSA	Percent of Veterans Originating VA Loans
All 30 MSAs	0.90%
Colorado Springs	3.48%
Norfolk–Virginia Beach–Newport News	3.40%
San Antonio	1.61%
Jacksonville	1.59%
Washington, DC	1.45%
Oklahoma City	1.44%
Indianapolis	1.38%
Tucson	1.32%
Tacoma	1.18%
Riverside–San Bernardino	1.05%
Salt Lake City	1.02%
Orlando	0.98%
Shreveport	0.98%
Nashville	0.88%
Houston	0.85%
Kansas City	0.79%
St. Louis	0.74%
Minneapolis–St. Paul	0.70%
Los Angeles–Long Beach	0.62%
Cincinnati	0.59%
Ft. Lauderdale	0.59%
San Diego	0.54%
Mobile	0.49%
Chicago	0.42%
Honolulu	0.35%
Buffalo–Niagara Falls	0.33%
Cleveland–Lorain–Elyria	0.32%
Pittsburgh	0.28%
Boston	0.13%
New York–Northern NJ–LI	0.04%

Source: 2001 Home Mortgage Disclosure Act (HMDA) data; 2001 Current Population Survey

Approximately 20,000 veterans responded to the survey. Of these, about 57 percent indicated that since they left the military, they had taken some sort of loan to purchase a home, make home improvements, or refinance a home loan.[8] Among those who indicated that they had taken home loans since they left the military, about 41 percent had never used the VA loan program. When asked to select from the list of explanatory

[8] The numbers reported here reflect the weighted results representing the entire veteran population.

reasons, only 2 percent of the nonusers responded that they thought the amount of financing they needed exceeded the VA maximum loan amount. Nonusers most frequently responded that they were not aware of the VA loan program (19.3 percent) or that they did not want or need VA loan assistance (18.6 percent).

Our consideration of these three approaches to the study question has led us to the following findings:

- ♦ Veterans would be able to use their VA loan to purchase a home in each of the MSAs we considered, although this may mean purchasing a relatively low-priced home in high-cost MSAs.
- ♦ Veterans who want to purchase more expensive housing within their MSA may find they are unable to finance their home with a VA loan because the price exceeds the maximum loan limit. This could occur in any MSA, but it is more likely to occur in high-cost areas. In effect, these veterans are "frozen out" of the housing market price range in which they seek to purchase a home.

These findings raise an important policy question: Does the purpose of the VA home loan program extend to facilitating the purchase of homes with above-average prices?[9] The program will support these purchases in low-cost areas but not in high-cost areas.

Has the Maximum Loan Amount Kept Pace with the Cost of Housing?

This study question is closely related to the previous question. We believe that the main distinction is the trend issue of whether the maximum loan amount has kept pace over time.

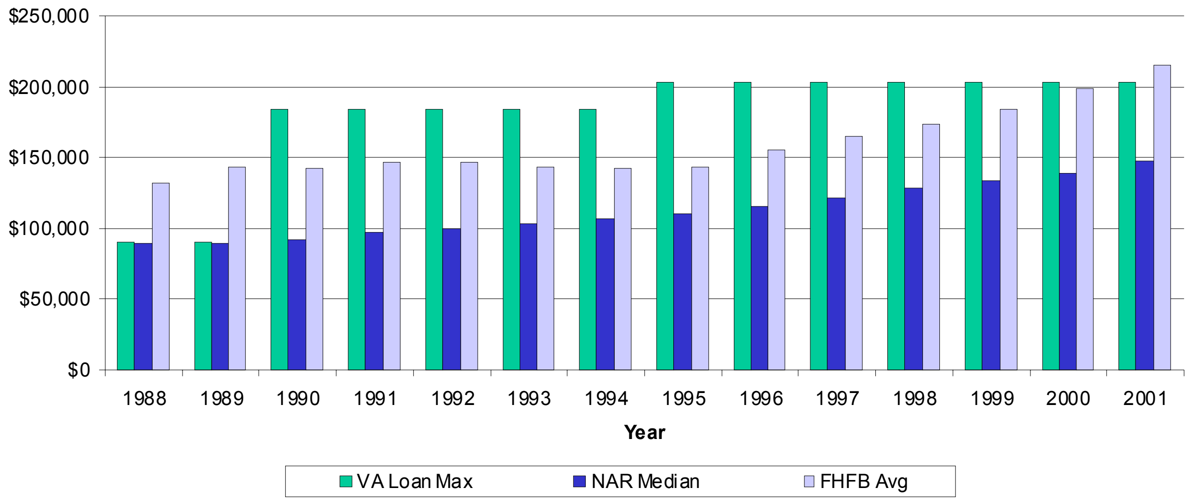
The Study Team addressed this question first by comparing the maximum VA loan guaranty with two housing price measures: 1) median single-family home prices reported by NAR and 2) average single-family home prices reported by FHFB.[10] We made the comparisons for the 14-year period from 1988 through 2001.

Figure E-4 illustrates the comparisons.[11] The median and average data exhibit the same relationship that we found above in our investigation of HMDA data. Figure E-4 shows that the VA loan maximum exceeded both the average and median housing prices for single-family homes in each year except 1988, 1989, and 2001. Figure E-4 also shows that the difference between the VA loan maximum and housing prices,

[9] The legislative history indicates that Congress has approved increases in the loan guaranty maximum on the basis of increases in median or average housing prices.
[10] FHFB average data are for homes purchased with conventional financing, and NAR median data are for all homes purchased, regardless of the type of financing.
[11] Figure E-4 shows that the loan limit increases to $184,000, $203,000, and $240,000 during the first full year of implementation. Each of these increases was enacted late in the year, so showing the increases as being applicable in the year of implementation would be misleading. The increase to $184,000 was enacted on December 18, 1989; the increase to $203,000 was enacted on October 13, 1994; and the increase to $240,000 was enacted on December 27, 2001.

particularly the FHFB series, narrowed in recent years. The FHFB series was used by Congress to justify an increase in the loan maximum to $240,000 at the end of 2001.

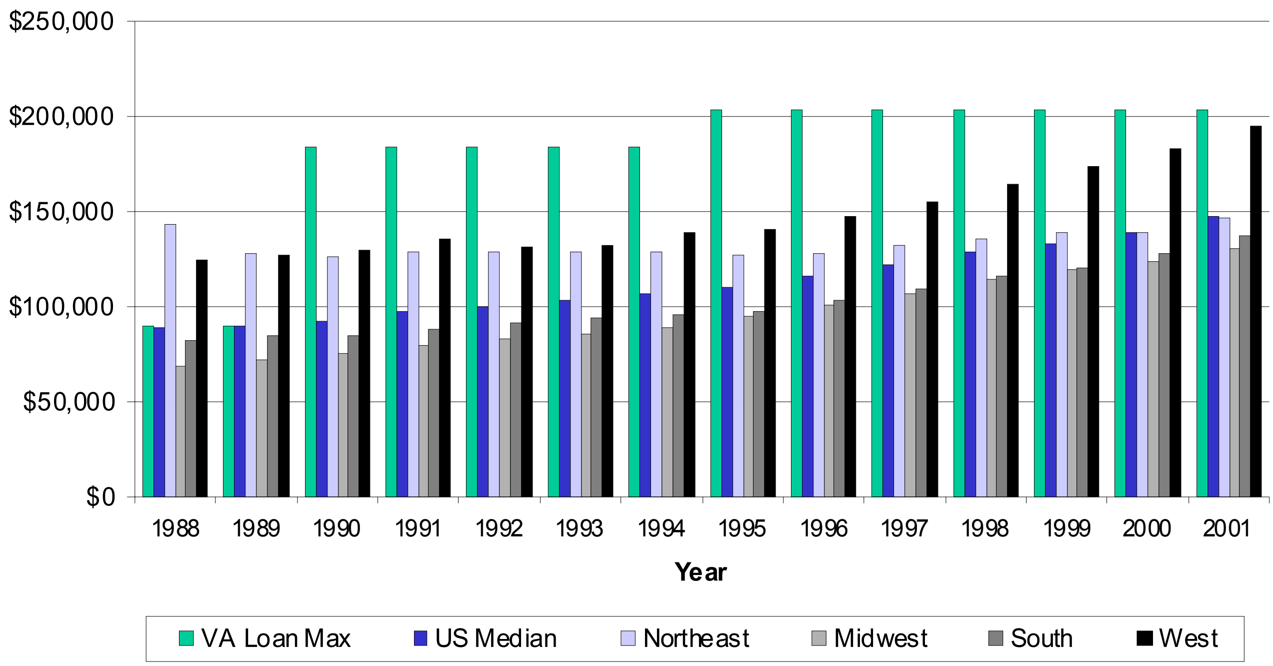
Figure E-4. National Median and Average Single-Family Housing Prices and VA Loan Maximum



Source: National Association of Realtors, Federal Housing Finance Board

We also looked at how housing prices varied regionally. Figure E-5 compares national and regional NAR data on median home prices for the same years. The chart shows that there are sizable regional differences in house prices. Median home prices in the Northeast and in the West exceeded the national median in each year except 2001.

Figure E-5. National and Regional Median Single-Family Housing Prices and VA Loan Maximum



Source: National Association of Realtors

When we examined the data at the MSA level, we found that median prices in some MSAs (see Table E-4) were larger than the VA loan maximum. Table E-15 shows five high-cost MSAs and years in which the VA loan maximum was less than the median price for a single-family home. The numbers in Table E-15 are the amounts by which the median housing price exceeded the VA loan maximum for each year shown. Table E-15 presents data for 1998 through 2001.

Table E-15. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas (MSAs), 1998–2001

MSA	1998	1999	2000	2001
VA Loan Maximum	$203,000	$203,000	$203,000	$203,000[1]
Boston	$55,400	$87,000	$111,200	$153,600
Honolulu	$94,000	$87,000	$92,000	$96,900
Los Angeles–Long Beach	N/A	N/A	$12,900	$38,400
New York–Northern NJ–LI	N/A	$200	$27,200	$55,200
San Diego	$4,100	$28,600	$66,400	$95,600

[1] Increased to $240,000 in December 2001.

Source: Study Team (derived from National Association of Realtors data)

In summary, our finding for this study question is that the maximum VA loan amount has kept pace with increases in housing prices in all but a small number of high-cost areas. In these areas, veterans may not be able to use their VA loans to purchase housing near or above the median prices. However, even in MSAs where the median price is below the VA loan maximum, there may be many homes with prices that exceed the VA maximum and are thereby unavailable through VA financing. This finding is consistent with our earlier assessment that in some MSAs, veterans could be "frozen out" of VA financing for homes they want to purchase.

What Approaches Are Possible for Indexing the Loan Guaranty Maximum?

The Study Team examined three possible approaches for indexing the loan guaranty maximum:

- Index the loan guaranty maximum directly to the component of the consumer price index (CPI) that represents the owner's equivalent rent for a primary residence

- Index the loan guaranty maximum directly to the increase in housing prices recorded by FHFB

- Apply the FHA insured loan ceiling formula, or a modification of the formula, to the maximum VA loan amount.

We selected these three methods because they represent a variety of approaches, ranging from a nationwide measure of housing cost inflation to an existing indexing approach used by the FHA loan program.

The first two approaches would result in loan guaranty maximums that would be uniform nationwide, consistent with the current limit. The third approach, depending on how it was implemented, could result in either a uniform maximum or maximums that varied by geographic region.

Our approach was to compare how the VA loan guaranty maximum and the resulting loan maximum would have changed if each of these approaches had been in effect since 1992. We chose this date because it is the year in which the FHA loan limit was indexed and because this date gives us a sufficient time period for examining the effects of the policies.

The Study Team also estimated the cost impacts if each indexing option was implemented in 2003 with indexing to begin on January 1, 2004.

<u>Indexing to the CPI.</u> In this approach, the VA loan guaranty maximum, currently $60,000, would be indexed annually to the increase in the component of the CPI that measures the homeowner's equivalent rent for a primary residence. We chose this

index because it is the component of the CPI series that most closely captures changes in housing prices from year to year.

The Study Team assumed that increases in the maximum would be effective each January 1 and be based on the CPI increase measured for the 12-month period ending the previous October 1. For example, the increase on January 1, 2002, would be based on the increase in the measure of the CPI from October 1, 2000, through September 30, 2001.

We collected data on the increase in the homeowner's equivalent rent component of the CPI from 1990 through 2002. The second column in Table E-16 shows the percentage increase measured for the 12-month period ending September 30 of the preceding year. The third column shows the indexed VA loan guaranty maximum. The last column shows the resulting VA loan maximum, assuming the loan guaranty is 25 percent of the loan amount.

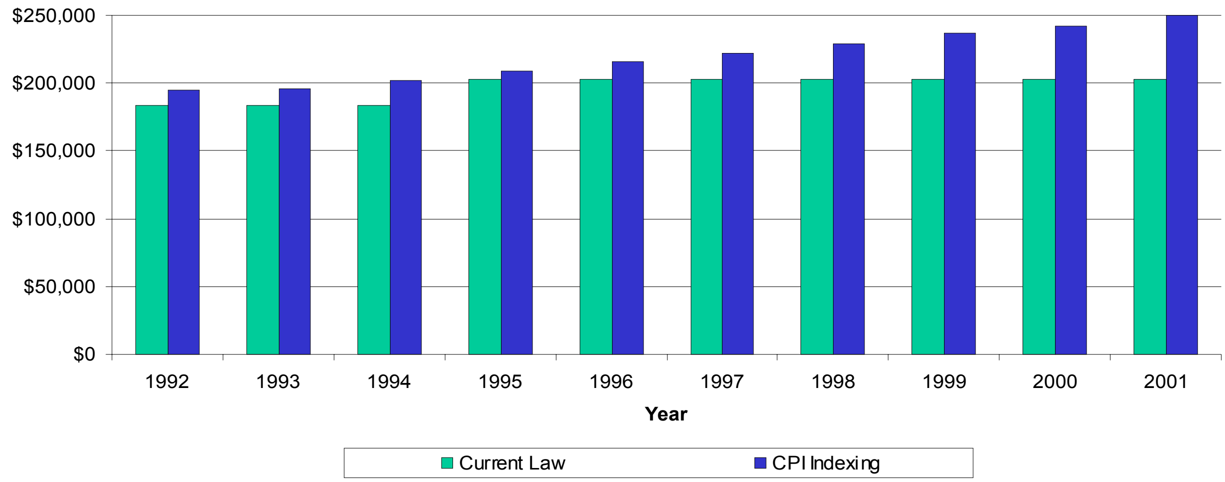
Table E-16. Indexing the VA Loan Guaranty Maximum to the Housing Component of the Consumer Price Index

Year	Percent Change in Owner's Equivalent Rent	Revised Loan Guaranty Maximum	Revised Maximum Loan
1992	3.3%	$47,500	$190,000
1993	3.2%	$49,000	$196,000
1994	3.1%	$50,500	$202,000
1995	3.6%	$52,300	$209,200
1996	3.3%	$54,000	$216,000
1997	2.9%	$55,600	$222,400
1998	2.9%	$57,200	$228,800
1999	3.4%	$59,200	$236,800
2000	2.3%	$60,600	$242,400
2001	3.2%	$62,600	$250,400
2002	4.2%	$65,300	$261,200
2003	3.8%	$67,800	$271,200

Source: Study Team (based on Consumer Price Index data)

Figure E-6 compares the indexed loan maximum with the actual loan maximums that were in effect from 1992 through 2002.

Figure E-6. Comparison of Current Law Maximum VA Loan Amounts with Indexed Loan Amounts Using Owner's Equivalent Rent for a Primary Residence from the Consumer Price Index



Source: Study Team (based on Consumer Price Index data)

Table E-17 is similar to Table E-15 but assumes that the VA loan guaranty maximum is indexed by the CPI measure of owner's equivalent rent. Table E-17 shows that if this indexing approach had been in place since 1992, the VA loan maximum would have been more competitive in comparison with the median single-family house price in each of the high-cost housing areas. For example, the VA loan maximum would have been greater than the median house price in Los Angeles–Long Beach in each year from 1998 through 2001; the VA loan maximum would have been greater than the median price in New York–northern New Jersey–Long Island in 2000; and the difference between the median price and the VA loan maximum would have been reduced in all other high-cost areas for each year.

Table E-17. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas, Assuming Indexing of Loan Guaranty Maximum to the Housing Component of the CPI

MSA	1998	1999	2000	2001
VA Loan Maximum (Current Law)	$203,000	$203,000	$203,000	$203,000
VA Loan Maximum (Indexed to Housing Component of the CPI)	$228,800	$236,800	$242,400	$250,400
Boston	$29,600	$53,200	$71,800	$106,200
Honolulu	$68,200	$53,200	$52,600	$49,500
Los Angeles–Long Beach	N/A	N/A	N/A	N/A
New York–Northern NJ–LI	N/A	N/A	N/A	$7,800
San Diego	N/A	N/A	$27,000	$48,200

Source: Study Team (derived from Consumer Price Index data)

Indexing to the FHFB Monthly Housing Price Survey. This approach would be applied in the same manner as the CPI indexing. The primary difference is the index on which increases are based. The index would be the percentage change in the national average purchase price for homes financed by conventional loans, as recorded by FHFB. The change would be measured from October 1 through September 30 of each preceding year.

The second column in Table E-18 shows the percentage increase in average purchase prices, from FHFB data. The third column shows the indexed VA loan guaranty maximum. The last column shows the resulting VA loan maximum, assuming that the loan guaranty is 25 percent of the loan amount.

Table E-18. Indexing the VA Loan Guaranty Maximum to the Increase in Federal Housing Finance Board National Average House Purchase Prices

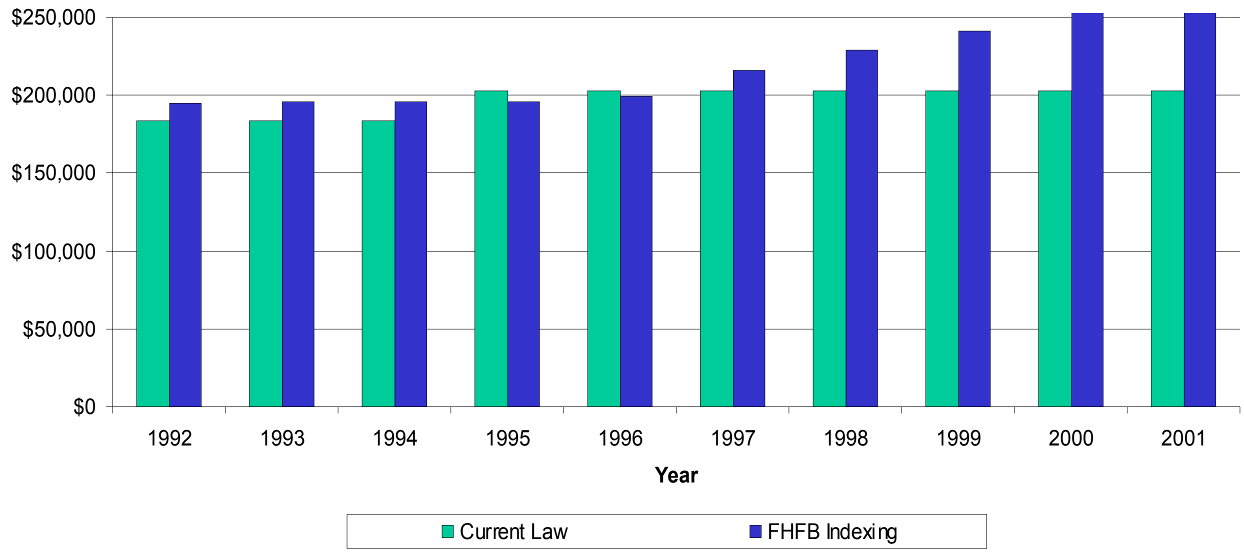
Year	Percent Change in Single-Family Home Purchase Price	Revised Loan Guaranty Maximum	Revised Maximum Loan
1992	5.8%	$48,700	$194,800
1993	0.5%	$48,900	$195,600
1994	0.0%[1]	$48,900	$195,600
1995	0.0%[1]	$48,900	$195,600
1996	1.9%	$49,800	$199,200
1997	8.4%	$54,000	$216,000
1998	5.9%	$57,200	$228,000
1999	5.5%	$60,300	$241,200
2000	5.3%	$63,500	$254,000
2001	8.8%	$69,100	$276,400
2002	9.4%	$75,600	$302,400
2003	FHFB data not yet available	N/A	N/A

[1] The FHFB average purchase price declined in both 1993 and 1994.

Source: Study Team (based on Federal Housing Finance Board data)

Figure E-7 compares the indexed loan maximum with the actual loan maximums that were in effect from 1992 through 2002. Figure E-7 shows that the indexed loan limit would have been below the current law limit in 1995 and 1996. This would have been due to the step increase in the loan guaranty maximum from $46,000 to $50,750, which was enacted in October 1994.

Figure E-7. Comparison of Current Law Maximum VA Loan Amounts with Indexed Loan Amounts Using FHFB Housing Prices



Source: Study Team (based on FHFB data)

Table E-19 provides the amount by which median housing prices in high-cost areas would exceed the VA loan maximum, assuming this indexing approach. Table E-19 shows similar but more favorable results than Table E-17 because the percentage increases in FHFB prices are greater than the increase in the owner's equivalent rent index. The VA loan maximum would have exceeded the median single-family house price in both Los Angeles–Long Beach and New York–northern New Jersey–Long Island for each of the 4 years shown.

Table E-19. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas, Assuming Indexing of Loan Guaranty Maximum to the Increase in the FHFB Average Purchase Price

MSA	1998	1999	2000	2001
VA Loan Maximum (Current Law)	$203,000	$203,000	$203,000	$203,000
VA Loan Maximum (Indexed to FHFB Purchase Price Increase)	$222,800	$241,200	$254,000	$276,400
Boston	$29,600	$48,800	$60,200	$80,600
Honolulu	$68,200	$48,800	$41,000	$23,900
Los Angeles–Long Beach	N/A	N/A	N/A	N/A
New York–Northern NJ–LI	N/A	N/A	N/A	N/A
San Diego	N/A	N/A	$15,400	$22,600

Source: Study Team (derived from Federal Housing Finance Board data)

<u>Adapting Indexing of the FHA Maximum Insured Loan Amount to VA Home Loans.</u> In this approach, the method for indexing the FHA loan ceiling would be applied directly to the maximum VA loan amount. This approach differs from the previous two approaches, which applied indexing to the guaranty amount.

The statutory FHA loan ceiling is set at 87 percent of the Freddie Mac conventional or "conforming" loan limit. The Study Team examined three alternatives for applying this limit to the VA loan maximum, setting the maximum at 85, 90, and 95 percent of the conventional loan limit.[12] In addition to a national ceiling, the FHA loan maximum also considers local housing prices. For each county, the FHA loan maximum is the lesser of the national ceiling and 95 percent of the county median housing price as measured by HUD. We did not consider this aspect of the FHA formula for application to VA because it would introduce a regional loan limit that does not now exist and it would complicate administration and add complexity to the VA loan program.

If the law was changed to index the VA loan maximum directly, then the statutory change would probably also need to include a provision to establish the loan guaranty maximum at 25 percent of the loan maximum. Therefore, the maximum guaranty would change simultaneously with changes in the loan maximum. Table E-20 shows the VA loan maximum under current law and the maximums that would result if this indexing plan had been in effect since 1992.

Table E-20. Maximum VA Loan Amounts if Indexed to Increases in the Freddie Mac Conforming Loan Limit

Year	Current Law	Indexed at 85% of Freddie Mac Loan Limit	Indexed at 90% of Freddie Mac Loan Limit	Indexed at 95% of Freddie Mac Loan Limit	FHA Insured Loan Ceiling
1992	$184,000	$172,000	$182,100	$192,200	$176,000
1993	$184,000	$172,700	$182,800	$193,000	$176,700
1994	$203,000	$172,700	$182,800	$193,000	$176,700
1995	$203,000	$172,700	$182,800	$193,000	$176,700
1996	$203,000	$176,000	$186,300	$196,700	$180,100
1997	$203,000	$182,400	$193,100	$203,900	$186,700
1998	$203,000	$193,100	$204,400	$215,800	$197,600
1999	$203,000	$204,000	$216,000	$228,000	$208,800
2000	$203,000	$214,800	$227,400	$240,100	$219,800
2001	$240,000	$233,800	$247,500	$261,300	$239,300
2002	$240,000	$255,600	$270,600	$285,700	$261,600
2003	$240,000	$274,300	$290,400	$306,600	$280,700

Source: Study Team (based on Freddie Mac data)

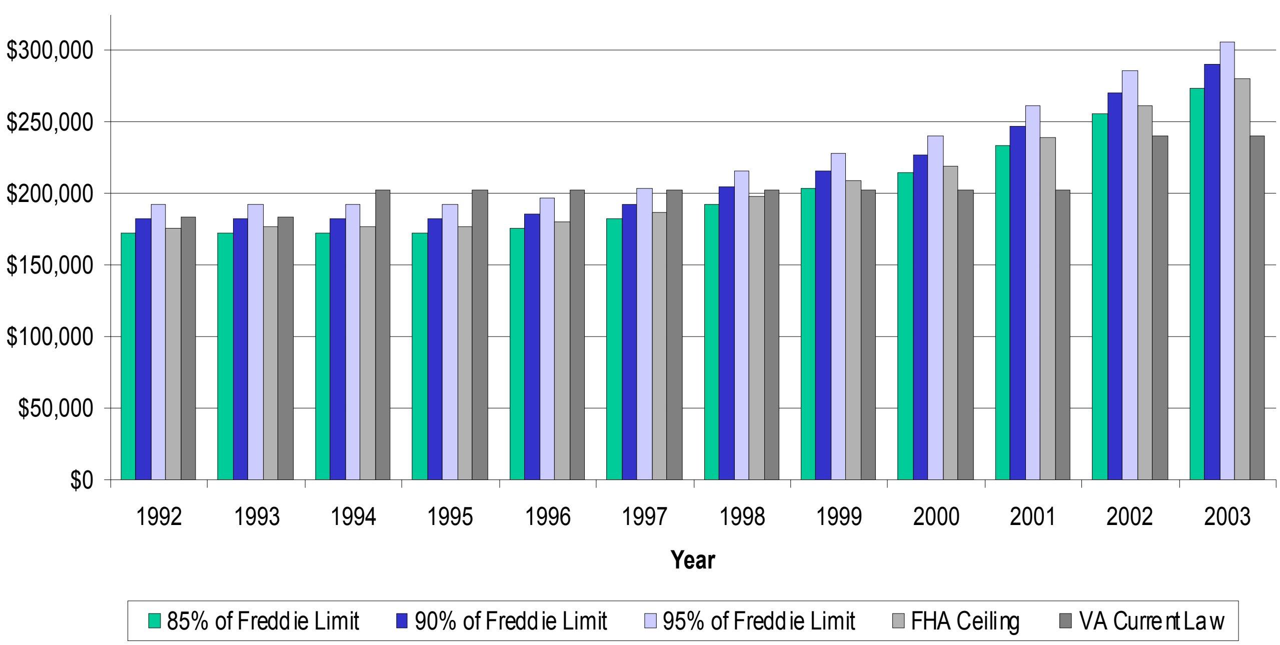
[12] During one of our stakeholder meetings, the Loan Guaranty Service suggested using the FHA ceiling computed at 90 percent of the conforming loan limit.

Figure E-8 compares the VA results from Table E-20. The figure illustrates several important points. First, the FHA loan ceiling was below the VA maximum loan limit from 1992 through 1998. However, during this period, the difference between the limits narrowed as indexing increased the FHA limit in 1997 and 1998.[13]

Second, indexing increased the FHA ceiling beyond the VA maximum loan beginning in 1999, and the FHA ceiling has remained above the VA maximum, even with the VA increase to $240,000 in 2001.

Third, by 2002, VA loan maximums would have exceeded the current law maximum regardless of which percentage of the Freddie Mac conforming loan limit was used. If the VA loan limit was set at either 90 or 95 percent of the Freddie Mac limit, the VA maximum would have exceeded the FHA limit on insured loans. However, for years before 2002, this indexing method would have resulted in VA loan maximums that could have been less than what the current law provided, depending on the percentage of the Freddie Mac limit that was used.

Figure E-8. Comparison of Current Law Maximum VA Loan Amounts with Indexed Loan Amounts Using FHA Approach



Source: Study Team (based on Freddie Mac and FHA data)

Table E-21 shows the amount by which median housing prices in high-cost areas would exceed the VA loan maximum, assuming the VA loan maximum is set at 85 percent of

[13] The FHA limit was constant from 1993 through 1995 as housing prices remained stable or declined.

the Freddie Mac conforming loan limit. Table E-22 and Table E-23 provide similar information but assume that the VA loan maximum is set at 90 and 95 percent of the Freddie Mac conforming loan limit, respectively.

Table E-21. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas, Assuming Indexing of the VA Loan Maximum to 85 Percent of the Freddie Mac Conforming Loan Limit on Conventional Mortgages

MSA	1998	1999	2000	2001
VA Loan Maximum (Current Law)	$203,000	$203,000	$203,000	$203,000
VA Loan Maximum (Indexed to 85% of Freddie Mac Conventional Loan Limit)	$193,100	$204,000	$214,800	$233,800
Boston	$65,300	$86,000	$99,400	$122,800
Honolulu	$103,900	$86,000	$80,200	$66,100
Los Angeles–Long Beach	N/A	N/A	$1,100	$7,600
New York–Northern NJ–LI	N/A	N/A	$15,400	$24,400
San Diego	$14,000	$27,600	$54,600	$64,800

Source: Study Team (derived from Federal Housing Finance Board data)

Table E-22. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas, Assuming Indexing of the VA Loan Maximum to 90 Percent of the Freddie Mac Conforming Loan Limit on Conventional Mortgages

MSA	1998	1999	2000	2001
VA Loan Maximum (Current Law)	$203,000	$203,000	$203,000	$203,000
VA Loan Maximum (Indexed to 90% of Freddie Mac Conventional Loan Limit)	$204,400	$216,000	$227,400	$247,500
Boston	$54,000	$74,000	$86,800	$109,100
Honolulu	$92,600	$74,000	$67,600	$52,400
Los Angeles–Long Beach	N/A	N/A	N/A	N/A
New York–Northern NJ–LI	N/A	N/A	$2,800	$10,700
San Diego	$2,700	$15,600	$42,000	$51,100

Source: Study Team (derived from Federal Housing Finance Board data)

In summary, we examined three different approaches for indexing the VA maximum loan amount. The first two methods would index the maximum loan amount through the loan guaranty maximum. The third method would link the loan maximum directly to the Freddie Mac limit on conventional loans.

Table E-23. Amount by Which Median Price for a Single-Family House Exceeds the VA Loan Maximum, Selected Metropolitan Statistical Areas, Assuming Indexing of the VA Loan Maximum to 95 Percent of the Freddie Mac Conforming Loan Limit on Conventional Mortgages

MSA	1998	1999	2000	2001
VA Loan Maximum (Current Law)	$203,000	$203,000	$203,000	$203,000
VA Loan Maximum (Indexed to 95% of Freddie Mac Conventional Loan Limit)	$215,800	$228,000	$240,100	$261,300
Boston	$42,600	$62,000	$74,100	$95,300
Honolulu	$81,200	$62,000	$54,900	$38,600
Los Angeles–Long Beach	N/A	N/A	N/A	N/A
New York–Northern NJ–LI	N/A	N/A	N/A	N/A
San Diego	N/A	$3,600	$29,300	$37,300

Source: Study Team (derived from Federal Housing Finance Board data)

Table E-24 summarizes the resulting VA loan limits under each of the indexing proposals, assuming that they had been implemented in 1992. The table compares the limits with current law for 1998 through 2003.

Table E-24. VA Loan Maximum Assuming Various Indexing Approaches (Assumes Indexing Began in 1992)

Year	Current Law	Guaranty Amount Indexed to Change in Owner's Equivalent Rent for a Primary Residence	Guaranty Amount Indexed to Percent Change in FHFB Average Purchase Price	VA Loan Limit Is 85% of Freddie Mac Limit on Conventional Loans	VA Loan Limit Is 90% of Freddie Mac Limit on Conventional Loans	VA Loan Limit Is 95% of Freddie Mac Limit on Conventional Loans
1998	$203,000	$228,800	$228,800	$193,100	$204,400	$215,800
1999	$203,000	$236,800	$241,200	$204,000	$216,000	$228,000
2000	$203,000	$242,400	$254,000	$214,800	$227,400	$240,100
2001	$203,000[1]	$250,400	$276,400	$233,800	$247,500	$261,300
2002	$240,000	$261,200	$302,400	$255,600	$270,600	$285,700
2003	$240,000	$271,200	$316,000[2]	$274,300	$290,400	$306,600

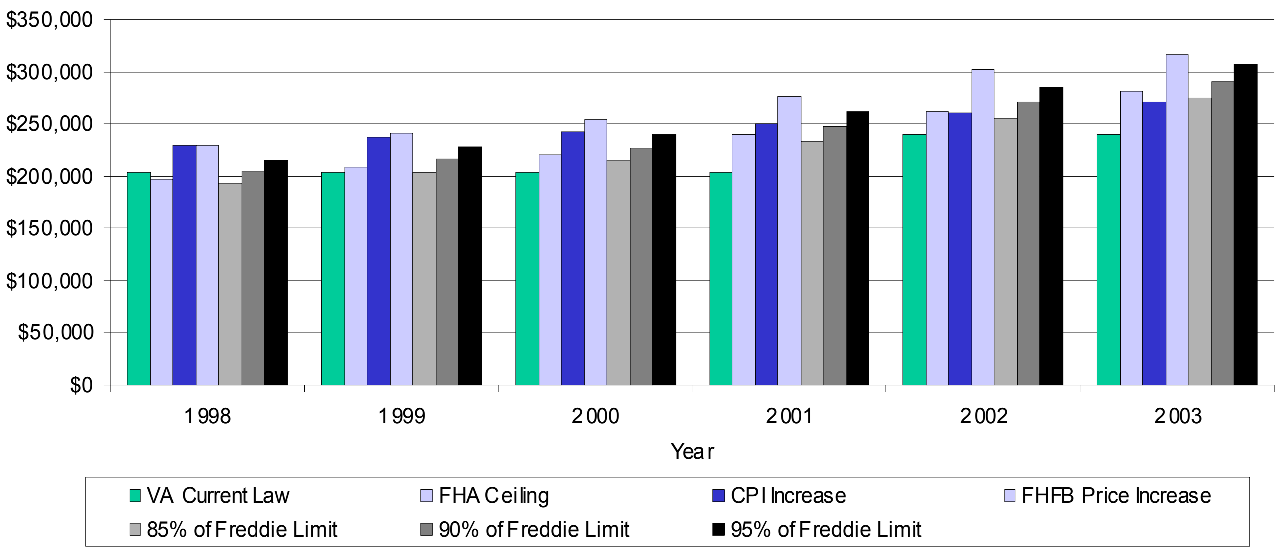
[1] The limit was increased to $240,000 on December 27, 2001, by P.L. 107–103.

[2] FHFB data are unavailable for 2002; this is an estimate based on trend increases since 1992.

Source: Study Team

Figure E-9 shows the VA loan maximums from Table E-24 and the possible outcomes in 2003 under the various indexing approaches. If VA wants to maintain comparability with the limit on FHA insured loans, then it should consider establishing the VA loan limit as a percentage of the Freddie Mac limit on conventional loans. If this process is adopted, the VA loan guaranty maximum would then be reset each January 1 at 25 percent of the adjusted loan maximum.

Figure E-9. Comparison of Current Law Maximum VA Loan Amounts with Indexed Loan Amounts (Assuming Indexing Became Effective in 1992)



Source: Study Team

The Study Team computed the average annual percentage changes in the CPI and FHFB indices between 1992 and 2003 and applied these annually, beginning in 2004, to the current VA loan guaranty maximum. We also determined the average annual percentage increase in the Freddie Mac conventional loan limit from 1992 through 2003 and applied this percentage in each future year beginning in 2004. We started with the 2003 values for 85, 90, and 95 percent of the Freddie Mac conventional loan limit.

Table E-25 summarizes the annual percentage increases in the loan guaranty maximum that we used in estimating the cost of indexing.

Table E-25. Percentage Increases in Indices Applied to VA Loan Guaranty Maximum

Indexing Method	Average Annual Percentage Increase in Index (1992–2003)
Baseline (Current Law)	2.44%
CPI Increase (Owner's Equivalent Rent)	3.28%
FHFB Price Increase[1]	4.50%
85% of Freddie Mac Limit on Conventional Loans	4.33%
90% of Freddie Mac Limit on Conventional Loans	4.33%
95% of Freddie Mac Limit on Conventional Loans	4.33%
[1] Increase is for 1992–2002.	

Source: Study Team

Conclusions

On the basis of our review and consideration of the data, we offer the following conclusions:

- Although the $240,000 VA loan limit has kept pace with the cost of housing in most locations, it has not kept pace in high-cost areas.
- A comparison of average and median loan amounts demonstrates that VA loans are larger than non-VA loans in all but high-cost areas.
- Veterans are able to use the VA loan to purchase homes in both low- and high-cost areas. The present loan maximum of $240,000 is sufficient to support a home purchase in each of the 30 MSAs we examined.
- However, veterans can be "frozen out" of some housing markets. By this we mean that they may be unable to obtain VA guaranteed financing to purchase a particular house that they have selected. This outcome is most likely in high-cost areas where up to half of the homes may cost more than can normally be financed with a VA loan. However, this outcome can also occur in less costly areas if the veteran wishes to purchase a high-cost home.
- There are several approaches available to VA to index the loan maximum so that it keeps pace with housing prices. Indexing would eliminate the need for congressional action to increase the limit and add an element of stability to the program.

APPENDIX F

EFFECTS OF FUNDING FEE ON PARTICIPATION— MULTIVARIATE ANALYSIS

APPENDIX F: EFFECTS OF FUNDING FEE ON PARTICIPATION—MULTIVARIATE ANALYSIS

This appendix presents the regression equations we estimate in Chapter 5. We estimate dichotomous (0,1) dependent variable model of VA Home Loan program participation.

Our logit model[1] of VA Home Loan program participation is:

$$Pr(y_j = 1) = 1/(1+ e^{-(Xj\beta + Zj*\omega + \delta 1 * d1,j + \delta 2 * d2,j + \delta 3 * d3,j)})$$

Y_j is equal to 1 if veteran household *j* has a mortgage that is a VA loan and 0 if veteran household *j* has a mortgage that is not a VA loan; X_j is a vector of household *j's* socioeconomic and financial characteristics; $d_{1,j}$ is a dummy variable equal to 1 if veteran household members *j* purchased their mortgage during 1966 to 1970 or 1983 to 1984 and 0 otherwise; $d_{2,j}$ is a dummy variable equal to 1 if veteran household members *j* purchased their mortgage during 1985 to 1990 or 1992 to 1993 and 0 otherwise; $d_{3,j}$ is a dummy variable equal to 1 if veteran household members *j* purchased their mortgage in 1991 or later than 1994.

We estimate the equation above for veteran households using pooled 2001,1998, and 1995 Survey of Consumer Finance (SCF) data.[2]

[1] This is derived from a sequential model where $y_j = 1$ if veteran household j has no loan; $y_j = 2$ if veteran household *j* has a loan but is not a VA loan; $y_j = 3$ if veteran household *j* has a VA loan. It is straightforward to show that this sequential model can be estimated by a series of dichotomous logit models, one of which is given in equation (2).

[2] We recognize that veteran status is in itself endogenously determined. Estimating a latent variable model to take this into account is beyond the scope of this project.

Table F-1 lists the definitions, means, and counts of the variables used.

The regression equation presented in Table F-1 gives the marginal estimates for the VA Home Loan program participation equation. Marginal estimates on the continuous variables are the coefficient estimates multiplied by the probability of holding a VA loan, where this probability is evaluated at explanatory variable means. Marginal estimates for the categorical variables for veteran households are the differences in the probability of holding a VA loan evaluated at dummy variables equal to 1 and 0.

Table F-1. Variable Definitions and Summary Statistics

Variable	Definition	Mean[3]	Number of Observations
Dependent Variable			
VA Home Loan Program Participation	= 1 if the veteran household has a VA backed loan	.2	328
Explanatory Variables			
Household Head or Veteran Demographics			
Age	Age of household head or veteran	48.97	22,210
White	= 1 if household head or veteran is white	.76	17,902
Black	= 1 if household head or veteran is black	.13	2,312
Education	Number of years of schooling of household head	13.12	22,210
Children	Number of dependent children living in the household	.81	22,210
Veteran Status	= 1 if household head or spouse is Veteran and not currently serving in the military	.23	5,665
Household Financial Characteristics			
Income	Household gross income (‘000s of dollars, year 2000)	67.12	22,210
Assets	Household Financial Assets (‘000s of dollars, year 2000)	190.65	22,210
Debts	Total Household Debt (‘000s of dollars, year 2000)	54.51	22,210
Credit Constrained	= 1 if household ever filed for bankruptcy, or household had payment more than 60 days past due in the past year.	.32	6,028
Household Financial Stability			
Job Duration	Years worked at current job	7.04	22,210
Know Income Next Year	= 1 if head of household has a good idea of what next year’s income will be	.68	15,265

Source: SCF Data Files

[3] The mean is the weighted mean over five implicates. These means will be representative of the U.S. population. The number of observations is the count over five implicates. Divide the number of observations by 22,210 to get the percentage of respondents for which a binary variable is equal to 1.

Table F-1. Factors Affecting Whether a Veteran Has a VA Loan

Variable	Veteran
	Change in Probability of Holding a VA Loan
Household Head or Veteran Demographics	
Age	-0.6%*
White	-3.00%
Education	4.49%*
Children	3.7%
Household Financial Characteristics	
Income	-0.4%*
Financial Assets	-0.08%*
Debts	0.07%*
Time Period of Mortgage Purchase	
Mortgage Originated 1966 to 1970 or 1983 to 1984	-18.4%*
Mortgage Originated 1985 to 1990 or 1992 to 1993	-23.3%*
Mortgage Originated 1991 or later than 1994	-31.9%*

* Denotes that the variable is statistically significant at the 95% level.

Source: SCF Data Files

Table F-2. Determinants of VA Home Loan Program Participation

Variable	Coefficient Estimates	Standard Error
Intercept	-.13	.62
Age	-.02	.006
Education	.13	.03
Income	-.01	.002
Financial Assets	-.002	.0004
Debts	.002	.0007
White	-.17	.23
Black	.48	.29
Number of Children	.11	.06
Credit Constraint[4]	.27	.18
Mortgage Originated 1966 to 1970 or 1983 to 1984	-1	.56
Mortgage Originated 1985 to 1990 or 1992 to 1993	-1.1	.36
Mortgage Purchased 1991 or later than 1994	-1.6	.26

Note: The standard errors have been adjusted to take into account the multiple imputations In the dataset.

Source: SCF Data Files

[4] Recall that the estimates here are for the probability that a veteran household has a VA loan *given* that the veteran household has a mortgage. The distinction is important for the credit constraint variable. Whether a household is credit-constrained is not a significant determinant of VA Home Loan program participation, *given* the household holds a mortgage, but is a significant determinant of whether a household holds *any* mortgage.

APPENDIX G

ANALYSIS OF MILITARY HOUSING

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APPENDIX G: ANALYSIS OF MILITARY HOUSING

Introduction

Active duty personnel may have several housing choices open to them. They may be able to obtain traditional military housing on the installation where they are assigned or military housing that is managed by a civilian contractor. Alternatively, they may rent or purchase civilian community housing. Purchasers may finance their homes using a VA guaranteed, conventional, or other type of loan.

Within the past few years, the U.S. Department of Defense (DoD) has begun contracting with private sector firms to build, renovate, and manage housing units for military families. Consequently, military members can be assigned to traditional housing on military installations or to new “privatized” units. Military and privatized housing units are assigned on a first-come-first-served basis. Housing inventories are categorized and assigned according to rank and family size. However, there are usually not enough housing units to meet the demand, and there may be a waiting time of many months before a unit becomes available.

DoD has established a system of military housing allowances to assist in meeting the housing expenses of members who reside offbase. The allowances vary by rank, location, and dependency status; that is, there are separate schedules for members with no dependents and members with one or more dependents. The housing allowances are updated each year.

Active duty members who reside in military housing forfeit their monthly housing allowance. Members who reside in privatized housing receive a monthly housing allowance but must pay that amount as rent to the management firm. The amount of housing allowance forfeited for onbase housing or paid to the privatization firm is the total cost for residing in military or privatized housing, including rent and all utilities.

Approach

We organized our analysis into three study questions:

- What percentage of active duty military participates in the VA Home Loan Guaranty program?
- What is the relationship between military housing allowances and VA Home Loan program participation by geographic area?
- What is the relationship between military housing availability and VA Home Loan program participation?

The Study Team met with DoD officials who could provide information about the military housing allowances and military family housing. The housing allowance program, as described below, is maintained within the Office of the Assistant Secretary of Defense for Force Management and Personnel. We met with the Director of the housing allowance program. This office provided documentation on how housing allowances are determined, as well as extensive historical data files on housing allowance rates and numbers of recipients for each geographic region. We also met with officials from the Office of the Secretary of Defense (OSD) Housing Directorate. The Housing Directorate is conducting a contract study to provide Web-based information to members about local housing opportunities.

The Study Team met with military family housing experts in each service. These individuals provided information about how military family housing is made available to their servicemembers. They also told us about how information on rentals, home purchases, and home financing was communicated to their servicemembers.

We obtained a data set from the Guaranteed and Insured Loan (GIL) Computer System, from which we extracted information on loan amounts, purchase prices, State and county location, and year. The data extract included participants of the VA Home Loan Guaranty program in the past 4 years (1999–2002).

During our stakeholder meeting with professional staff members from the Senate and House Committees on Veterans' Affairs, staffers questioned whether programs were available to assist active duty homeowners who could be adversely affected if a new round of base realignments and closures was implemented. Adverse economic consequences could result if a base closure or significant realignment resulted in the local housing market being flooded with homes for sale.

In preparation for addressing the above three research questions, the Study Team examined the military family housing program and the military housing allowance system.

How Is Military Housing Provided to Servicemembers?

DoD policy for military family housing is covered in DoD Directive 4165.63-M. The directive identifies the civilian community as being the primary source of housing for military families. Approximately two-thirds of military members live in the civilian community. Military housing is made available when and where DoD determines that the community cannot furnish enough high-quality housing to meet servicemembers' needs.

In actuality, DoD has constructed, maintained, and operated military family housing units on most military installations in the United States, and it has leased some units in the civilian community. The annual cost for operating military housing units and leased housing is approximately $2.8 billion. Most of the housing stock now in use was constructed in the 1950s and 1960s,[1] and many of these units have fallen into disrepair, are too small, or are otherwise inadequate when measured by current standards. DoD estimates that about 200,000 of the total 300,000 military family housing units are inadequate and that it would cost $16 billion over 30 years to restore the housing stock if traditional funding and construction practices were followed.[2]

In 1995, DoD departed from traditional approaches by requesting authority to employ private sector investment capital and home construction expertise to address military housing deficits. The National Defense Authorization Act for Fiscal Year 1996[3] contained 12 new authorities that enabled DoD to launch the Military Housing Privatization Initiative (MHPI). The MHPI permits DoD to contract with private sector firms to finance, develop, build, manage, maintain, and own military housing. In other words, the privatization firm will assume all of the functions previously performed by DoD regarding operation of military family housing units.[4]

Each service is managing its own privatization projects. Projects include construction of new housing, renovation of existing housing, and demolition of existing housing. Service projects will replace different percentages of traditional military housing with privatized housing. The Army plans to replace most military housing with privatized housing, and the Air Force will privatize slightly over half of its units. The Navy will privatize all of its military family housing, and the Marine Corps will privatize 95 percent of its units. The location of privatized housing varies by project. Some units are located on military installations, and some units are located offbase.[5] Active duty military families have first priority to occupy privatized housing units. The contractor can then rent unoccupied units to nonmilitary families on the private rental market. Eventually, privatized housing will also be developed for single military members. For example, the Navy sailors who now must reside on board ships when in port will be housed ashore in dormitory-style privatized housing.

The current status of privatization projects is that as of February 2003, DoD had awarded 18 projects, involving nearly 28,000 units. Over 30 more projects, involving 55,000 units, were in solicitation, and 28 additional projects, with 40,000 units, were in the planning stages. Although firm figures are not available, a DoD privatization expert estimated that when all privatization projects are completed, the total stock of housing

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[1] Buddin, R. J., C. R. Gresenz, S. D. Hosek, M. N. Elliott, and J. Hawes-Dawson. (1999). An evaluation of housing options for military families. RAND Corporation, pp. 15–16.
[2] U.S. General Accounting Office. (March 2000). Military housing: Continued concerns in implementing the privatization initiative. GAO/NSIAD-00-71, pp. 15–16.
[3] Public Law 104–106, Section 2801. February 10, 1996.
[4] Source: www.defenselink.mil/acq/installations/hrso/award.htm. An example of a privatization activity is the project at Ft. Carson, Colorado. Beginning in 1999, a private developer began providing $228.6 million in funding to renovate 1,823 existing units and construct an additional 840 units. In November 1999, the developer took over management of all housing at Ft. Carson. The developer will own, operate, and maintain the units for a 50-year period. Over 200 new homes have been built to date. Twenty new units are added each month, and 40 existing homes are renovated each month. The project will be completed in November 2004.
[5] Throughout this report, we use the term “offbase” when referring only to civilian community housing. Specifically, our use of the term does not include privatized housing units that are located in the civilian community.

will be lower than it was before privatization; that is, there will be fewer combined military and privatized housing units in the inventory after privatization is finished than there were military units before privatization began. This means that more members will be housed in the civilian community, an outcome that is consistent with the DoD directive.

With this as background, servicemembers presently obtain housing from one of three primary sources:

- Military family housing
- Privatized housing where it is available
- Civilian community housing.

Military family housing units are assigned on the basis of military rank and family size. Table G-1 shows the various types of housing unit combinations, by house size (determined by the number of bedrooms [BR]) and military rank, that are normally available onbase.

Table G-1. Family Housing Units Available—Typical Combinations

	E1–E3	E4–E6	E7–E9	W1–O3	O4–O5	O6
2 BR	Yes	Yes	Yes	N/A	N/A	N/A
3 BR	Yes	Yes	Yes	Yes	Yes	Yes
4 BR	Yes	Yes	Yes	Yes	Yes	Yes
5 BR	Yes	Yes	Yes	N/A	N/A	Yes

Source: www.housing.navy.mil

For example, on a typical installation with military housing, units for a senior enlisted member (E7–E9) would range in size from two to five bedrooms, depending on family size. Units for a senior officer (O6) would range from three to five bedrooms, depending on family size. As we discuss below, there is usually a waiting list for most categories of units because the demand for military housing exceeds the available supply. Waiting lists can range from several weeks to several years, depending on size and location.

Servicemembers who reside in traditional military housing pay nothing for rent or utilities, but they forfeit the monthly housing allowance that they would receive if they lived offbase. Members residing in privatized housing receive the monthly housing allowance but in turn pay this amount to the private housing manager.[6]

[6] Army, Air Force, and Marine Corp make electronic transfers of the Basic Allowance for Housing from the member's pay directly to the privatized housing manager. Navy requires the members to make payments individually.

Military personnel who live in the civilian community do so for various reasons. For example, they may be unable to obtain suitable military housing, or there may be an unacceptably long waiting time for military or privatized housing. In addition, they may decide to live in the community because, for example, they prefer civilian surroundings, schools are better, they are closer to a spouse's job, or they want to build equity in a home.

Deciding to live offbase also involves a decision about whether to rent or buy a residence. Home purchase decisions can involve both economic and personal factors. Factors can include the stock of suitable rental housing, a desire for tax savings, anticipation of market appreciation, personal preference for ownership, anticipated tour length, or future retirement plans.[7]

There are several sources of information that can shed insight on servicemembers' motivations for living in military or privatized housing or for purchasing or renting civilian housing. A 1999 RAND Corporation study reports on surveys of personnel at 12 military installations around the United States.[8] The survey elicited the important influences in respondents' decisions to live onbase, to rent offbase, or to purchase housing offbase.

The RAND study arrived at three major findings. First, families assessed the value of military housing to be higher than the value of the military housing allowance. Second, this large "gap" contributed to the strong demand for base housing. Third, other benefits of base housing, such as living in a military community, acculturation of junior servicemembers, and fostering of military values, were significantly less important to the military members than was the perceived economic advantage of living onbase.

These study findings must be tempered somewhat because the survey was conducted before the current housing allowance program was established. The out-of-pocket offbase housing cost was approximately 20 percent of the total housing cost when the survey was conducted, compared with 7.5 percent in 2003. Today's smaller gap would diminish but not eliminate the economic advantage of living onbase. In fact, the RAND study suggested that increasing the housing allowance would be an effective method for reducing the demand for onbase housing and that relatively few military families would retain a strong preference for military housing if the gap were eliminated. The RAND study was also conducted before housing privatization projects had significantly affected housing inventories, so this future source of housing is unaddressed by the study.

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[7] A 2000 study published by the Center for Naval Analyses concluded that home ownership rates are similar between Navy/Marine Corps members and civilians at age 40 and above. The most influential factor in the home purchase decision is being married. Other statistically significant factors are having children, higher income, and older age. Hehbey, B. (May 2000). Do military families achieve the American dream? A comparison of Navy, Marine Corps, and civilian ownership rates. Center for Naval Analyses, CRM D0000842.A2/Final.

[8] Buddin, R. J., C. R. Gresenz, S. D. Hosek, M. N. Elliott, and J. Hawes-Dawson. (1999). An evaluation of housing options for military families. RAND Corporation, pp. 28–29.

What Housing Allowances Are Provided for Members Who Do Not Reside in Military Housing?

Military personnel who do not live in military housing have traditionally received some form of monthly monetary allowance to assist with the cost of housing. A separate housing allowance program has been established for military members stationed overseas. This study considered only U.S. allowances. The DoD Per Diem, Travel and Transportation Allowance Committee (Per Diem Committee) is responsible for determining the military housing allowances. The housing allowances are paid to qualifying members of all uniformed services, including the Coast Guard and the Public Health Service. For purposes of this study, the Study Team has restricted consideration to members serving in DoD (Army, Navy, Marine Corps, and Air Force).

Prior to 1998, there were two separate monthly housing allowances. The first, Basic Allowance for Quarters (BAQ),[9] was a flat payment determined by military grade and dependency status but unrelated to the member's geographic location. As modified by the 1985 DoD Authorization Act[10], the BAQ schedule was designed to pay 65 percent[11] of the nationwide median housing cost reported by servicemembers who had the same pay grade and dependency status.[12] Thus, two servicemembers with the same grade and dependency status received the same amount of BAQ, regardless of where they were assigned within the United States.

The second allowance was the Variable Housing Allowance (VHA).[13] VHA was established to assist in meeting housing expenses in "high housing cost areas." VHA was payable in a location whenever the median local housing cost exceeded 80 percent of the median national housing cost for a particular pay grade. The amount of VHA was the difference between the median local housing cost and 80 percent of the median national housing cost. Housing costs were the actual expenses reported by military members on annual surveys.

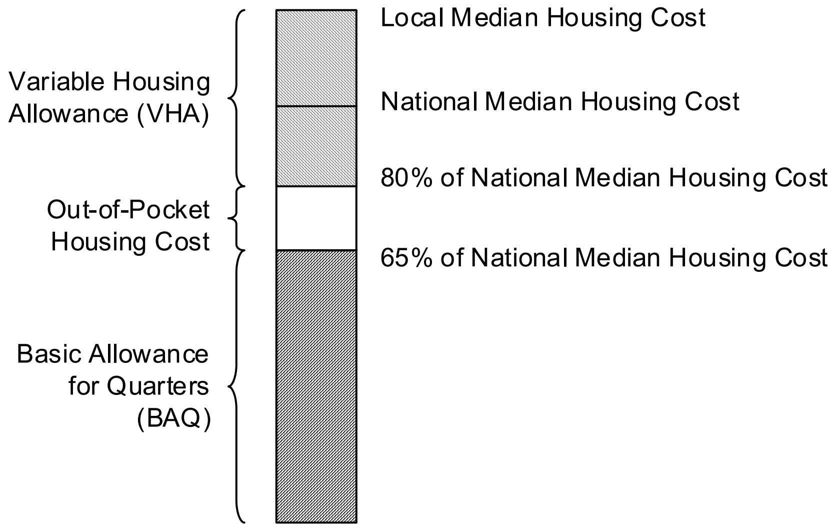
When BAQ and VHA were combined, recipients were, theoretically, expected to pay 15 percent of the national median housing cost out of pocket. Because adjustments to BAQ and VHA rates did not keep up with increases in the housing costs that members reported, out-of-pocket housing expenses regularly exceeded the 15 percent target. In 1986, the DoD Authorization Act authorized separate VHA rates for personnel with and without dependents. The act also established a mechanism for recouping "windfall" VHA payments from the relatively small percentage of members whose actual housing

[9] The basic structure for BAQ was established in the Career Compensation Act of 1949, Public Law 81–351. Numerous amendments were enacted in subsequent years.
[10] Public Law 98–525. October 19, 1984.
[11] Once established at 65 percent of the median nationwide housing expense, annual adjustments to BAQ were the same percentage as the adjustment in basic pay. Since housing expenses increased faster than basic pay increases, BAQ rates fell below the 65 percent standard.
[12] Dependency status describes whether the servicemember has either no dependents or one or more dependents.
[13] The VHA was first authorized by the Military Personnel and Compensation Amendments of 1980, Public Law 96–343.

costs were less than their combined BAQ and VHA. Figure G-1 illustrates the conceptual relationships among national and local housing costs and BAQ and VHA for a particular location and pay grade.

Figure G-1

Basic Allowance for Quarters (BAQ) and Variable Housing Allowance (VHA)



Source: Study Team (from DoD Per Diem Committee information)

By design, the out-of-pocket housing cost was the difference between 80 and 65 percent of the national median housing cost. This out-of-pocket amount was actually larger because BAQ rates fell below 65 percent of the national median and VHA rates were less than the difference between the local median and 80 percent of the national median cost.

The system of BAQ and VHA payments was replaced with a single Basic Allowance for Housing (BAH) on January 1, 1998.[14] A significant distinction between the BAQ/VHA and BAH systems is that BAQ/VHA rates were based on housing *expenses* reported by servicemembers, while BAH payments are based on housing *prices* in the local area. This is an important difference.

Housing price data in the BAH system reflect market rents charged for apartments, townhomes, and single-family homes in communities where servicemembers live. Rental data are collected annually by Runzheimer International, as well as the services from multiple sources, including rental listings and apartment and real estate management companies. Sampling is used to ensure that prices are collected in areas

[14] Authorized by Section 403 of the National Defense Authorization Act for Fiscal Year 1998, Public Law 105–85.

where military members reside and to reflect the housing prices for individuals whose income levels are comparable with the compensation of military personnel living in that area. In addition, data are collected on utility costs[15] and renter's insurance premiums. Rents, utility costs, and renter's insurance are added and become the basis for determining BAH rates.

With data collected through this sampling process, BAH rates are established and updated annually on the basis of actual housing market price data. This process contrasts with the process used to determine VHA rates, which were established on the basis of servicemembers' reported housing expenses. The reported expenses reflected decisions to consume housing that could have been consistent with the market or significantly above or below market prices.

Revised BAH rates are effective each January 1. However, if rental prices decline and the resulting BAH rates are lower, a "rate protection" feature permits BAH recipients to retain the higher of two allowances: the one they were receiving on December 31 or the new BAH rates that are effective on January 1.

The Congressional Budget Office concluded that the housing price approach would tend to increase housing allowances in areas where housing is more expensive and reduce allowances in areas where housing is less expensive.[16] This occurs primarily because servicemembers' reported housing expenses varied less by geographic area than did market housing prices.

BAH rates are established separately by military pay grade and dependency status for each of approximately 350 military housing areas (MHAs)[17] in the United States. As originally enacted, payment amounts are the difference between the monthly cost of "adequate" housing in the MHA and 15 percent of the national average monthly cost of adequate housing in the United States. Adequate housing refers to housing of an appropriate size based on the number of dependents and consistent with the servicemember's income. When BAH was first implemented, servicemembers were expected to absorb out-of-pocket expenses of 15 percent of the national median cost of rental housing for their grade and dependency status, regardless of where they were stationed.

Figure G-2 illustrates the relationships among median national and local housing prices and BAH rates for a particular location and pay grade.

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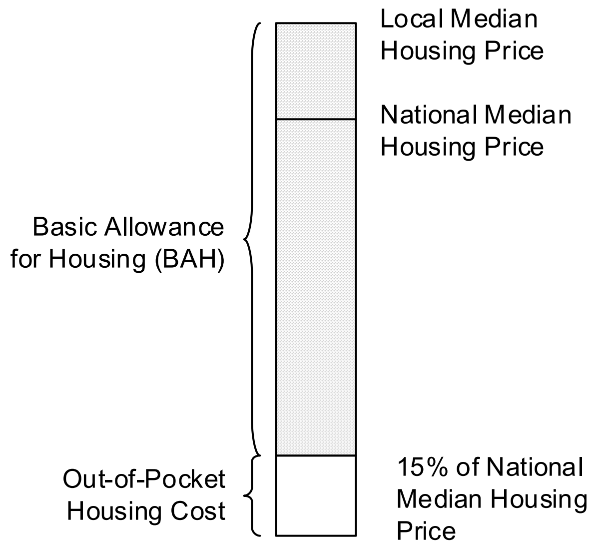
[15] Local utility service fees and utility rates are combined with consumption data from the Bureau of the Census American Housing Survey and climatic information from the National Oceanic and Atmospheric Administration to derive overall utility costs.
[16] Congressional Budget Office. (October 1998). Housing prices, housing choices, and military housing allowances, p. 1.
[17] An MHA is a collection of ZIP Codes that are within approximately 20 miles or 1 hour's commute (in traffic) from the military installation.

Figure G-2

Basic Allowance for Housing (BAH)



Source: Study Team (from DoD Per Diem Committee information)

The National Defense Authorization Act for Fiscal Year 2001 repealed the requirement for members to absorb 15 percent of out-of-pocket costs, and the Secretary of Defense has pledged to increase BAH rates so that they will cover 100 percent of housing costs by 2005. In 2002, the out-of-pocket expense was approximately 11.3 percent of the national median housing cost. Table G-2 shows the schedule that DoD anticipates for eliminating out-of-pocket housing costs.

Table G-2. Percentage of National Median Housing Cost Absorbed Out of Pocket by BAH Recipients, Actual and Projected

Year	Absorption Percentage
1999 (Original Design)	15.0%
2000	18.8%
2001	15.0%
2002	11.3%
2003*	7.5%
2004*	3.5%
2005*	0.0%

* Projected

Source: Meeting with DoD Per Diem Committee BAH representative; Department of Defense, A Primer on Basic Allowance for Housing for the Uniformed Services, July 2002, p. 3.

What Percentage of Active Duty Military Participates in the VA Home Loan Guaranty Program?

The first step in our analysis was to examine the extent to which the VA Home Loan Guaranty program assists active duty military in meeting housing needs in various geographic areas. The Study Team used the MHA as the unit of analysis in this part of the study so that we could compare the housing allowances with the use of VA home loans by active duty military personnel on a regional basis.

The Study Team selected 30 MHAs that represent a mix of geographic locations, installation size (as measured by population), and branch of service. Some of the MHAs, such as Fort Sill/Lawton, Oklahoma, include only one military installation. Other MHAs, such as Washington, DC, and Norfolk/Portsmouth, Virginia, include more than one installation. The 30 MHAs that we selected included 46 percent of all military members who received BAH in 2001.

The Study Team combined home loan data from VA's GIL with BAH information obtained from the DoD Per Diem Committee. We developed the analysis data set in the following manner, working from the GIL files for fiscal years 1999 through 2002.

We determined the number of VA guaranteed loans closed in each MHA so that we could evaluate relationships between VA loan activity and housing allowances. MHAs are defined by ZIP Codes, but the Study Team found that the ZIP Code data in GIL were missing or unreliable. Consequently, we used the Federal Information Processing Standard (FIPS) State and county codes from the GIL data as a starting point for mapping into ZIP Codes. We assumed that the FIPS State and county codes in the GIL master file reflected 1990 definitions.[18]

The Study Team used the "Zip Code file in LandView IV," prepared by the Bureau of Census from the U.S. Postal Service (USPS) City-State file, as the basis for translating FIPS codes to ZIP Codes. This file contains all 5-digit ZIP Codes defined as of November 1, 1999, as well as the State and county FIPS codes (1990 definitions to be consistent with GIL). In cases when a ZIP Code crosses county boundaries, the Census file assigns that ZIP Code to just one of the counties, rather than to each county.

By merging the GIL master file and Census data, we were able to assign a ZIP Code to each loan record by matching against the FIPS State and county codes. Once a ZIP Code was assigned to the loan record, we used a file from the DoD Per Diem Committee to map from ZIP Code to MHA. The Study Team used the 1999 ZIP Code definitions for MHAs to be consistent with the Census and GIL data. This merged file provided us with the ZIP Code, MHA name, and MHA code for each loan record in the GIL master file.

[18] Because FIPS codes are updated every 10 years and since the file contained data spanning the years 1998–2002, we assumed that the FIPS data would be from 1990. The latest update of the FIPS codes was in 2000, and we assumed that that data would not have been included in the GIL master file since it would have affected the consistency of the data.

For each MHA, we determined the number of VA home loans closed by active duty military (excluding reservists) and descriptive measures of the loan amounts and purchase prices. The Study Team restricted the analysis to purchase loans for homes, condominiums, and manufactured housing. We excluded loans for any type of refinancing because we wanted to examine how the loan program assisted active duty persons in obtaining a residence, not in changing the financing of an existing residence.

The descriptive measures of the price and loan amount data we calculated included the average or mean, the median (50th percentile), and the 10th, 25th, 75th, and 90th percentiles. Data were compiled and compared for calendar years 1999 through 2001 and for the first three quarters of calendar year 2002. GIL data for 2002 include loans closed through the first three quarters of calendar year 2002. We extrapolated 2002 data to a full four quarters by multiplying each entry by 4/3. The Study Team converted the loan data to a calendar year basis so that it would be consistent with BAH rates, which are updated on January 1 of each year. Tables summarizing the loan data are provided in Attachment G-1.

Table G-3 identifies the 30 MHAs and the number of active duty military servicemembers who were receiving BAH as of November 2001. Data are shown for individuals receiving BAH at the with- and without-dependent rates, as well as the total number receiving BAH. Members who live in privatized housing and receive BAH have been excluded. We excluded them from the potential pool of VA home loan users because they have made a housing decision equivalent to members living in traditional military family housing; that is, they are not “candidates” for using a VA loan to purchase a home. Though not shown in Table G-3, the BAH recipient data were also broken out into the 24 grade categories (E-1 through O-7) for which BAH is determined for each MHA.

The 337,658 BAH recipients in this sample of 30 MHAs are 46 percent of the total number of 731,433 BAH recipients in all MHAs.

We did not have data on the number of BAH recipients for other years, so we applied the 2001 data to 1999, 2000, and 2002. This implies an assumption that the number of BAH recipients within an MHA would remain relatively stable from year to year. Factors that could cause significant changes in the number of BAH recipients, in addition to housing privatizations, which we have accounted for, would be base closures or major realignments of forces. In addition, the transfer of a combat or support unit from or to the installation or installations within the MHA would also be a factor.

Table G-3. Number of Active Duty Servicemembers Receiving Basic Allowance for Housing, November 2001—Excludes Servicemembers Residing in Privatized Housing

Military Housing Area	With Dependents	Without Dependents	Total
Anchorage, AK	4,003	2,365	6,368
Beale AFB, CA	691	999	1,690
Los Angeles, CA	3,307	1,082	4,389
San Diego, CA	26,975	11,953	38,928
Colorado Springs, CO	13,338	4,115	17,453
Washington, DC	26,431	11,033	37,464
Dover AFB, DE	1,203	1,300	2,504
Jacksonville, FL	12,126	4,046	16,171
Fort Benning, GA	4,401	1,535	5,936
Honolulu County, HI	9,194	7,827	17,021
Great Lakes Naval Training Center	2,549	964	3,513
Scott AFB, IL	3,208	1,495	4,703
Indianapolis/Fort Harrison, IN	935	188	1,123
Fort Leavenworth, KS	1,073	398	1,471
Fort Knox, KY	1,939	658	2,597
Shreveport/Barksdale AFB, LA	2,955	2,285	5,240
Patuxent River, MD	1,387	423	1,810
Malmstrom AFB, MT	943	1,268	2,211
Morehead City/Cherry Point MCAS	2,111	758	2,869
Fort Bragg/Pope AFB, NC	22,965	7,348	30,313
Cannon AFB, NM	606	600	1,205
Fort Sill/Lawton, OK	5,347	1,154	6,501
Carlisle Barracks, PA	1,252	293	1,545
Beaufort/Parris Island, SC	2,435	853	3,288
Kingsville, TX	2	177	179
San Antonio, TX	14,231	6,420	20,651
Fort Hood, TX	20,449	6,876	27,325
Norfolk/Portsmouth, VA	44,090	15,638	59,728
Camp A. P. Hill, VA	298	151	449
Tacoma, WA	10,062	2,951	13,014
Total for MHA Sample	240,504	97,154	337,658

Source: Study Team (from DoD Per Diem Committee data, DoD MHPI Web site, and Service Housing Office data)

BAH recipients comprise the pool of active duty servicemembers who would potentially use a VA guaranteed loan to purchase a home. Although the Study Team assumed that the size of the BAH population in each MHA is stable from year to year, the composition of the population changes. The "turnover" occurs as some BAH recipients are transferred to other duty stations, and these departures are replaced by newly assigned servicemembers who live offbase and receive BAH. We assumed that only the new arrivals would be in the housing market each year. In other words, these individuals would be the ones who would conceivably purchase a home.[19] The percentage of total BAH recipients represented by new arrivals depends on the tour length. For example, if the average tour length in an MHA is 3 years, then approximately one-third of the BAH recipients would depart each year and be replaced with new arrivals.

The Study Team was not able to determine the average tour length in each MHA. Consequently, we assumed a range of tour lengths of between 2 and 4 years, on the basis of information that we received from the services. The Study Team concluded that this was a reasonable range that captured service rotation policies and the actual experience of the majority of active duty military personnel living in these 30 MHAs. Applying this range means that between one-half and one-fourth of BAH recipients would turn over each year; that is, somewhere between 25 and 50 percent of BAH recipients would be replaced by newly assigned servicemembers. These newly assigned personnel would be the potential population of VA Home Loan program participants.

Part of our assumption about tour length is that the same tour length would apply at each MHA. This may not be an accurate assumption because the military units based in the various MHAs may have different rates of turnover. We recognize that our lack of MHA-level data on tour length is a limitation of the analysis, but we do not have enough information on which to formulate a more precise assumption. We do not believe that this limitation has a material impact on our conclusions about the relationship between housing allowances and participation in the VA Home Loan program.

Table G-4 shows number of VA loans closed by active duty military home purchasers during each calendar year from 1999 through 2002 for each of the 30 MHAs we examined. The last column of Table G-4 presents the average number of new VA loans closed by active duty military personnel annually during the period from 1999 through 2002.

The Study Team used the information in Table G-3 and Table G-4 to estimate the average proportion of active duty military members who resided offbase and used a VA home loan to purchase housing during 1999 through 2002. We divided the average number of annual VA loan closings (Table G-4) by an estimate of the number of active duty military members who resided offbase and made a housing decision during the year (Table G-3). The results for each MHA are shown in Table G-5 for the range of tour lengths we assumed.

The data in Table G-5 are linear multiples of one another. This is an outcome of our assumption about the same average tour length in each MHA, which was discussed

[19] In addition, some individuals who had been renting a home could decide to purchase a residence after having lived in the MHA for some period of time, or a member living in military or privatized housing could decide to purchase a home.

previously. For example, between 12.6 and 25.2 percent of active duty military who reside offbase in the Anchorage, Alaska, MHA used a VA loan to purchase housing.

Table G-4. Number of New VA Home Loans Closed by Active Duty Military Personnel

Military Housing Area	1999	2000	2001	2002*	Average
Anchorage, AK	261	316	527	497	400
Beale AFB, CA	21	28	22	52	31
Los Angeles, CA	39	16	6	9	18
San Diego, CA	1,156	684	454	456	688
Colorado Springs, CO	953	850	1,193	1,200	1,049
Washington, DC	871	655	556	459	635
Dover AFB, DE	75	80	139	137	108
Jacksonville, FL	933	921	1,003	977	959
Fort Benning, GA	296	203	249	287	259
Honolulu County, HI	133	114	141	247	159
Great Lakes Naval Training Center	77	85	108	101	93
Scott AFB, IL	152	215	253	291	228
Indianapolis/Fort Harrison, IN	35	46	58	63	51
Fort Leavenworth, KS	37	35	48	63	46
Fort Knox, KY	161	131	135	171	150
Shreveport/Barksdale AFB, LA	181	193	252	267	223
Patuxent River, MD	137	113	139	165	139
Malmstrom AFB, MT	66	60	76	79	70
Morehead City/Cherry Point MCAS	148	129	173	148	150
Fort Bragg/Pope AFB, NC	1,451	1,036	1,557	1,668	1,428
Cannon AFB, NM	25	21	41	44	33
Fort Sill/Lawton, OK	259	211	206	277	238
Carlisle Barracks, PA	38	38	36	52	41
Beaufort/Parris Island, SC	127	95	78	89	97
Kingsville, TX	7	5	3	4	5
San Antonio, TX	1,022	921	1,138	1,235	1,079
Fort Hood, TX	1,026	1,067	1,258	1,413	1,191
Norfolk/Portsmouth, VA	2,633	2,339	2,795	2,584	2,588
Camp A. P. Hill, VA	26	17	40	31	29
Tacoma, WA	408	400	540	661	502
Total for MHA Sample	12,754	11,024	13,224	10,295	12,682

* Annualized data based on the first three quarters of calendar year 2002.

Source: Study Team (from GIL data)

Table G-5. Average Percentage of Active Duty Military Personnel Living Offbase Who Use VA Guaranteed Loans, 1999–2002

Military Housing Area	Assuming 2-Year Tour Length at each MHA	Assuming 4-Year Tour Length at each MHA
Anchorage, AK	12.6%	25.2%
Beale AFB, CA	3.7%	7.3%
Los Angeles, CA	0.8%	1.6%
San Diego, CA	3.5%	7.1%
Colorado Springs, CO	11.7%	23.4%
Washington, DC	3.4%	6.8%
Dover AFB, DE	8.6%	17.3%
Jacksonville, FL	11.9%	23.7%
Fort Benning, GA	8.7%	17.5%
Honolulu County, HI	1.9%	3.7%
Great Lakes Naval Training Center	5.3%	10.6%
Scott AFB, IL	9.7%	19.4%
Indianapolis/Fort Harrison, IN	9.1%	18.1%
Fort Leavenworth, KS	6.3%	12.5%
Fort Knox, KY	11.6%	23.1%
Shreveport/Barksdale AFB, LA	8.5%	17.0%
Patuxent River, MD	15.4%	30.8%
Malmstrom AFB, MT	6.3%	12.7%
Morehead City/Cherry Point MCAS	10.5%	20.9%
Fort Bragg/Pope AFB, NC	9.4%	18.8%
Cannon AFB, NM	5.5%	11.0%
Fort Sill/Lawton, OK	7.3%	14.6%
Carlisle Barracks, PA	5.3%	10.6%
Beaufort/Parris Island, SC	5.9%	11.8%
Kingsville, TX	3.9%	7.9%
San Antonio, TX	10.4%	20.8%
Fort Hood, TX	9.2%	18.4%
Norfolk/Portsmouth, VA	8.7%	17.3%
Camp A. P. Hill, VA	12.9%	25.9%
Tacoma, WA	8.3%	16.6%
Total for MHA Sample	7.4%	14.9%

Source: Study Team (from GIL and DoD Per Diem Committee data)

The percentages differed significantly by installation, ranging from a low of approximately 1 to 2 percent in Los Angeles to a high of between 15 and 31 percent at Patuxent River, Maryland. We believe that there are several possible explanations for the differences. First, the rental market in some areas may be much more favorable, which would stimulate fewer home purchases and thereby lower the use of VA loans. Second, the high purchase cost of housing in some areas (e.g., Los Angeles, Honolulu County) could make VA loans unusable for many. Finally, some areas, such as Colorado Springs and San Antonio, are retirement destinations for many servicemembers, so we could expect that a larger percentage of those assigned to these MHAs would purchase a home. These retirement destinations are not areas with a high housing cost, so the VA loan guarantee would be enough to cover a reasonable home.

In summary, our response to the first study question is that, overall, approximately 7 to 15 percent of offbase housing residents used a VA loan to purchase housing in the 30 MHAs we examined. However, the percentage varied by installation.

Are Military Housing Allowances and VA Home Loan Guaranty Program Participation Related?

By design, BAH payments result in equal out-of-pocket housing costs (assuming median expenses), regardless of location. Servicemembers assigned to high-cost areas such as Washington, DC, bear the same out-of-pocket housing expenses as servicemembers of the same grade and dependency status assigned to Ft. Hood, Texas, if their housing expenses are at the median of the local rental market. Consequently, the BAH system creates no economic advantages between one location and another for servicemembers who have housing costs at or near the local median rental price

This characteristic is seen in Table G-6 for a group of MHAs ranging from high cost to low cost. Data are shown for 2002 monthly BAH rates for an E-5 with dependents. The BAH amount varies by location, but the median out-of-pocket expense is the same for each housing area.

In our discussion explaining the BAH system, we noted that the program was originally designed so that recipients would have to cover or absorb 15 percent of the median national housing price out of pocket. Over the past 3 years, DoD has increased funding for the BAH program so that the percentage of housing prices absorbed out of pocket is declining.

Next, the Study Team examined the relationship between the amount of BAH received and VA Home Loan program participation. Because BAH is intended to equalize out-of-pocket housing expenses across MHAs, we would not anticipate, a priori, that there would be a higher incidence of home purchases in locations with high BAH payments, as compared with locations having low BAH payments, all other factors being equal.

Table G-6. Median Out-of-Pocket Expenses by Location—Example MHAs, 2002 BAH Rates for an E-5 with Dependents

Military Housing Area	Monthly BAH	Median Out-of-Pocket Expense
Los Angeles, CA	$1,382	$106
Washington, DC	$1,265	$106
San Diego, CA	$1,222	$106
Tacoma, WA	$892	$106
Norfolk/Portsmouth, VA	$776	$106
Fort Hood, TX	$622	$106

Source: Department of Defense, A Primer on Basic Allowance for Housing for the Uniformed Services, July 2002, p. 4

For each MHA in our sample, we computed a weighted average monthly BAH rate for all grades and by dependency status for each calendar year from 1999 through 2002, as well as for the entire period from 1999 through 2002.

Table G-7 compares the percentage of BAH recipients who used VA home loans (Table G-5) with the monthly BAH payment for each MHA. Data are averages for 1999 through 2002. The table is sorted in ascending order on the basis of average monthly BAH.

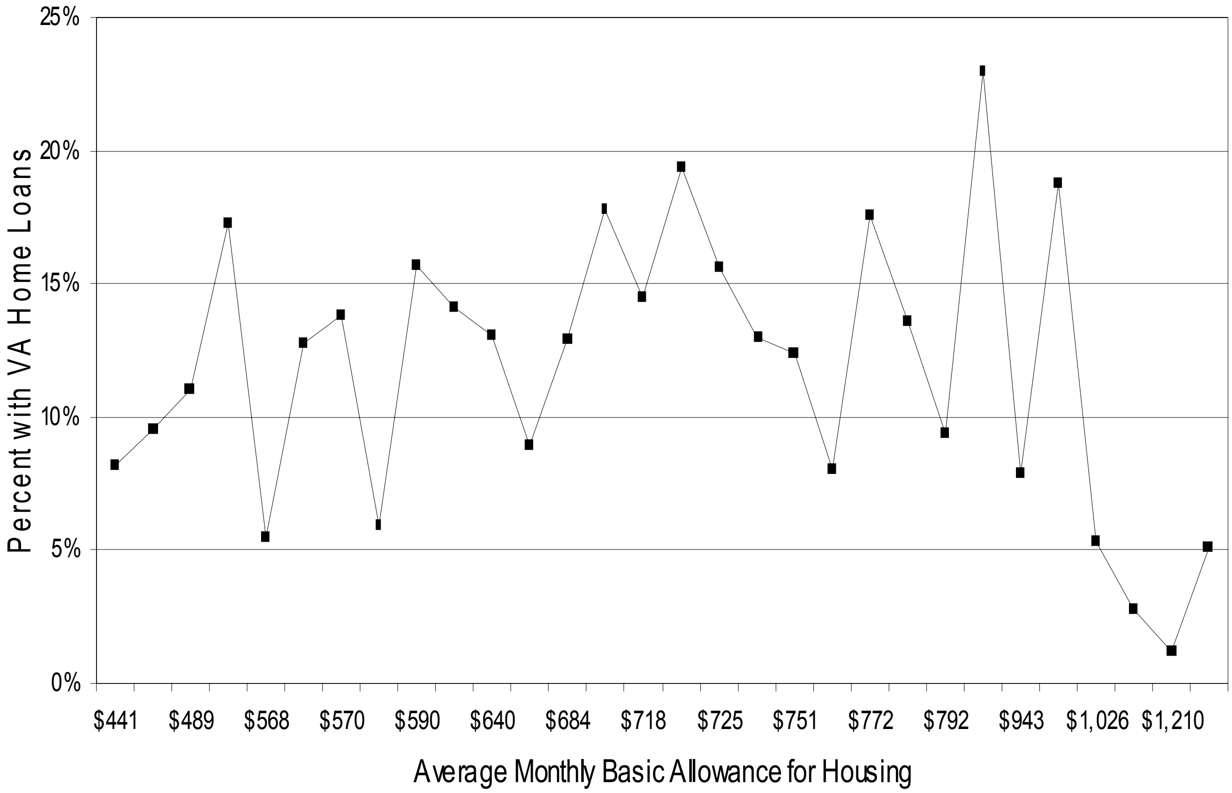
Figure G-3 plots the average weekly BAH from Table G-7 against the average percentage of active duty military using a VA loan each year. The percentage using a VA loan is the average percentage assuming a 3-year tour length—the midpoint between the 2- and 4-year tour length assumptions in Table G-6. Figure G-3 presents no apparent relationship between these two variables.

Table G-7. Average Percentage of BAH Recipients Using VA Home Loans and Weighted Average Monthly BAH Payment, 1999–2002

Military Housing Area	Percent of BAH Recipients Using VA Home Loans		Weighted Average Monthly BAH Payment
	Assuming 2-Year Tour Length at each MHA	Assuming 4-Year Tour Length at each MHA	
Cannon AFB, NM	5.5%	11.0%	$441
Malmstrom AFB, MT	6.3%	12.7%	$446
Fort Sill/Lawton, OK	7.3%	14.6%	$489
Fort Knox, KY	11.6%	23.1%	$513
Beale AFB, CA	3.7%	7.3%	$568
Shreveport/Barksdale AFB, LA	8.5%	17.0%	$569
Fort Hood, TX	8.7%	17.4%	$571
Kingsville, TX	3.9%	7.9%	$577
Morehead City/Cherry Point MCAS	10.5%	20.9%	$590
Fort Bragg/Pope AFB, NC	9.4%	18.8%	$619
Fort Benning, GA	8.7%	17.5%	$640
Beaufort/Parris Island, SC	5.9%	11.8%	$670
Dover AFB, DE	8.6%	17.3%	$684
Jacksonville, FL	11.9%	23.7%	$712
Scott AFB, IL	9.7%	19.4%	$718
Camp A. P. Hill, VA	12.9%	25.9%	$725
San Antonio, TX	10.2%	20.5%	$726
Norfolk/Portsmouth	8.7%	17.3%	$732
Tacoma, WA	7.7%	15.4%	$754
Carlisle Barracks, PA	5.3%	10.6%	$763
Colorado Springs, CO	10.8%	21.6%	$776
Indianapolis/Fort Harrison, IN	9.1%	18.2%	$778
Fort Leavenworth, KS	6.3%	12.5%	$792
Patuxent River, MD	15.4%	30.7%	$924
Great Lakes Naval Training Center, IL	5.3%	10.6%	$943
Anchorage, AK	12.2%	24.4%	$993
San Diego, CA	3.7%	7.3%	$1,023
Honolulu County, HI	1.9%	3.7%	$1,120
Los Angeles, CA	0.8%	1.6%	$1,210
Washington, DC	3.4%	6.8%	$1,349

Source: Study Team (based on VA GIL and DoD Per Diem Committee data)

Figure G-3. Percent with VA Loans by Average Monthly BAH



Source: Study Team

The Study Team examined the statistical properties of the relationship by performing a linear regression on the data in Table G-6, correlating the percentage of BAH recipients who used VA loans with monthly BAH payments.

We estimated a regression of the form

$$Y = a + bX$$

Where: Y = Average percentage of active duty military using a VA loan, 1999–2002, assuming a 3-year tour length

X = Weighted average monthly BAH by grade and dependency status, 1999–2002

a = Intercept

b = Slope of the regression line.

The regression results are summarized in Table G-8. The r^2 value indicates the percentage of the variation in the loan participation percentage that is explained by variations in the weighted average BAH amount from one MHA to another. In this case, 9 percent of the variation in average VA loan participation from MHA to MHA is explained by variation in the weighted-average BAH payment from MHA to MHA. The *t* statistic and level of significance confirm that there is no statistically significant relationship between BAH and VA loan participation.

Table G-8. Regression Analysis Results; Average Percentage Using VA Home Loan Program and Average BAH Payment by MHA, 1999–2002

r^2	*t* statistic (level of significance)
0.094	-1.7 (0.0996)

Source: Study Team

The Study Team also performed regressions on annual data for each year from 1999 through 2002. These regression results are shown in Table G-9.

Table G-9. Regression Analysis Results; Percentage Using VA Home Loan Program and Average BAH Payment by MHA, Annually for 1999–2002

1999		2000		2001		2002	
r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)
0.065	-1.40 (0.1718)	0.087	-1.63 (0.1146)	0.083	-1.59 (0.1226)	0.141	-2.14 (0.0410)

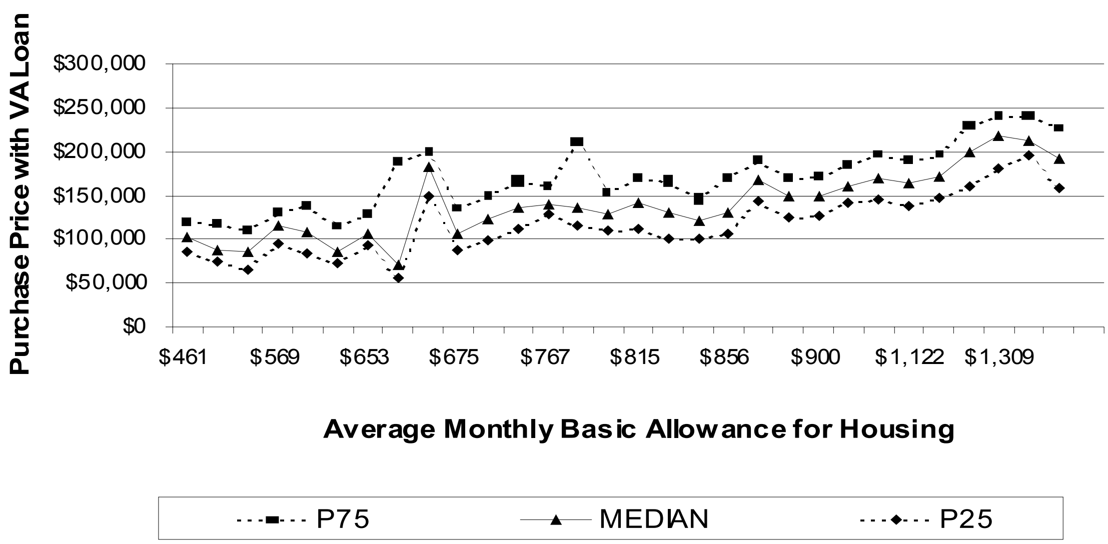
Source: Study Team

Again, the *t* statistics and levels of significance do not support the existence of a statistically significant relationship between housing allowances and use of the VA loan program. This result is not unexpected since the BAH is intended to be location-neutral with respect to out-of-pocket housing costs paid by the recipient.

Other factors, which could be related to the local housing stock, local market conditions, personal preferences, or other attributes, are more significant determinants of loan program participation. We believe it would be instructive to review this analysis in several years as the out-of-pocket housing expense is reduced to zero following the schedule shown in Table G-2. One service housing expert we met sensed indications that more military members were beginning to live offbase as a result of the higher housing allowances and lower out-of-pocket expenses. Higher allowances may raise the use of VA loans uniformly across the military, having the same proportional effect at all locations, or it may have disproportionate effects by location. VA should consider examining the outcomes in several years.

We next examined the relationship between BAH payment amounts and the price of the housing financed by VA guaranteed loans. Figure G-4 depicts the median and the 25th and 75th percentiles of housing purchase price for the weighted average BAH rate for each MHA for 2002. Figure G-4 indicates a general upward trend of purchase price and BAH amount.

Figure G-4. Housing Purchase Prices by Average Monthly Basic Allowance for Housing



Source: DoD Basic Allowance for Housing and GIL

The Study Team regressed median purchase price for homes by the weighted average BAH in each MHA. We analyzed each year individually from 1999 through 2002.

Each regression estimated the following relationship between median housing price for homes financed by VA home loans and weighted average monthly BAH:

$$Y = a + bX$$

Where: Y = Median home purchase price financed by a VA home loan

X = Weighted average monthly BAH

a = Intercept

b = Slope of the regression line.

Table G-10 summarizes the regression results.

Table G-10. Results of Regression Analysis of Weighted Average BAH and Median Housing Prices of Homes Purchased with VA Loans

1999		2000		2001		2002	
r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)	r^2	*t* statistic (level of significance)
0.689	7.88 (0.0001)	0.7424	8.98 (0.0001)	0.619	6.75 (0.0001)	0.7263	8.62 (0.0001)

Source: Study Team

The *t* statistics and significance levels (all at 0.0001) indicate that there is a statistically significant relationship between median housing prices and BAH rates. Variances in BAH rates from one MHA to another explain roughly 60 to 75 percent of the variances in median housing prices, depending on the year. This is not a surprising result. BAH rates are computed with actual rental prices in each MHA. Since one would anticipate a correlation between rental prices and purchase prices in a housing area, the correlation between purchase price and BAH is not unexpected.

In summary, our analysis demonstrates that there is not presently a statistically significant relationship between VA Home Loan Guaranty program participation and military housing allowances received by military members who reside offbase. VA may want to revisit this question in several years when BAH rates will have increased enough to eliminate the out-of-pocket housing cost. However, there is a statistically significant relationship between the VA loan amount and the amount of housing allowance that the member receives.

Is VA Home Loan Guaranty Program Participation Related to the Availability of Military Housing?

The third study question examines the relationship between military housing availability and VA Home Loan Guaranty program participation. We used the same 30 MHAs as our units of analysis for this part of the study. Information obtained in interviews with service and DoD officials was important to answering this research question.

The Study Team met with representatives from the Housing Division in the Office of the Deputy Under Secretary of Defense (Installations & Environment). This Office is responsible for DoD policy on military family housing.

Overall DoD policy for military housing is covered in DoD Directive 4165.63-M. The directive states that communities near military installations are the primary source of housing for DoD personnel.

The directive also establishes the functions to be performed by installation family housing offices. Important functions related to the subject matter of this study include—

- Assignment of personnel to military housing
- Housing referral
- Housing-related relocation assistance.

The directive further identifies the housing referral services that should be offered. The primary services relating to assistance with offbase housing in the United States include the following:[20]

- Nondiscriminatory listings of referral and for-sale housing
- Vacancy status of as many listings as possible
- Assistance in resolving tenant-landlord disputes
- Liaison with community and government officials and organizations
- Housing data exchange with other DoD housing offices
- Transportation to show community housing, as required
- Assistance with rental negotiations and review of leases
- Assistance with understanding procedures for and resolving problems with utility connections, fees, deposits, and billings
- Information on buying, selling, and renting homes, including mobile homes, and on residential property management
- Housing-related relocation assistance to military members and their families.

The Study Team also met with a family housing expert from each military service. At these meetings, we discussed the housing referral assistance functions required by the DoD directive. We addressed the following issues with each service:

- The process for assigning newly arriving members to military housing
- Availability, waiting times, and occupancy rates for onbase housing
- Impacts of the DoD privatization program on availability of military housing
- Housing decisions of members who elect to live in the civilian community
- Average tour length

[20] The directive also includes housing referral services pertinent to overseas areas, such as assistance with translation of foreign language leases and certification of expenses for overseas housing allowances.

- Responsibilities of the local housing office for providing housing and financing information.

The following sections summarize the information we obtained from the OSD and service housing officials.

Service Housing Assignment Policies

Service officials provided information about their service's policies for managing its stock of traditional military housing and privatized housing and for implementing the DoD directive on housing referral services.

The services described similar practices for assigning newly arriving members to military family housing. Individuals who receive a transfer may apply for housing at the new installation as soon as their assignment is confirmed. Since military housing has very high occupancy rates, an applicant will usually go on a waiting list that can vary from several months to several years. In rare cases, however, a member will be able to move into military housing immediately upon arrival. Quarters are assigned on the basis of the member's rank and family size. The DoD directive specifies the number of bedrooms on the basis of the number of dependents. When a unit becomes available, applicants on the waiting list may either accept or decline the housing. As noted before, those who live in military housing forfeit their BAH. Those who live in privatized housing receive BAH but are obligated to pay that full amount to the privatization contractor.

Housing Availability and Utilization

The availability of military family housing varies by location. Table G-11 shows the waiting times in months for selected ranks and housing sizes for the 30 MHAs we analyzed.

The Navy representative indicated that there has been a slight reduction in waiting times, resulting from the increase in BAH rates. As the out-of-pocket housing cost is reduced, more members are electing to live offbase, so this reduces the demand and waiting times for military housing. None of the other services had noted this shift as yet but believed that it was a reasonable expectation.

Table G-11. Waiting Time (Months) for Military Family Housing, Includes Privatized Housing Units

Military Housing Area	E4–E6 3 Bedrooms	O4–O6 4 Bedrooms
Anchorage, AK	3	14
Beale AFB, CA	0–1	1–2
Los Angeles, CA	No military housing	
San Diego, CA	0–3	17–45
Colorado Springs, CO	12-18	N/A
Washington, DC	1	8
Dover AFB, DE	0–1	12
Jacksonville, FL	6–12	12–24
Fort Benning, GA	1–12	18–20
Honolulu County, HI	1–2	1–2
Great Lakes Naval Training Center	1–2	2–4
Scott AFB, IL	16–20	0–12
Indianapolis/Fort Harrison, IN*	No military housing	
Fort Leavenworth, KS	1–9	1–7
Fort Knox, KY	1	9
Shreveport/Barksdale AFB, LA	12–14	8–10
Patuxent River, MD	1–6	4–6
Malmstrom AFB, MT	2–8	0–4
Morehead City/Cherry Point MCAS	1–3	1–3
Fort Bragg/Pope AFB, NC	2–12	N/A
Cannon AFB, NM	1	0
Fort Sill/Lawton, OK	17	17
Carlisle Barracks, PA	0	0
Beaufort/Parris Island, SC	1–3	1–3
Kingsville, TX	All housing privatized	
San Antonio, TX	9–12	18–24
Fort Hood, TX	7	N/A
Norfolk/Portsmouth, VA	3–18	3–24
Camp A. P. Hill, VA	8	9
Tacoma, WA	1	7

*Scheduled for closing.

Source: Study Team (from service data)

Long waiting lists mean that the military housing units have high occupancy rates. The DoD directive establishes requirements for the services to maintain and report utilization rates in a consistent manner. The calculation excludes units that are being refurbished or are otherwise unavailable for occupancy. Table G-12 provides current military family housing utilization rates for each of the MHAs. We have noted in the table those installations where privatization projects are either under way or completed. DoD does not track occupancy rates for privatized housing because these units are owned and managed by the privatization contractor.

Impacts of Privatization on Housing Availability

As discussed in an earlier section, each of the services has privatization projects under way. At Army installations, the privatization contractor is managing all family housing units, including existing military housing. This differs from the approach taken by the other services, where the contractor manages only the privatized units.

The Air Force indicated that it may take several years to fully occupy newly completed blocks of privatized housing. This happens because members residing offbase are encumbered by leases and mortgages, which prevent them from moving into available units. Consequently, the main source of occupants for new units is newly assigned members, so it may take several years for this flow to eventually fill available units. Members who are able to move from offbase into the units receive a Government-paid move for their household goods.

A key point, mentioned earlier in this appendix, is that the number of privatized and traditional military housing units that will be in the inventory at the completion of the projects (approximately 2010) will be less than the number of traditional military housing units existing before privatization began. Thus, military members will be looking more to the civilian community for housing as the military and privatized housing inventories decline.

Table G-12. Military Housing Occupancy Rates, Not Including Privatized Housing Units

Military Housing Area	Utilization Rate
Anchorage, AK	Privatization Project Under Way at Elmendorf AFB
Beale AFB, CA	90%
Los Angeles, CA	No military housing
San Diego, CA	Privatization Projects Under Way at San Diego Naval Base and Camp Pendleton Marine Corps Base
Colorado Springs, CO	Privatization Project Under Way at Ft. Carson
Washington, DC	94%
Dover AFB, DE	82%
Jacksonville, FL	97%
Fort Benning, GA	85%
Honolulu County, HI	79%
Great Lakes Naval Training Center	81%
Scott AFB, IL	98%
Indianapolis/Fort Harrison, IN*	No military housing
Fort Leavenworth, KS	94%
Fort Knox, KY	83%
Shreveport/Barksdale AFB, LA	97%
Patuxent River, MD	99%
Malmstrom AFB, MT	92%
Morehead City/Cherry Point MCAS	95%
Fort Bragg/Pope AFB, NC	98%
Cannon AFB, NM	97%
Fort Sill/Lawton, OK	98%
Carlisle Barracks, PA	86%
Beaufort/Parris Island, SC	94%
Kingsville, TX	Privatization Projects Completed
San Antonio, TX	Privatization Project Completed at Lackland AFB
Fort Hood, TX	Privatization Project Under Way
Norfolk/Portsmouth, VA	92%
Camp A. P. Hill, VA	79%
Tacoma, WA	Privatization Project Under Way at Ft. Lewis

*Scheduled for closing.

Source: Study Team (from service and OSD data)

Housing Decisions of Members Living Offbase

Because of the high utilization rates and long waiting lists, service experience is that approximately two-thirds of servicemembers must find housing in the local civilian housing market. The services, however, do not keep data on the individual housing decisions of servicemembers who are unable or choose not to live in military housing. Although housing offices may have anecdotal information about housing decisions, they do not maintain a comprehensive record about whether individuals rent or buy and, if they buy, whether or not they use a VA guaranteed loan. The Air Force estimated that approximately 85 to 90 percent of its offbase residents are renting.

Average Tour Length

All of the services reported that their average tour lengths were between 2 and 3 years. All of the services want to increase tour lengths. The Army, for example, wants to increase the average tour length to 5 years. The Navy, because of its homeporting policies, may have significantly higher tour lengths for certain locations, such as Norfolk and San Diego.

Local Housing Referral Office Practices

There was a fairly wide variability among the services on housing referral office practices. The services indicated that each office followed the general guidelines in the DoD directive but implemented their programs to meet local needs. In general, the services reported that there were no formal servicewide programs for informing members about home financing options, but a local office might do this. These programs use internal staff and, in some cases, external resources to counsel servicemembers. Members are nominally required to attend an orientation about offbase living, but most do not.

Real estate agents are generally the primary source of information about financing a home purchase. The local offices typically have VA brochures available, but they usually refer the member to local real estate agents to obtain details about the VA Home Loan program. Interactions with real estate agents may have begun prior to arrival at the installation, such as during a house-hunting trip, through telephone conversations, or by e-mail.

The Navy housing office indicated that Navy leadership has voiced support for making its people more knowledgeable about home ownership. This attitude reflects an opinion that there are economic advantages that can accrue from ownership, such as building equity and establishing credit through paying off a mortgage. The Army representative indicated that the Army had previously supported home ownership but had since backed away from outright support as the housing market cycled through peaks and valleys. Air Force and Marine Corps leadership have not expressed an opinion regarding home ownership, and they leave the decision up to individual members.

DoD has established Web sites, for example, www.housing.navy.mil, www.housing.army.mil, and www.usairforcehousing.com,[21] at which members can get information about military housing availability at each installation. The sites also provide or link to additional information about the following:

- Waiting times for onbase housing units
- General information about onbase housing (e.g., certain pet prohibitions or restrictions distances to base facilities such as commissary and exchange)
- Contact phone numbers for base housing offices and services
- Offbase rental, purchase, and utility prices
- Service housing regulations and forms.

Each service was receptive to providing more information on the VA Home Loan program through their housing offices. The Air Force indicated that it would support its housing staffs attending VA training on the VA Home Loan program. The Marine Corps commented that another source of housing information on bases is the Family Support Center. These centers exist on most military installations, possibly under a different name. In the Marine Corps, the centers are responsible for sending a welcome package to newly assigned members. The package includes local housing information and could be another channel for getting VA information into members' hands. An electronic version of similar information is also available on the Standard Installation Topic Exchange Service (SITES) Web site, to which all members have access.

Finally, the Air Force representative recounted a scenario, deemed not uncommon, that described how a decision about selecting offbase housing can be made. The scenario most typically applies to junior enlisted personnel, but it can apply to other servicemembers as well.

A servicemember arrives at a new duty station with his or her family belongings in a rental truck.[22] The service provides 10 days of temporary lodging expense to defer the cost of a motel while the member finds permanent housing for his or her family. During this period, the member is also drawing BAH at the rate payable for the new duty station. Typically, military family housing will not be immediately available, so the member must find other housing. The servicemember may locate affordable rental housing, or if it is too expensive, he or she may look for a house to purchase. A real estate agent may immediately describe the advantages of purchasing a home with a VA guaranteed loan. For example, the agent points out that there is no down payment required (conventional mortgages normally require 20 percent down) and there will be no monthly payment for 2 or 3 months. The servicemember compares these costs (plus

[21] This site requires a password for entry. The Army and Navy sites do not require a password.
[22] The military services will provide free shipment of household goods up to a certain weight, on the basis of grade. However, servicemembers may make a "do-it-yourself" move and receive cash related to the difference between the service's cost and their out-of-pocket cost for the move.

ownership and equity buildup) against immediate out-of-pocket rental costs for first and last months' rent and security deposits for pets. The short-term cash flow analysis favors home purchase. If the member decides to purchase a home with a VA loan, he or she will typically roll the funding fee into the loan amount, so that the total debt is greater than the market value of the home. If the servicemember is transferred within several years and the housing market has not appreciated enough, the market value of the home will still be below the mortgage balance. If the member uses a real estate company to sell the home, then the agent's fee will further reduce the proceeds from the sale. The net outcomes are that the member may sell the home quickly but at a loss, leave his or her family behind in anticipation of selling the home at a more satisfactory price, or rent the house in hopes of covering the monthly mortgage payment through rental income. Foreknowledge of these possible unsatisfactory outcomes could have led to a different housing choice to begin with. The Air Force underscored why it is important for servicemembers to receive adequate counseling by installation housing offices so that they are sanguine about the financial implications of purchasing a home.

On the basis of our conversation with the service housing representatives, our assessment of the referral services provided in housing offices is that the DoD directive is not applied consistently. The services implement the DoD directive by applying their own interpretations, within the scope of the general requirements stated in the directive. At the installation level, the commander has significant authority to shape the housing referral function to meet local missions, needs, and limitations. The bottom line is that there is a considerable amount of variability in how housing referral offices operate and in the services they provide throughout the United States. Within this context, there is also considerable variance in the availability of printed matter and counseling expertise on the VA Home Loan program. Nevertheless, the services uniformly expressed interest in being able to provide more information to members.

During our meeting with OSD Housing Directorate staff, we discussed a new initiative to expand on the communication of housing information. The OSD representatives explained the changes that are being made to improve the amount and access to housing referral information. OSD is working with Runzheimer International to develop an Internet site that provides housing referral information for every installation in the United States. The first phase of the project, recently completed, was to review existing DoD and private sector sites and recommend a referral system for DoD. The second phase of the project will be to develop a prototype site for testing and evaluation.

The new site would have housing information categorized by installation. Members would be able to select any U.S. installation and retrieve information about the availability of offbase rental properties.[23] Local civilian property managers and real estate agents will populate the site with rental housing information, and they will be responsible for keeping the information current; that is, once a property is contracted for, it will be removed from the site. Local housing offices will be responsible for policing the site to ensure that it is current and to take action against agents who do not keep

[23] The automated housing referral system would list rental housing in the private sector for those members who cannot get onbase or Government housing. Two-thirds of the military live in the community.

their posted information current. There is a high likelihood that the site would be a dot-com (outside the DoD firewall), so a password would probably be needed for access.[24]

This site would relieve local housing referral offices of the need to keep local rental listings, so they could focus on the other services they offer. For example, referral offices could “show” houses, provide more assistance to members who want to review rental contracts, and be more proactive with local property managers.[25]

At the present time, there is no plan to include any information on the new site regarding either home purchases or privatized housing. However, we suggested that VA would probably be interested in inserting a link to the VA Home Loan program Web site. OSD wondered whether VA would be interested in providing funding, if it were necessary, to support the link; we agreed to pose the question in our report.

The OSD staff also suggested several other approaches for communicating with active duty members and other interested parties about the VA loan program. One would be to participate with the Professional Housing Management Association. This organization has an annual convention and also publishes a magazine. Both would be possible outreach opportunities. Another approach would be to advertise in the Military Times Media Group newspapers or to write periodic articles on the loan program. Finally, the VA could coordinate with the services’ Quality of Life Councils.

Our assessment is that the services and OSD would be receptive to receiving and disseminating more information about the VA Home Loan program and that VA should be proactive in approaching DoD in this regard. The Study Team recommends that contact be made first with the OSD Housing Directorate staff to establish an overall approach that could then be leveraged with the individual services.

VA Home Loan Guaranty Program Participation by Active Duty Members

We were unable to directly correlate VA home loan use with waiting times for military housing because we do not know the rank of active duty VA loan holders. Instead, we examined the relationship between VA home loan use with the military housing occupancy rates by correlating the percentage of military members using VA home loans with military housing occupancy rates by MHA. If there was a relationship between military housing availability and VA home loan use, we anticipate that it would correlate high housing occupancy with high VA loan use in an MHA. We excluded from the correlation the seven MHAs in which privatized housing was available, since DoD does not track the occupancy rates for these units. We also excluded the two MHAs in which there is no military family housing.

We examined the statistical properties of the relationship by performing a linear regression correlating the percentage of BAH recipients who used VA loans with military housing occupancy rates.

[24] The system will not be open to the public.
[25] The housing referral personnel will not be replaced by the automated system. This tool will allow them to provide better service to the members.

We estimated a regression of the form

$$Y = a + bX$$

Where: Y = Average percentage of active duty military using a VA loan in 2002, assuming a 3-year tour length

X = Military family housing occupancy rate

a = Intercept

b = Slope of the regression line.

The regression results are summarized in Table G-13. The r^2 value of 0.04 indicates that only 4 percent of the variation in the loan participation percentage is explained by variations in occupancy rates from one MHA to another. The *t* statistic and level of significance further confirm the absence of a statistically significant relationship.

Table G-13. Regression Analysis Results; Average Percentage Using VA Home Loan Program and Military Housing Occupancy Rate, 2002

r^2	*t* statistic (level of significance)
0.04	0.89 (0.383)

Source: Study Team

In summary, this analysis indicates that there is no statistical relationship between occupancy rates of military family housing and use of VA home loans by military members. The unavailability of military family housing for new arrivals at an installation, as measured by uniformly high occupancy rates, may be a strong predictor of a member's decision to seek rental or purchase community housing. However, it is not a predictor of use of a VA home loan.

Homeowners Assistance Program

Base closures or realignments of forces can result in an oversupply of homes that depress prices and sales in a local real estate market. Active duty members who own homes in the area can be affected in various ways. For example, members who included funding fees in their VA mortgage may have a home on which they owe significantly more than the depressed market will return. In addition, even military owners who have built significant equity in their homes may have difficulty moving a house in a saturated market. Some have indicated that another round of Base Realignment and Closure Committee actions may be announced during 2003.

VA does not have any programs to assist veteran or active duty homeowners facing these situations. However, the Homeowners Assistance Program (HAP),[26] operated by the U.S. Army Corps of Engineers (USACE) as executive agent for DoD, can provide relief to eligible homeowners. USACE maintains HAP Centers of Expertise in the Savannah District, the Fort Worth District, and the Sacramento District. DoD provides program funding.

Two conditions are necessary for USACE to establish a HAP in a local area:

- DoD has announced a base closing or realignment action that will affect the local community.
- USACE real estate personnel determine that real estate values have dropped as a result of the base closing or realignment.

The following groups are eligible to participate in the HAP. Applicants must be required as a result of the base closure or realignment to relocate beyond the commuting distance of the affected area.

- Active duty military members, Federal civilian employees, and nonappropriated fund employees who are assigned at or near an installation announced for closure or realignment. Applicants must also be the owner-occupant on the date of the announcement.
- Any of the above personnel who were transferred or terminated within 6 months prior to the closure or realignment announcement and who were owner-occupants at the time of transfer or termination.
- Military or civilian personnel who were on an overseas tour, who transferred within 3 years prior to the announcement of the closure or realignment, and who are homeowners in the area.
- A military member homeowner who is ordered into military housing within 6 months prior to the announcement of the closure or realignment.

The HAP provides economic assistance in one of the following ways:[27]

- The Government may purchase the applicant's home by paying off the balance of the mortgage as of the date of the announcement or by paying 75 percent of the fair market value (as determined by USACE) prior to the announcement, whichever is higher. If the amount owed on the mortgage is less than 75 percent of market value, HAP pays the owner the difference.

[26] The HAP was authorized by Section 1013 of the Demonstration Cities and Metropolitan Development Act of 1966, Public Law 89–754, November 3, 1966. This authority is codified in 42 U.S.C. 41 (Section 3374).
[27] U.S. Army Corps of Engineers, Homeowners Assistance Program, November 1998. Members are liable for payment of taxes on any benefits received through the HAP.

- Applicants who are able to sell their homes themselves may be reimbursed for a portion of their losses as follows. The reimbursement is the difference between 95 percent of the fair market value (as determined by USACE) prior to the announcement and the appraised value at the time of the sale. The member can also be reimbursed for some of the costs incurred in selling the home. Veterans who sell homes financed with VA guaranteed loans by assumption must obtain a release of liability from their VA loan. HAP benefits cannot be paid until the release is obtained.

- Applicants who defaulted on their mortgage through foreclosure may receive assistance in the form of payment of costs incurred resulting from foreclosure, such as 1) the direct costs of judicial foreclosure, 2) expenses and liabilities enforceable according to the terms of their mortgages or promissory notes, and 3) the amount of any debts established against the member by a Federal agency in the case of a loan made, guaranteed, or insured by the agency following the liquidation of the security for the loan.

DoD and HUD have entered into a memorandum of understanding regarding disposition of properties obtained by the Government through the HAP. The responsibilities of the various agencies are enumerated in DoD Directive 4165.50 and Army Regulation 405-16.

ATTACHMENT G-1

VA GUARANTEED AND INSURED LOAN (GIL) COMPUTER SYSTEM LOAN AMOUNTS AND HOME PRICES

Table G1-1. Average and Median Loan Amounts for VA and Non-VA Loans by Metropolitan Statistical Area (MSA), 2001 Home Mortgage Disclosure Act Data

MSA	VA Average Loan Amount ($1,000)	Non-VA Average Loan Amount ($1,000)	VA Median Loan Amount ($1,000)	Non-VA Median Loan Amount ($1,000)
All 30 MSAs	$140	$157	$138	$132
Boston	$169	$225	$183	$208
Honolulu	$155	$205	$161	$195
San Diego	$177	$217	$183	$217
New York-Northern NJ-LI	$203	$237	$187	$212
Los Angeles-Long Beach	$181	$207	$180	$177
Chicago	$149	$168	$149	$148
Washington, DC	$161	$173	$164	$153
Pittsburgh	$100	$101	$91	$81
Jacksonville	$124	$125	$121	$105
Kansas City	$126	$127	$128	$115
Cleveland-Lorain-Elyria	$123	$122	$119	$107
Cincinnati	$127	$125	$122	$109
Indianapolis	$126	$124	$123	$113
Houston	$121	$117	$119	$99
Nashville	$133	$128	$128	$114
Ft. Lauderdale	$139	$134	$139	$115
Niagara Falls	$96	$92	$87	$79
Colorado Springs	$158	$150	$160	$142
Orlando	$130	$122	$128	$108
Salt Lake City	$145	$137	$142	$131
Norfolk - VA Beach – Npt News	$130	$122	$128	$107
St. Louis	$123	$116	$122	$100
Minneapolis-St. Paul	$163	$153	$161	$144
Mobile	$110	$100	$102	$86
Tucson	$132	$120	$129	$104
Tacoma	$156	$138	$157	$135
San Bernadino	$158	$140	$166	$134
San Antonio	$113	$99	$110	$87
Shreveport	$104	$91	$98	$80
Oklahoma City	$105	$92	$100	$80

Source: Home Mortgage Disclosure Act (HMDA) data.

Table G1-2. VA Guaranteed and Insured Loan (GIL) Computer System Home Prices for Loans Closed in Calendar Year 1999

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$149,471	$193,000	$173,000	$152,000	$127,500	$106,000
BEALE AFB, CA	$125,853	$162,949	$138,000	$120,000	$115,000	$98,700
LOS ANGELES, CA	$164,457	$199,000	$195,000	$178,000	$139,900	$97,000
SAN DIEGO, CA	$159,100	$206,975	$189,000	$167,324	$135,000	$99,500
COLORADO SPRINGS, CO	$135,641	$179,614	$155,162	$132,919	$113,950	$95,900
WASHINGTON, DC	$164,029	$203,000	$191,500	$169,500	$142,000	$112,500
DOVER AFB, DE	$131,606	$176,411	$149,900	$129,900	$110,500	$94,500
JACKSONVILLE, FL	$110,431	$153,200	$127,819	$106,000	$89,000	$73,500
FORT BENNING, GA	$104,365	$148,000	$123,280	$98,900	$82,900	$71,600
HONOLULU COUNTY, HI	$152,046	$199,000	$190,518	$169,000	$115,000	$77,000
GREAT LAKES NAVAL TNG CTR	$130,780	$169,500	$152,000	$129,700	$111,000	$89,450
SCOTT AFB, IL	$113,686	$165,094	$138,450	$109,000	$86,950	$67,500
INDIANAPOLIS, IN	$123,032	$157,500	$140,371	$123,000	$104,000	$92,000
FT. LEAVENWORTH, KS	$121,860	$170,500	$150,000	$128,000	$99,000	$66,900
FT. KNOX, KY	$97,505	$126,500	$115,000	$92,450	$78,000	$64,950
SHREVEPORT/BARKSDALE AFB, LA	$91,182	$135,000	$105,000	$85,000	$72,000	$55,200
PATUXENT RIVER NAS, MD	$158,174	$202,099	$188,753	$164,000	$129,900	$109,500
MALMSTROM AFB, MT	$91,543	$128,000	$100,669	$86,150	$74,000	$64,750
MOREHEAD CITY, NC	$101,689	$146,500	$121,250	$95,000	$77,000	$65,000
FORT BRAGG/POPE AFB, NC	$97,259	$139,000	$112,000	$89,950	$78,500	$66,770
CANNON AFB, NM	$89,358	$153,000	$92,000	$83,210	$66,570	$57,500
FORT SILL/LAWTON, OK	$78,126	$114,000	$90,000	$74,900	$62,500	$49,500
CARLISLE BARRACKS, PA	$119,779	$175,700	$148,500	$119,750	$91,900	$63,400
BEAUFORT, SC	$118,719	$167,000	$137,900	$114,500	$90,900	$84,000
KINGSVILLE, TX	$90,028	$112,500	$106,900	$93,500	$62,000	$59,000
SAN ANTONIO, TX	$107,182	$147,290	$125,420	$102,950	$84,345	$71,900
FORT HOOD, TX	$81,677	$119,000	$89,900	$75,000	$65,000	$54,500
NORFOLK/PORTSMOUTH, VA	$119,040	$169,000	$142,540	$115,000	$91,500	$75,000
CAMP AP HILL, VA	$121,302	$180,000	$139,900	$119,001	$96,500	$70,000
TACOMA, WA	$141,829	$179,950	$160,000	$140,150	$123,500	$105,250

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-3. VA Guaranteed and Insured Loan (GIL) Computer System Loan Amounts for Loans Closed in Calendar Year 1999

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$151,606	$197,000	$176,460	$155,040	$129,600	$104,958
BEALE AFB, CA	$127,698	$164,220	$137,700	$121,380	$116,905	$100,674
LOS ANGELES, CA	$166,799	$202,980	$198,900	$176,312	$142,698	$98,940
SAN DIEGO, CA	$160,553	$202,980	$191,370	$169,608	$137,700	$101,250
COLORADO SPRINGS, CO	$137,260	$180,700	$158,100	$134,600	$115,260	$96,900
WASHINGTON, DC	$165,414	$203,000	$193,800	$172,650	$144,200	$114,000
DOVER AFB, DE	$133,686	$181,284	$152,898	$132,450	$112,256	$95,370
JACKSONVILLE, FL	$111,997	$154,500	$129,500	$108,018	$90,270	$74,970
FORT BENNING, GA	$105,845	$150,850	$125,252	$100,878	$84,558	$73,032
HONOLULU COUNTY, HI	$154,169	$202,980	$195,597	$170,000	$117,300	$78,500
GREAT LAKES NAVAL TNG CTR	$133,087	$171,360	$155,040	$132,090	$112,098	$91,239
SCOTT AFB, IL	$114,815	$166,750	$138,210	$109,175	$88,870	$68,595
INDIANAPOLIS, IN	$124,918	$162,200	$143,178	$125,460	$106,080	$93,840
FT. LEAVENWORTH, KS	$122,460	$173,000	$152,850	$119,450	$99,960	$66,900
FT. KNOX, KY	$98,879	$128,750	$117,198	$94,229	$78,540	$66,898
SHREVEPORT/BARKSDALE AFB, LA	$92,451	$134,900	$106,998	$86,700	$72,900	$56,300
PATUXENT RIVER NAS, MD	$159,110	$202,980	$189,943	$163,200	$132,498	$111,650
MALMSTROM AFB, MT	$93,377	$130,550	$105,050	$88,233	$75,480	$63,450
MOREHEAD CITY, NC	$103,519	$148,500	$123,930	$96,849	$78,540	$66,300
FORT BRAGG/POPE AFB, NC	$98,822	$140,760	$113,900	$91,698	$79,800	$67,830
CANNON AFB, NM	$91,330	$155,550	$93,840	$84,150	$68,567	$58,650
FORT SILL/LAWTON, OK	$79,588	$113,815	$91,800	$76,398	$63,240	$49,980
CARLISLE BARRACKS, PA	$122,178	$179,214	$152,330	$122,145	$93,700	$64,650
BEAUFORT, SC	$120,330	$172,010	$140,658	$116,790	$92,700	$84,000
KINGSVILLE, TX	$88,517	$110,100	$110,000	$91,250	$63,240	$60,180
SAN ANTONIO, TX	$108,515	$149,350	$127,092	$104,221	$85,505	$72,420
FORT HOOD, TX	$82,969	$121,380	$91,698	$76,500	$66,249	$55,080
NORFOLK/PORTSMOUTH, VA	$120,861	$171,360	$144,800	$117,300	$92,820	$76,500
CAMP AP HILL, VA	$123,594	$183,600	$143,170	$121,350	$96,500	$70,350
TACOMA, WA	$143,941	$183,025	$163,175	$142,250	$125,460	$106,725

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-4. VA Guaranteed and Insured Loan (GIL) Computer System Home Prices for Loans Closed in Calendar Year 2000

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$157,008	$193,000	$179,700	$160,000	$137,500	$120,100
BEALE AFB, CA	$130,558	$179,265	$156,500	$126,700	$112,000	$89,500
LOS ANGELES, CA	$162,903	$210,000	$199,500	$169,400	$129,450	$114,000
SAN DIEGO, CA	$162,611	$209,800	$194,000	$170,000	$135,700	$105,000
COLORADO SPRINGS, CO	$141,177	$183,109	$160,100	$138,540	$120,000	$102,750
WASHINGTON, DC	$165,987	$203,000	$193,000	$172,000	$145,000	$118,000
DOVER AFB, DE	$131,377	$167,382	$155,550	$129,900	$107,200	$91,000
JACKSONVILLE, FL	$113,586	$152,334	$129,900	$111,180	$92,000	$81,000
FORT BENNING, GA	$108,879	$146,650	$130,000	$104,900	$85,000	$69,900
HONOLULU COUNTY, HI	$149,962	$200,800	$191,400	$156,950	$103,000	$87,000
GREAT LAKES NAVAL TNG CTR	$137,344	$185,000	$159,900	$131,000	$112,900	$98,924
SCOTT AFB, IL	$120,476	$171,600	$149,300	$118,000	$88,506	$69,900
INDIANAPOLIS, IN	$120,923	$162,900	$144,000	$122,910	$90,750	$77,000
FT. LEAVENWORTH, KS	$130,531	$185,000	$152,000	$129,000	$110,000	$84,500
FT. KNOX, KY	$105,281	$143,000	$122,000	$98,000	$86,500	$75,300
SHREVEPORT/BARKSDALE AFB, LA	$95,448	$140,075	$116,100	$90,900	$69,900	$57,000
PATUXENT RIVER NAS, MD	$154,273	$195,213	$179,000	$154,000	$133,900	$110,160
MALMSTROM AFB, MT	$98,391	$121,000	$112,000	$96,000	$86,250	$74,500
MOREHEAD CITY, NC	$105,036	$153,000	$120,000	$98,900	$84,900	$68,500
FORT BRAGG/POPE AFB, NC	$101,464	$146,900	$119,867	$94,500	$79,000	$66,500
CANNON AFB, NM	$83,571	$110,000	$91,000	$77,500	$70,500	$54,000
FORT SILL/LAWTON, OK	$81,623	$130,000	$93,500	$74,900	$58,000	$50,900
CARLISLE BARRACKS, PA	$135,201	$192,200	$176,115	$131,000	$94,500	$80,900
BEAUFORT, SC	$119,882	$169,000	$142,000	$116,500	$92,000	$84,900
KINGSVILLE, TX	$122,940	$165,000	$124,900	$117,900	$116,000	$90,900
SAN ANTONIO, TX	$111,884	$158,205	$131,220	$108,000	$87,000	$72,000
FORT HOOD, TX	$82,158	$121,010	$91,350	$75,625	$64,950	$52,600
NORFOLK/PORTSMOUTH, VA	$119,880	$172,000	$146,500	$116,000	$89,900	$74,900
CAMP AP HILL, VA	$137,482	$190,000	$164,900	$131,500	$109,900	$72,500
TACOMA, WA	$146,439	$179,925	$164,950	$146,975	$128,725	$111,775

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-5. VA Guaranteed and Insured Loan (GIL) Computer System Loan Amounts for Loans Closed in Calendar Year 2000

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$159,030	$196,758	$182,580	$163,149	$138,970	$122,502
BEALE AFB, CA	$129,090	$176,358	$153,770	$123,874	$108,780	$91,290
LOS ANGELES, CA	$163,980	$213,725	$202,470	$166,340	$132,039	$116,250
SAN DIEGO, CA	$164,084	$203,000	$195,279	$172,835	$138,618	$107,100
COLORADO SPRINGS, CO	$142,777	$185,955	$163,200	$140,798	$122,298	$102,000
WASHINGTON, DC	$167,529	$203,000	$195,840	$175,400	$146,650	$120,350
DOVER AFB, DE	$133,425	$170,710	$160,200	$131,950	$109,340	$92,300
JACKSONVILLE, FL	$115,041	$154,500	$130,560	$113,118	$93,840	$81,600
FORT BENNING, GA	$110,854	$146,880	$132,600	$106,998	$86,190	$71,298
HONOLULU COUNTY, HI	$151,344	$202,950	$193,800	$158,540	$103,000	$88,550
GREAT LAKES NAVAL TNG CTR	$138,878	$180,326	$163,098	$133,600	$114,240	$100,878
SCOTT AFB, IL	$121,509	$173,550	$149,940	$119,238	$89,658	$70,890
INDIANAPOLIS, IN	$122,322	$167,787	$147,650	$123,249	$92,550	$76,398
FT. LEAVENWORTH, KS	$131,921	$188,700	$155,000	$131,550	$112,200	$84,000
FT. KNOX, KY	$106,921	$145,554	$124,400	$100,450	$87,720	$76,806
SHREVEPORT/BARKSDALE AFB, LA	$96,769	$142,800	$117,800	$92,718	$71,298	$58,100
PATUXENT RIVER NAS, MD	$156,447	$199,769	$180,000	$155,950	$136,650	$112,350
MALMSTROM AFB, MT	$99,557	$121,452	$114,233	$97,910	$87,669	$75,990
MOREHEAD CITY, NC	$106,139	$147,390	$120,360	$100,400	$86,550	$66,300
FORT BRAGG/POPE AFB, NC	$103,252	$149,450	$121,460	$96,300	$80,500	$67,850
CANNON AFB, NM	$85,196	$112,200	$93,700	$79,050	$71,910	$55,080
FORT SILL/LAWTON, OK	$82,945	$129,540	$95,880	$76,398	$59,160	$51,918
CARLISLE BARRACKS, PA	$135,666	$192,350	$176,115	$134,275	$96,390	$82,518
BEAUFORT, SC	$121,872	$172,380	$144,840	$116,500	$93,738	$85,000
KINGSVILLE, TX	$119,180	$146,800	$123,573	$120,250	$111,650	$93,627
SAN ANTONIO, TX	$113,053	$160,350	$133,797	$109,293	$87,720	$72,300
FORT HOOD, TX	$83,524	$123,430	$92,597	$76,900	$65,382	$53,652
NORFOLK/PORTSMOUTH, VA	$121,623	$174,063	$148,554	$118,300	$91,290	$76,350
CAMP AP HILL, VA	$139,638	$195,700	$168,198	$131,500	$112,098	$73,950
TACOMA, WA	$148,226	$182,469	$167,943	$148,852	$130,509	$112,634

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-6. VA Guaranteed and Insured Loan (GIL) Computer System Home Prices for Loans Closed in Calendar Year 2001

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$162,690	$199,000	$184,500	$164,900	$145,000	$119,900
BEALE AFB, CA	$135,173	$165,600	$161,100	$142,575	$107,000	$99,000
LOS ANGELES, CA	$176,300	$197,000	$189,000	$183,400	$165,000	$140,000
SAN DIEGO, CA	$176,807	$222,000	$199,000	$182,000	$152,000	$127,900
COLORADO SPRINGS, CO	$156,247	$197,000	$176,500	$156,500	$135,000	$116,900
WASHINGTON, DC	$168,894	$205,000	$195,000	$171,578	$148,500	$123,700
DOVER AFB, DE	$134,704	$177,000	$153,300	$129,925	$116,250	$98,500
JACKSONVILLE, FL	$123,448	$165,441	$142,142	$120,135	$102,646	$88,830
FORT BENNING, GA	$114,558	$165,000	$133,500	$106,900	$89,900	$79,900
HONOLULU COUNTY, HI	$152,246	$200,000	$190,000	$156,100	$120,000	$89,000
GREAT LAKES NAVAL TNG CTR	$149,484	$188,828	$167,420	$146,000	$127,750	$113,900
SCOTT AFB, IL	$128,379	$186,000	$155,900	$126,300	$98,000	$72,900
INDIANAPOLIS, IN	$130,371	$178,070	$147,500	$126,373	$105,000	$93,500
FT. LEAVENWORTH, KS	$131,653	$185,000	$155,100	$135,510	$103,875	$75,000
FT. KNOX, KY	$110,557	$150,000	$131,500	$108,934	$86,000	$75,000
SHREVEPORT/BARKSDALE AFB, LA	$102,612	$159,000	$127,000	$98,000	$75,750	$60,000
PATUXENT RIVER NAS, MD	$155,162	$197,000	$180,000	$156,080	$130,000	$113,250
MALMSTROM AFB, MT	$104,289	$132,000	$118,500	$99,000	$87,450	$75,000
MOREHEAD CITY, NC	$114,393	$157,000	$137,500	$114,500	$87,500	$77,900
FORT BRAGG/POPE AFB, NC	$105,788	$153,596	$125,000	$98,250	$83,000	$69,950
CANNON AFB, NM	$90,007	$147,000	$102,500	$80,000	$50,965	$43,750
FORT SILL/LAWTON, OK	$88,631	$140,000	$108,500	$82,700	$65,000	$51,500
CARLISLE BARRACKS, PA	$136,333	$182,625	$168,850	$135,750	$113,250	$83,268
BEAUFORT, SC	$126,941	$172,900	$153,600	$119,950	$98,000	$85,500
KINGSVILLE, TX	$65,833	$101,000	$101,000	$58,000	$38,500	$38,500
SAN ANTONIO, TX	$118,041	$165,000	$137,649	$114,500	$93,300	$79,745
FORT HOOD, TX	$91,590	$139,900	$105,000	$82,000	$69,900	$59,500
NORFOLK/PORTSMOUTH, VA	$128,310	$180,000	$155,295	$125,000	$97,500	$80,000
CAMP AP HILL, VA	$139,746	$183,250	$170,875	$143,189	$108,975	$90,000
TACOMA, WA	$153,944	$188,500	$172,434	$153,970	$136,000	$120,250

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-7. VA Guaranteed and Insured Loan (GIL) Computer System Loan Amounts for Loans Closed in Calendar Year 2001

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$165,053	$202,215	$188,490	$168,300	$147,798	$122,300
BEALE AFB, CA	$138,103	$168,912	$164,322	$145,427	$110,150	$101,970
LOS ANGELES, CA	$179,184	$202,910	$189,000	$186,048	$168,300	$142,800
SAN DIEGO, CA	$177,863	$220,065	$202,950	$183,820	$155,040	$129,500
COLORADO SPRINGS, CO	$158,032	$199,900	$179,520	$158,620	$136,680	$118,320
WASHINGTON, DC	$170,642	$203,000	$197,950	$174,940	$150,675	$124,950
DOVER AFB, DE	$136,456	$180,500	$156,150	$132,000	$118,000	$100,470
JACKSONVILLE, FL	$125,380	$168,300	$143,734	$122,400	$104,740	$90,270
FORT BENNING, GA	$116,568	$166,757	$136,000	$109,038	$91,698	$81,498
HONOLULU COUNTY, HI	$153,495	$202,969	$192,000	$158,100	$120,500	$87,720
GREAT LAKES NAVAL TNG CTR	$151,006	$191,097	$169,950	$149,135	$131,570	$116,178
SCOTT AFB, IL	$129,983	$188,490	$158,100	$128,750	$98,900	$74,358
INDIANAPOLIS, IN	$132,591	$181,631	$149,759	$128,900	$107,100	$95,370
FT. LEAVENWORTH, KS	$133,774	$188,700	$158,974	$137,965	$105,953	$77,250
FT. KNOX, KY	$112,384	$150,450	$134,130	$110,893	$87,720	$76,500
SHREVEPORT/BARKSDALE AFB, LA	$104,473	$158,100	$128,300	$99,960	$76,600	$61,200
PATUXENT RIVER NAS, MD	$157,513	$202,807	$183,600	$159,600	$132,600	$115,500
MALMSTROM AFB, MT	$105,803	$131,700	$120,850	$101,453	$87,681	$77,000
MOREHEAD CITY, NC	$116,591	$161,160	$138,600	$116,790	$89,250	$79,458
FORT BRAGG/POPE AFB, NC	$107,627	$156,060	$127,398	$100,164	$84,558	$71,298
CANNON AFB, NM	$91,180	$147,900	$104,550	$81,600	$51,984	$44,600
FORT SILL/LAWTON, OK	$90,006	$142,500	$110,160	$84,354	$66,300	$52,020
CARLISLE BARRACKS, PA	$138,787	$188,100	$173,916	$139,140	$114,319	$85,750
BEAUFORT, SC	$128,494	$176,358	$156,672	$122,325	$99,960	$87,210
KINGSVILLE, TX	$67,140	$103,000	$103,000	$59,150	$39,270	$39,270
SAN ANTONIO, TX	$119,653	$164,697	$140,250	$115,318	$94,860	$81,090
FORT HOOD, TX	$92,886	$142,290	$106,896	$83,436	$71,298	$60,180
NORFOLK/PORTSMOUTH, VA	$130,306	$183,450	$158,100	$127,500	$99,654	$81,549
CAMP AP HILL, VA	$141,233	$186,875	$175,799	$146,053	$111,135	$91,800
TACOMA, WA	$156,475	$191,645	$175,633	$156,539	$137,700	$122,655

Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.

Table G1-8. VA Guaranteed and Insured Loan (GIL) Computer System Home Prices for Loans Closed in Calendar Year 2002

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$172,435	$223,050	$195,000	$172,000	$147,000	$125,450
BEALE AFB, CA	$171,669	$209,000	$198,500	$181,969	$149,000	$118,500
LOS ANGELES, CA	$208,071	$245,000	$240,000	$212,500	$195,000	$135,000
SAN DIEGO, CA	$209,933	$265,000	$240,000	$217,672	$180,000	$144,500
COLORADO SPRINGS, CO	$168,511	$218,682	$189,975	$166,900	$143,293	$120,250
WASHINGTON, DC	$191,210	$245,000	$227,021	$192,745	$158,500	$130,900
DOVER AFB, DE	$146,349	$189,900	$160,000	$139,400	$128,000	$104,774
JACKSONVILLE, FL	$132,427	$177,153	$152,554	$129,400	$109,900	$92,460
FORT BENNING, GA	$127,137	$176,500	$148,500	$123,900	$99,000	$86,900
HONOLULU COUNTY, HI	$192,444	$243,010	$229,000	$199,900	$160,000	$121,375
GREAT LAKES NAVAL TNG CTR	$164,729	$210,000	$189,450	$164,900	$137,100	$118,900
SCOTT AFB, IL	$142,696	$206,000	$169,500	$142,000	$112,000	$84,900
INDIANAPOLIS, IN	$148,501	$192,121	$172,000	$148,147	$126,900	$105,200
FT. LEAVENWORTH, KS	$151,570	$204,000	$170,000	$150,000	$125,000	$99,900
FT. KNOX, KY	$115,557	$154,000	$130,450	$115,000	$94,900	$79,900
SHREVEPORT/BARKSDALE AFB, LA	$112,845	$164,000	$137,075	$108,350	$83,250	$67,250
PATUXENT RIVER NAS, MD	$171,552	$226,295	$195,512	$169,068	$145,288	$118,900
MALMSTROM AFB, MT	$105,019	$146,500	$119,900	$103,000	$86,000	$71,400
MOREHEAD CITY, NC	$111,713	$149,000	$128,000	$107,000	$93,000	$76,000
FORT BRAGG/POPE AFB, NC	$114,143	$164,350	$135,000	$106,000	$88,300	$76,750
CANNON AFB, NM	$99,098	$145,000	$118,000	$88,000	$74,000	$63,500
FORT SILL/LAWTON, OK	$93,702	$150,000	$109,950	$84,900	$65,479	$55,000
CARLISLE BARRACKS, PA	$214,900	$214,900	$170,000	$130,000	$107,000	$89,900
BEAUFORT, SC	$139,670	$185,000	$166,500	$136,000	$110,900	$98,900
KINGSVILLE, TX	$105,466	$189,000	$189,000	$71,500	$55,900	$55,900
SAN ANTONIO, TX	$126,962	$177,365	$144,802	$122,000	$100,500	$85,400
FORT HOOD, TX	$96,383	$147,173	$114,800	$86,000	$73,500	$62,500
NORFOLK/PORTSMOUTH, VA	$136,762	$198,000	$165,900	$130,000	$100,100	$83,500
CAMP AP HILL, VA	$146,776	$220,125	$209,700	$136,000	$115,000	$72,000
TACOMA, WA	$163,356	$205,892	$183,975	$160,538	$141,750	$124,950

Table G1-9. VA Guaranteed and Insured Loan (GIL) Computer System Loan Amounts for Loans Closed in Calendar Year 2002

MILITARY HOUSING AREA	MEAN	P90	P75	MEDIAN	P25	P10
ANCHORAGE AFB, AK	$175,333	$225,450	$198,900	$175,100	$149,940	$127,398
BEALE AFB, CA	$174,600	$213,150	$201,450	$184,950	$151,980	$120,870
LOS ANGELES, CA	$211,504	$244,800	$244,800	$216,750	$198,900	$137,700
SAN DIEGO, CA	$211,066	$263,000	$240,000	$221,575	$183,262	$145,350
COLORADO SPRINGS, CO	$170,798	$221,775	$192,899	$169,379	$145,855	$122,043
WASHINGTON, DC	$193,270	$246,170	$231,594	$195,771	$160,395	$132,600
DOVER AFB, DE	$147,772	$192,780	$164,800	$141,600	$128,727	$106,080
JACKSONVILLE, FL	$134,516	$178,974	$154,654	$131,550	$111,755	$93,840
FORT BENNING, GA	$129,333	$180,030	$151,925	$125,970	$100,980	$88,638
HONOLULU COUNTY, HI	$194,337	$246,330	$231,750	$201,487	$163,200	$122,400
GREAT LAKES NAVAL TNG CTR	$167,466	$216,300	$192,729	$168,198	$139,842	$119,034
SCOTT AFB, IL	$144,618	$204,000	$172,890	$145,650	$112,200	$86,598
INDIANAPOLIS, IN	$150,694	$195,963	$172,000	$151,965	$129,438	$107,304
FT. LEAVENWORTH, KS	$153,401	$202,297	$174,050	$148,920	$127,700	$102,485
FT. KNOX, KY	$117,555	$157,080	$132,608	$117,012	$97,523	$81,498
SHREVEPORT/BARKSDALE AFB, LA	$114,951	$168,495	$140,673	$110,505	$84,915	$68,575
PATUXENT RIVER NAS, MD	$174,627	$231,750	$200,327	$173,139	$147,474	$121,250
MALMSTROM AFB, MT	$107,189	$149,430	$122,250	$105,060	$87,720	$72,800
MOREHEAD CITY, NC	$113,851	$151,980	$130,560	$109,140	$94,860	$77,520
FORT BRAGG/POPE AFB, NC	$116,181	$167,785	$137,500	$107,623	$89,760	$77,520
CANNON AFB, NM	$100,886	$147,900	$120,350	$89,750	$75,450	$64,770
FORT SILL/LAWTON, OK	$94,891	$153,000	$112,149	$86,598	$66,367	$55,998
CARLISLE BARRACKS, PA	$142,696	$207,217	$173,400	$132,600	$109,140	$89,900
BEAUFORT, SC	$142,449	$188,700	$169,830	$138,700	$113,100	$100,878
KINGSVILLE, TX	$108,206	$194,670	$194,670	$72,930	$57,018	$57,018
SAN ANTONIO, TX	$128,911	$178,936	$146,880	$124,370	$102,098	$86,598
FORT HOOD, TX	$97,999	$150,370	$116,229	$87,720	$74,536	$63,240
NORFOLK/PORTSMOUTH, VA	$138,856	$198,900	$169,250	$132,600	$102,000	$85,170
CAMP AP HILL, VA	$148,672	$224,527	$205,700	$136,000	$117,300	$73,440
TACOMA, WA	$165,923	$207,050	$185,619	$163,417	$144,290	$127,400
Source: VA Guaranteed and Insured Loan (GIL) Computer System and Study Team.						

APPENDIX H

HOME OWNERSHIP RATES

APPENDIX H: HOME OWNERSHIP RATES

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APPENDIX H: HOME OWNERSHIP RATES

Overview of Data Sources

We use four data sources in this report: Survey of Consumer Finances (SCF), Integrated Public Use Microdata Series (IPUMS) from the Census data, Current Population Survey (CPS), and National Survey of Veterans (NSV). The Study Team reports home ownership rates for veterans versus non-veterans and active duty military versus civilians, on the basis of each of the data sources. We caution the reader that the definition of a population group differs across data sources. Consequently, numbers reported in tables are not directly comparable to each other. The construction of the variables used in this report are described in Attachment H-1.

The Study Team uses different years of data from each data source (with the exception of NSV) to facilitate comparisons in home ownership rates. The summary of the data sources, years of data used, and the population groups available in each data source are presented in Table H-1.

Table H-1. Data Sources Used, by Year and Population Group

	SCF		Census		CPS		NSV
Population Group	2001	1983	1990	1980	2002	1980	2001
Veteran	**May Exclude up to 3%**	Available	Available	Available	Available	Available	Available
Non-Veteran/Civilian	**May Exclude up to 2%**	Available	Available	Available	Available	Available	**Not Available**
Active Duty	**Not Available**	Available	**Problematic**	**Problematic**	Available	Available	**Not Available**
General Population	Available	Available	Available	Available	Available	Available	**Not Available**

Source: Survey of Consumer Finance, Census, Current Population Survey, National Survey of Veterans

Survey of Consumer Finances

The SCF is a triennial survey of U.S. families and is designed to provide detailed information on income, assets, debts, use of financial services, and demographic information. The SCF is a particularly rich data set for the purposes of this study for two reasons. First, it identifies families that are credit constrained. This enables us to assess the impact of credit constraints on home ownership rates. Second, the SCF identifies veterans who are also participants in the VA loan program. This allows us to analyze the effects of changes in the funding fee on veteran participation in the VA loan program.

The analysis of barriers to home ownership in this report is based on 2001 SCF data. Analysis of the effects of changes in the funding fee on VA loan program participation is based on 1995, 1998, and 2001 SCF data.

Active duty personnel cannot be identified in the publicly available 2001 SCF because it collapses military and public administration into one employment category. The following effects occur when veterans are identified as those respondents who answered "yes" to the veteran status question and who were not employed in any of the industries found in the collapsed industry code group that includes the military. First, individuals who work in public administration and who have served in the military will not be counted as veterans.[1] Second, individuals who work in public administration and who have not served in the military will not be counted as non-veterans.[2]

Integrated Public Use Microdata Series from the Census Data

The complete 2000 Census was not available through IPUMS at the time of this study. For this reason, we used the IPUMS database created by the University of Minnesota in 1997 with the 1990 Census and the 1980 IPUMS database. Both databases, which are a 1 percent sample, are deemed to be a highly accurate snapshot of American population trends. However, different record layouts, documentation, and coding schemes occurred as different investigators refined the data over the years. This made studying changes over time more difficult[3] and hindered our ability to produce valid estimates of home ownership rates for active duty personnel.

A significant number of active duty personnel live in military housing and should be excluded from the denominator in computing the home ownership rates for this group. However, the 1990 Census IPUMS does not provide data separately on military personnel living in group quarters, preventing such an exclusion. Therefore, the Study Team cautions the reader that the numbers computed from IPUMS for active duty servicemembers may be lower than the actual rates and the rates provided by the other data sources.

Current Population Survey

The CPS is a monthly survey of about 60,000 households conducted by the U.S. Census Bureau for the Bureau of Labor Statistics. CPS also conducts a series of supplemental surveys. One of those supplemental surveys, the Annual Demographic Survey or March CPS Supplement, provides detailed information on income and work experience along with demographic characteristics, including veteran status, active duty military status, and home ownership for persons 15 years and older. In this analysis, we use 2 years of CPS March Supplements, 2002 and 1980.

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[1] Three percent of respondents who answered "yes" to the veteran status question are employed in an industry in the collapsed industry code group.
[2] Two percent of respondents who answered "no" to the veteran status question are employed in an industry in the collapsed industry code group.
[3] Ruggles, S., and M. Sobek. (1997). Integrated Public Use Microdata Series: Version 2.0, "What is the IPUMS?" Minneapolis: Historical Census Projects, University of Minnesota. http://www.ipums.org.

The CPS universe is the civilian noninstitutional population of the United States living in housing units and members of the Armed Forces living in civilian housing units, not on military bases. Servicemembers living in group quarters are not included in the sample.

National Survey of Veterans

The NSV is a periodic survey conducted by VA to observe the trends in the veteran population and to identify the users and nonusers of VA programs for the purposes of planning and evaluating VA programs. There have been five NSVs completed since its inception in 1978 (i.e., 1978, 1979, 1987, 1993, and 2000). Here, the Study Team present the results from the most recent survey, 2000. This source does not provide any data on non-veterans, and we use it only to compare the veterans' home ownership rates across different data sources.

Literature Review

The literature available on home ownership is extensive, and as such, the Study Team has relied on it to provide a foundation for the understanding and analysis of results. In this section, we address trends in home ownership rates, housing affordability, demographic effects on home ownership, and barriers to home ownership. The Study Team also provides a comparison between conventional loan programs and the loan programs offered by VA and the Federal Housing Administration (FHA).

The literature review influenced our interpretation of the home ownership issue. Comparison of raw home ownership rates is not appropriate as a measure of the effectiveness of a program because there are many economic and demographic factors that influence the rates more than specific policies do. Because of this conclusion, we decided to use a multivariate analysis approach to determine actual differences in home ownership rates.

The Study Team also found that there are widely disparate reports on the home ownership rates for active duty personnel. The rates differ by data source, how military personnel are defined (active duty only and/or reservists on active duty), and how households are counted.

Barriers to home ownership can be grouped into three main categories: liquidity constraints (e.g., money available for a down payment), lending/borrowing constraints (e.g., strict mortgage qualifying criteria), and housing affordability. Liquidity constraints are the most frequently mentioned barrier to home ownership, but results from the literature indicate that lending/borrowing constraints appear to impact home ownership rates more. Housing affordability has a direct impact on individuals' ability to purchase a home and therefore has a significant effect on home ownership rates. Studies have suggested that to control housing affordability, more emphasis should be placed on increasing the supply of homes rather than increasing the demand for homes.

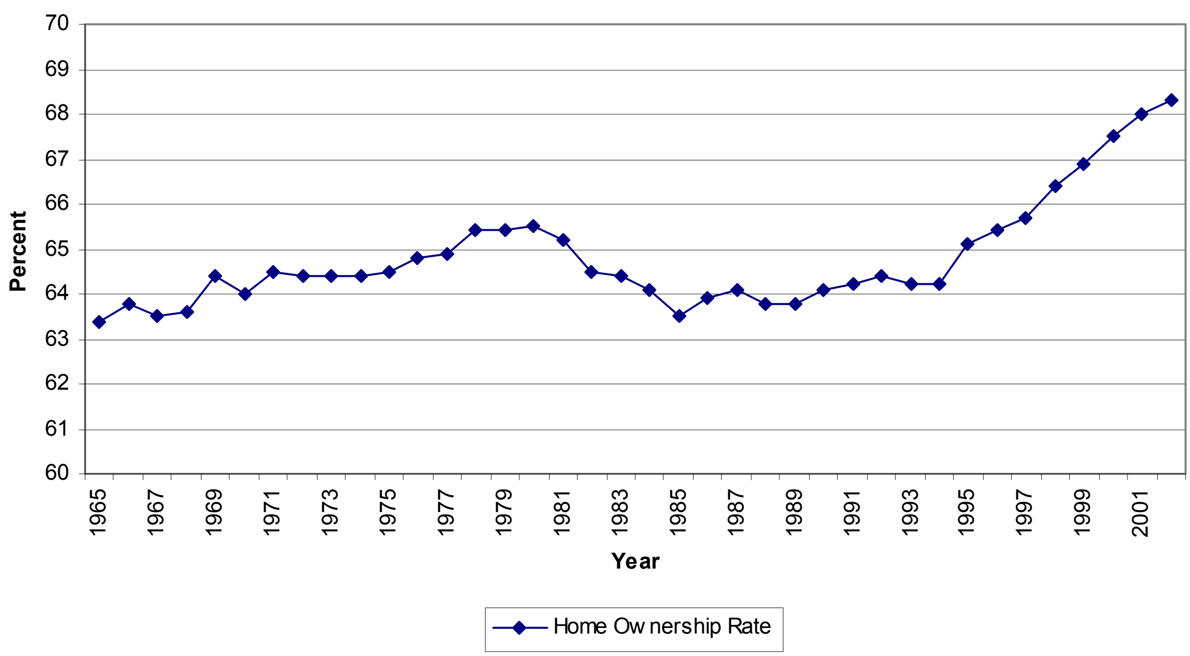
We used the literature to examine how other government loan programs, particularly the FHA loan program, influence home ownership rates. One finding from the literature is that FHA's ability to increase home ownership rates is limited but that the program is able to get people into homes sooner than if they had to qualify for a conventional loan.

Long-Term Trends in Home Ownership Rates

Home ownership rates increased dramatically from 43.6 percent in 1940 to 68.3 percent in 2002.[4] The greatest increase occurred between 1940 and 1960, when a 42 percent increase in home ownership occurred (raising the home ownership rate to 61.9 percent). Since 1960, home ownership rates have increased, but there have been some downturns along the way.

As Figure H-1 displays, home ownership rates climbed from 63.4 percent in 1965 to 65.5 percent in 1980, but then decreased to 63.5 percent in 1985. Since 1985, rates have increased slowly, with a few minor dips during slower economic times (e.g., early to mid-1980s and early to mid-1990s). Between 1994 and 2002, home ownership rates increased steadily, with an average of 0.5 percentage point per year, or a total increase of 4 percentage points between 1994 and 2002.[5]

Figure H-1. Home Ownership Rates, by Year



Source: U.S. Census Bureau, Housing Vacancy Surveys

[4] http://www.colorado.edu/libraries/govpubs/colonumb/ownrtype.htm; http://www.census.gov/hhes/www/housing/hvs/qtr103/q103tab5.html
[5] U.S. Census Bureau, Housing Vacancy Surveys.

The variations in home ownership rates over the years can be attributed to a multitude of economic and demographic factors. Segal and Sullivan[6] examine the demographic trends in home ownership rates from 1977 to 1997, using March CPS Supplement data. They use the demographic information for household heads, which they define as being the male marriage partner if the householder was married (with a spouse present) or the unmarried householder (if there was no marriage). Additionally, they limit their analysis to households with household heads between 18 and 74 years of age.

Segal and Sullivan note that drawing conclusions on policy effectiveness on the basis of raw home ownership rates is dangerous because many major economic and demographic trends unrelated to policy significantly affect home ownership rates. They find that younger households (age 35 to 39) have home ownership rates that are lower than the national average (about 7 percentage points), while older households (age 55 to 74) have higher home ownership rates (5.5 percentage points). Additionally, Borjas[7] finds that age, education, and household income increase the probability of home ownership.

Household size also is a factor in home ownership rates. The home ownership rate for households without children increased 3 percentage points from 1977 to 1997, while the home ownership rate for households with four or more children declined 10 percentage points from 1977 to 1997. A related factor was the decline in marriage rates between 1977 and 1997, which lowered home ownership rates by 2.5 percentage points.

One of the most significant factors affecting home ownership rates, as identified by Segal and Sullivan, is the increasing importance of education. In 1977, the home ownership rates for households without a high school degree and households with a postgraduate education differed by 6 percentage points. By 1997, the difference grew to 20 percentage points, with the home ownership rates for households without a high school degree dropping by 8 percentage points and the home ownership rates for households with a postgraduate education increasing by more than 7 percentage points. A study by the Milken Institute[8] supports this finding by reporting that it has only been in the past decade that the median income associated with a college undergraduate degree comes within reach of the median-priced home. Those with a high school education, on average, do not earn enough to afford a median-priced home.

An additional factor related to education is the real income of households. Segal and Sullivan[9] find that home ownership rates increase for all income deciles between 1977 and 1997, except for the lowest income decile, which dropped 7 percentage points. The

[6] Segal, L. M., and D. G. Sullivan. (1998). Trends in home ownership: Race, demographics, and income. *Economic Perspectives, 22*, 53–72.
[7] Borjas, G. J. (2002). Home ownership in the immigrant population. Research Institute for Housing America. Working Paper No. 02-01.
[8] Trimbath, S., and J. Montoya. (September 2002). Housing affordability in three dimensions: Price, income, and interest rates. The Milken Institute.
[9] Segal, L. M., and D. G. Sullivan. (1998). Trends in home ownership: Race, demographics, and income. *Economic Perspectives, 22*, 53–72.

Milken Institute[10] reports that the higher the income, the higher the home ownership rates. Households in the $40,000 to $60,000 income range are almost three times more likely to own their homes than rent them.

Segal and Sullivan conclude that the aging of the baby boom generation, the increase in educational attainment, and the growth in real income caused home ownership rates to increase significantly. This growth was offset by a decrease in the home ownership rates, caused by the decline in the number of married households, and the decrease in the size of households.

Other researchers have been interested in the influence of geographic variables on the housing tenure decision. Iwarere and Williams[11] find that households with longer commutes to work are more likely to own their home. Elder and Zumpano[12] find that urban households have a higher probability of home ownership, as compared with that of rural households.

The Joint Center for Housing Studies of Harvard University[13] reports that minorities account for 40 percent of net new homeowners in the past 5 years. However, the Milken Institute[14] reports that the home ownership rates for minorities are lower. In fact, only Hispanic and African Americans in the upper two-fifths of the income brackets can afford a median-priced single family home. Additionally, minorities have limited access to credit, and because of their lower average education levels, they may not be as informed about how to purchase a home and arrange for financing. Using information from the U.S. Census Bureau, the Milken Institute reports that the 2001 home ownership rates were about 47 percent for African Americans and Hispanics and 54 percent for Asians; the 2001 home ownership rate in general for the United States was 67 percent.

The Milken Institute[15] also reports that immigrant home ownership rates are lower than those of native-born citizens for the first 10 years they live in the United States. After living for 20 years in the United States, immigrant households have a higher home ownership rate than native-born citizens.

Painter and Redfearn[16] found in their analysis of U.S. Census Bureau and Federal Reserve System data that interest rates have little impact in changing home ownership

[10] Trimbath, S., and J. Montoya. (September 2002). Housing affordability in three dimensions: Price, income, and interest rates. The Milken Institute.
[11] Iwarere, L., and J. Williams. (1991). A Micro-market analysis of tenure choice using the logit model. *Journal of Real Estate Research, 6*(3), 327–339.
[12] Elder, H., and L. Zumpano. (1991). Tenure choice, housing demand and residential location. *Journal of Real Estate Research, 6*(3), 341–356.
[13] Joint Center for Housing Studies of Harvard University. (2002). The state of the Nation's housing: 2002.
[14] Trimbath, S., and J. Montoya. (September 2002). Housing affordability in three dimensions: Price, income, and interest rates. The Milken Institute.
[15] Ibid.
[16] Painter, G., and C. L. Redfearn. (2001). The role of interest rates in influencing long-run home ownership rates. Lusk Center for Real Estate, University of Southern California. Working paper 2001-1011.

rates. They believe that changes in interest rates could cause new homebuyers to enter the market sooner than they would otherwise, but the changes have little impact on the long-run home ownership rate. Painter and Redfearn believe that rising incomes and changing demographics are the most important factors in explaining home ownership rates over time.

The Joint Center for Housing Studies of Harvard University[17] projections of home ownership suggest that the number of homeowners will increase by an average of 1.1 million people annually over the next two decades. Most of this growth reflects the rise in the foreign-born population since the 1970s, with the Latin American and Asian populations having the largest increases.

Home Ownership Rates for Active Duty Personnel

VA's loan program does not have a program outcome goal for home ownership rates for military personnel as it does for veterans, even though this group constitutes a significant portion of all users. In both the literature and our own analysis, we find that the home ownership rates for active duty servicemembers vary significantly by data source and methodology.

The RAND Corporation,[18] using 1990 Census Public Use Microdata Sample (PUMS-A) and 1997 Survey of Military Members' Housing Choices and Preferences data, finds a 63.9 percent home ownership rate for military members and a 64.8 percent home ownership rate for the nonmilitary population. RAND also finds that home ownership rates among military personnel were lower than those among nonmilitary personnel, across all educational and income groups.

Using 2000 March CPS Supplement data, Rose Gutierrez[19] reports that the home ownership rate for all military households living off base was 41.3 percent, as compared with 67.4 percent for the Nation as a whole. The large differences in home ownership rates between these two studies can be partially explained by the data used. First, Census and CPS include different segments of the active military population in their analysis. The 1990 Census IPUMS source does not provide data on military living in group quarters separately; therefore, they are included in the denominator for calculating rates. The 2000 March CPS Supplement excludes those servicemembers living in group quarters. Second, the years of data have an impact on comparing rates. As we found in our analysis, it is difficult to compare data sources with each other and across years, in part because of the changes made to the survey questions and methodology.

In 1997, the Department of Defense (DoD), Office of the Under Secretary of Defense (Comptroller), sponsored a study on the financial services offered on DoD installations

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[17] Joint Center for Housing Studies of Harvard University. (2002). The state of the Nation's housing: 2002.
[18] Buddin, R. J., C. R. Gresenz, S. D. Hosek, M. N. Elliott, and J. Hawes-Dawson. (1999). An evaluation of housing options for military families. The RAND Corporation.
[19] Gutierrez, R. (July 2001). Military housing. *Housing Economics, July 2001*, 11–13.

worldwide.[20] The sample was made up of military members (including reservists on active duty) and DoD civilian employees, who answered questions regarding their use of financial institutions as well as household financial and demographic information. Proportionately more civilian employees (61 percent) than military members (28 percent) said that they have home mortgages. Similarly, proportionately more officers than enlisted personnel said that they have a home mortgage (63 and 29 percent, respectively).

In a study by the Center for Naval Analyses,[21] Heybey compares the home ownership rates for Navy and Marine Corps personnel who live off base with the rates for civilians. Using the 1996 Variable Housing Allowance Housing Survey and the Bureau of Labor Statistics' Consumer Expenditure Surveys for 1997, Heybey finds that although overall military home ownership rates are much lower than civilian rates, the difference between these two groups either diminishes or disappears in higher age categories. Heybey finds that married personnel are 29 percent more likely to own a home than are nonmarried personnel. In addition, officers are 17 percent more likely to own a home than are enlisted personnel. Comparing home ownership between the services, Heybey finds that Marine Corps personnel are 8 percent less likely to own a home than are Navy personnel. She also finds that married Navy personnel are 30 percent more likely to own a home than are nonmarried Navy personnel. Furthermore, the higher the pay grade, the more likely a person in the Navy is to own a home. Finally, comparing Navy personnel to civilians and controlling for age and other demographic factors, Heybey does not find any evidence to suggest that home ownership in the Navy is significantly lower than home ownership in the civilian population.

Heybey points out that in a comparison of military and civilian home ownership rates, one should exclude bachelor enlisted personnel below the E5 pay grade from calculations since they are required to live on base and therefore, technically, cannot live in a home that they own. Including military personnel living on base in computations skews military home ownership rates downward.

Barriers to Home Ownership

Liquidity Constraints

The most frequently mentioned barrier to home ownership in the literature is a person's ability to procure the down payment for a home. Results from Chicago Title's 1999 survey of home buyers show that 75.3 percent of first-time buyers use their own savings and investments to make a down payment, and it takes them, on average, 2.2 years to save up the money.[22] Research by the Joint Center for Housing Studies of Harvard

[20] George, B. J., J. E. Edwards, and S. B. Button. (September 1998). The 1997 DoD Financial Services Survey. Defense Manpower Data Center. DMDC Report No. 98-008.
[21] Heybey, B. (2000). Do military families achieve the American dream? A comparison of Navy, Marine Corps and civilian home ownership rates. Center for Naval Analyses.
[22] Chicago Title's 24th Annual Survey of Recent Home Buyers: "Who's buying homes in America" 1999. http://www.ctic.com/homesurvey/home.pdf

University[23] suggests that as many as one in five first-time homebuyers receive funds from a relative or friend to help with the down payment, and this help, on average, is 50 percent of the down payment. Linneman and Wachter[24] find that down payment constraints appear to limit home ownership more often than income limits home ownership.

Lending Criteria to Qualify for Loan

A study by Vigdor[25] examines the impact of borrowing constraints on housing prices and rents. He theorizes that relaxing borrowing constraints could increase housing prices. To test this hypothesis, Vigdor uses Census IPUMS data for the years 1940 to 1970 on the general population and veterans to estimate the impact of relaxing borrowing constraints. He is able to show that price escalation of homes coincides with significant relaxations in borrowing constraints.

In 1944, when the VA Home Loan Guaranty program was introduced, it was the most generous program offered because it did not require a down payment and the borrower did not have to pay a mortgage insurance premium. Vigdor's analysis reveals that eligible veterans were more likely to own their home and that about 20 percent of the increase in veterans' home ownership rates between 1940 and 1970 can be attributed to the VA mortgage program. Vigdor also shows that innovations in the mortgage market, such as allowing households to borrow more than the value of a home (allowing closing costs to be incorporated into the loan amount), enabled certain households to buy a home, but it did not increase home ownership significantly.

Vigdor's study concludes that the relaxation of borrowing constraints may have an inflationary effect on housing prices, adversely affecting some households but increasing the value of assets for those who already own a home.

Rosenthal[26] investigates what happens to home ownership rates when all borrowing constraints are removed and how borrowing constraints affect a renter's expectation of becoming a homeowner. Rosenthal uses data from the 1998 SCF to estimate the national home ownership rates if borrowing constraints were lifted entirely. He finds that eliminating all borrowing constraints (and allowing individuals to instantly change their housing tenure if they could) could increase the national home ownership rate by 4 percentage points (from 67.4 to 71.4 percent) and that the percentage of renters who expect to be homeowners in the next 5 to 10 years will increase by 7.6 percentage points (34.3 percent with no constraints versus 26.7 percent with constraints). The increase in the number of renters expecting to buy translates into an increase of 2.5 percentage points in the home ownership rate. Additionally, Rosenthal finds that

[23] Joint Center for Housing Studies of Harvard University. (2002). The state of the Nation's housing: 2002.

[24] Linneman, P., and S. Wachter. (1989). The impacts of borrowing constraints on home ownership. *AREUEA Journal, 17*(4), 389–402.

[25] Vigdor, J. L. (2002). Liquidity constraints and durable good prices: Theory and evidence from the housing market. Terry Sanford Institute of Public Policy, Duke University.

[26] Rosenthal, S. S. (2001). Eliminating credit barriers to increase home ownership: How far can we go? Department of Economics, Syracuse University. Working Paper Number 01-01.

borrowing constraints restrict access to home ownership at least in part by delaying home purchases for Whites and Hispanics and excluding African Americans from home ownership.

Housing Affordability

Housing affordability is a key driver of home ownership rates and can be an important barrier to home ownership. A recent study published by the Milken Institute[27] examines housing affordability as a function of housing prices, household incomes, and interest rates. The authors state that a tripod relationship exists among the three variables, such that they are constantly trying to maintain balance among themselves. When one variable changes, it has an effect on the other two variables. The authors conclude that housing affordability is currently satisfactory.

Median home prices have risen, on average, 5.9 percent per year since 1975. Home prices are a function of supply and demand. The supply of homes has not increased as much to meet demand, and incomes have continued to increase rapidly, leading to higher home prices. Median household income (not adjusted for inflation) has increased 5.2 percent per year since 1975, slightly less than the median home price. This causes an increase in the number of years that a median-income household must invest its gross annual income to purchase a home. The higher this ratio is, the less affordable housing is for the general population. On the basis of this measure, affordability is at near record lows, with the ratio of home prices and income currently at 4.14. This is close to the maximum affordability ratio of 4.19 reached in 1988.

On the other hand, interest rates are much lower today than they were in the 1980s, which helps make housing more affordable. Another measure of affordability in the Milken Institute report is the ratio of mortgage payment to income, which reflects the percentage of monthly income needed to make a mortgage payment. For 2002, the median ratio of mortgage payment to income was 32.4 percent, in contrast to the ratio of 40.5 percent for 1988. The lower ratio in 2002, reflecting greater affordability, is mostly a function of lower interest rates and, to a lesser extent, income growth. The 1982 ratio for purchasing a median-priced home with a 20 percent down payment was 62 percent.

Low interest rates give households more purchasing power, thus allowing them to afford a higher priced home. However, lower interest rates act as a double-edged sword on housing affordability. While they increase a household's ability to purchase a home, they also bring more people into the market, thus increasing demand and raising housing prices because of the higher demand. Low interest rates allow a household with a median income to afford a median-priced home; however, if the interest rates increase, housing affordability will be seriously affected. The Milken Institute offers an example of a potential scenario:

[27] Trimbath, S., and J. Montoya. (September 2002). Housing affordability in three dimensions: Price, income, and interest rates. The Milken Institute.

- "If over the next year mortgage rates increase by one-half percentage point, while house prices appreciate an additional 10 percent and median household income grows by 5 percent, an estimated 4 million additional households (roughly 4 percent of all households) will be unable to afford payments on median priced homes" (page 13).

The authors conclude that instead of stimulating demand for housing, policies should focus on stimulating the supply of housing in order to keep affordability in check. They further caution that if housing prices, incomes, or interest rates move faster or directionally opposite each other, housing affordability can be impacted.

The Joint Center for Housing Studies of Harvard University[28] reports that the increase in housing prices, compared to the increase in incomes, has produced a barrier to home ownership in some areas of the country. Additionally, the center predicts that significant interest rate increases could impact the ability of younger first-time buyers to afford a home. The increases could even prevent lower income and minority households from purchasing a home.

Programs to Overcome Liquidity and Lending Constraints

VA, FHA, and Conventional Loan Programs

Understanding the differences between VA, FHA, and conventional loan programs is important in understanding how certain programs can affect home ownership rates.

Conventional mortgage programs are offered by a number of lender types, such as banks, savings and loans, and mortgage companies. In the past, conventional loans had stricter qualifying standards, such as a 20 percent down payment. However, in recent years, more lenders are offering the option of no down payment and adjustable rate mortgages. If the down payment is less than 20 percent of the purchase price, the borrower is generally required to have private mortgage insurance (PMI) to cover the risk above 80 percent of the value of the home. PMI is generally 0.5 percent (one-half of 1 percent) of the loan amount per year. There is generally a $322,700 limit on loans that require PMI if they are to be sold on the secondary market. Most lenders make sure that the loans meet the criteria established by Fannie Mae and Freddie Mac in order to sell the loans on the secondary market.

The FHA insures nearly one-fifth of all mortgage loans in a given year, and FHA loans are particularly targeted to low-income and minority households. FHA-qualified lenders supply FHA mortgages, while FHA insures the loans, reducing the risk to the lender. The lender is required to conduct an assessment of the property to make sure the home qualifies under FHA standards. Eligible properties are one- to four-unit houses and condominiums. First-time homebuyers pay a minimum cash down payment of 3 percent of the value of the home. In contrast, conventional lenders can require a down

[28] Joint Center for Housing Studies of Harvard University. (2002). The state of the Nation's housing: 2002.

payment from 3 to 20 percent of the purchase price of the home. FHA has more lenient qualifying standards, which include higher mortgage payment-to-income ratios (29 percent for FHA and 28 percent for conventional lenders). The total debt burden allowed for FHA is 41 percent, whereas conventional lenders limit it to 36 percent. FHA has maximum loan amounts based on geographic area, with high-cost areas having higher limits. Interest rates for FHA loans tend to be about 0.2 percentage points higher than conventional rates, and they are not based on the borrowers' credit (unlike conventional loans). FHA requires an upfront payment of a mortgage insurance premium, but it can be added to the amount borrowed. If the mortgage exceeds 90 percent of the home's cost, FHA requires an annual premium as well. Table H-2 shows the typical terms and requirements for the three loan types.

Table H-2. Comparison of VA, FHA, and Conventional Loan Programs

	VA	FHA	Conventional
Maximum loan limit	No loan limit, but lenders typically keep it limited to 4 times the guaranty (currently $240,000)	Depends on the geographic area—in 2003 the range was $154,896 to $280,749.	Over $300,000
Down payment % required	None	3%	3 to 20%; 0% down usually offered with income restrictions
Is PMI required?	Not required, but veteran pays a funding fee (typically 2% of the loan amount)	Required	Required when down payment is less than 20%
Closing costs	Limited	Not limited	Not limited
Qualifying ratios[29]	41% for back-end ratio	29%/41%	28%/36%

Source: Research by Study Team

VA loans are guarantied by VA and provided by VA-qualified private sector lenders to eligible veterans, active duty personnel, surviving spouses, and reservists. A VA loan can cover up to 100 percent of the purchase price of a home. VA does not impose loan limits, but generally, the limit for sale on the secondary market is four times the guaranty amount (currently at $60,000, which effectively sets a loan limit at $240,000 with no down payment). Borrowers pay a funding fee (between 0.5 and 3 percent, with the majority of borrowers charged 2 percent), which is calculated on the basis of whether the borrower is a veteran/active duty servicemember/surviving spouse or reservist, the amount of down payment made (which is not required), loan type, and the number of times the entitlement is used. Veterans who receive service-connected disability

[29] The first ratio is the "front-end ratio," which is the mortgage payment (principal, interest, taxes, and insurance) divided by the gross monthly income. The second ratio is the "back-end ratio" and is the total minimum debt payments per month (e.g., mortgage payment, credit cards) divided by the gross monthly income.

compensation are exempt from paying a funding fee. VA loans do not require PMI, which is a significant savings for the veteran.[30]

FHA Impact on Home Ownership Rates

Monroe[31] examines the impact FHA loans have on home ownership rates. He reports that FHA insures about 18 percent of all loans made by lenders to home buyers. A high percentage of loans are made in central cities (46 percent) and to African American and Hispanic buyers. FHA borrowers tend to be younger, be more credit constrained, and live in neighborhoods with slower housing appreciation, lower incomes, and lower home values.

Using IPUMS files for 1970, 1980, and 1990, Monroe finds that the FHA program increased home ownership an average of 0.6 percentage points for the entire period from 1970 to 1990. The groups most affected by FHA were African Americans, who saw an increase of 1.4 percentage points, and married couples with children, who saw an increase of 1.6 percentage points. Additionally, the more lenient the underwriting criteria used, the higher the home ownership rates are.

Savage and Fronczek[32] conducted an analysis of the Census Bureau's 1991 Survey of Income and Program Participation to determine FHA's ability to increase home ownership. They find that 2.8 million households, or 2.7 percent of all households, did not meet conventional underwriting requirements to purchase a home in the 25th percentile of home prices in a geographic area. Forty-nine percent of households in 1991 qualified for conventional mortgage financing, and 48 percent did not qualify for conventional or FHA financing. Therefore, only 3 percent of the population could be helped by FHA financing. Savage and Fronczek find that FHA has its largest impact on people age 25 to 44, where FHA increases the percentage of households that qualify for a mortgage by about 5 percentage points.

Goodman and Nichols[33] find that the FHA mortgage program accelerates home ownership for those people who would eventually be able to purchase a home, but it does not increase home ownership for those people who would never be able to purchase a home.

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[30] Public Law 105–216, The Homeowners Protection Act of 1998, stipulated that lenders must automatically cancel PMI, if it is paid directly to them, when the outstanding loan balance is 78 percent of the original loan balance (approximately 12 years after loan origination). For example, if on a loan of $100,000 a borrower needed PMI, the borrower would pay a total of $6,000 in PMI fees before it could be cancelled [($100,000 * .005) * 12 years]. In contrast, a veteran would pay a one-time funding fee of 2 percent of the loan amount, equaling $2,000. Therefore, the VA loan is saving the veteran approximately $4,000.

[31] Monroe, A. (November 2001). How the Federal Housing Administration affects home ownership. Harvard University, Department of Economics.

[32] Savage, H. A., and P. J. Fronczek. (1991). Who can afford to buy a house in 1991? U.S. Bureau of the Census, Current Housing Reports, H121/93-3.

[33] Goodman, J. L., and J. B. Nichols. (1997). Does FHA increase home ownership or just accelerate it? *Journal of Housing Economics, 6*, 184–202.

Private Sector Programs to Overcome Liquidity and Lending Constraints

In competing for borrowers, lenders have started offering loan products that are geared toward eliminating liquidity and lending constraints. A study by the Joint Center for Housing Studies of Harvard University[34] finds that in 2001, 15 percent of all home purchase loans had a loan-to-value ratio equal to or greater than 95 percent. In comparison, 1990 had only 4 percent of loans with a loan-to-value ratio of 95 percent or higher.

One new product offered is the 80-20 plan, which allows the borrower to avoid paying PMI. With this plan, 80 percent of the loan is a primary mortgage at a normal interest rate, and 20 percent of the loan is a secondary mortgage at a slightly higher interest rate, which offsets the need for PMI.

Additionally, more lenders are now offering mortgages with no down payment for qualified borrowers. Most of these programs have income maximums that are targeted toward populations with lower middle to middle incomes, tend to have higher interest rates, and require excellent credit. As with other loan programs, the no down payment loan program is meant to move people into home ownership more quickly than if they had to qualify for a “conventional” loan. These programs do not promote home ownership among the population segment that is not moving toward owning a home.

At the end of May 2003, Fannie Mae, Fort Campbell Federal Credit Union, and Affordable Housing Resources announced a pilot program, called the Home Front Mortgage,[35] for active duty military stationed at Fort Campbell. This mortgage is available to active duty military personnel and requires no down payment, has an increased income-to-debt ratio (45 percent), has flexible underwriting, provides the ability to borrow closing costs (from Affordable Housing Resources), and has no funding fees. It was developed on the urging of Representative Marsha Blackburn (R-Tennessee), to assist military families in becoming homeowners and relieve the burden of paying VA funding fees (for first and subsequent use). Fannie Mae has committed to purchasing $5 million of the loans and, if the program is a success, will offer it nationwide.

In a subsequent Interim Report, we will present discussions with lenders regarding the factors behind offering these types of programs currently and why they were not more prevalent in the past. Additionally, we will discuss the possibility of these programs being offered under different housing market conditions (e.g., less demand for housing, higher interest rates).

[34] Joint Center for Housing Studies of Harvard University. (2002). The state of the Nation’s housing: 2002.

[35] http://www.fanniemae.com/newsreleases/2003/2561.jhtml?p=Media&s=News+Releases; http://www.theleafchronicle.com/news/stories/20030530/localnews/390035.html; http://www.courier-journal.com/business/news2003/05/28/biz-front-milmort28-3720.html; http://www.knoxnews.com/kns/state/article/0,1406,KNS_348_1993128,00.html

Home Ownership Rates

This section of the report presents comparisons of home ownership rates between veterans and non-veterans by demographic and other categories, based on Study Team analysis of several data sources. It also analyzes home ownership rates for active duty military personnel.

In this report, the Study Team computes home ownership rates for households. A veteran/non-veteran (or active duty/civilian) household is identified as one in which either the respondent or the respondent's spouse or partner is a veteran/non-veteran (or active duty/civilian). We construct home ownership rates by summing up all of the households that are homeowners and dividing this by the total number of households in a given group. Differences between groups and time periods are presented in terms of the number of percentage point difference rather than the percentage difference. For example, the percentage point difference between veterans home ownership rate (80.9 percent) and non-veterans home ownership rate (62.9 percent) is 18 percentage points (i.e., 80.9 minus 62.9). The percentage difference would be 22.2 percent (i.e., 80.9 minus 62.9, divided by 80.9). We use the percentage point difference for ease of result presentation rather than for any specific methodological purpose.

Veteran and Non-Veteran Home Ownership Rates

Table H-3 presents the home ownership rates for veterans and non-veterans by different data sources and periods of data. Comparison across the data sources is problematical because of the different years used and the different methodologies utilized for sampling, weights, and analysis. Therefore, we only make comparisons within each data source. Table H-3 shows that, across the four different data sources, the home ownership rates for veterans are consistently higher than those for non-veterans and the general population. According to CPS 2002, the difference between veteran and non-veteran rates is 15.4 percentage points, while it is 18 percentage points with SCF 2001. We also show the overall home ownership rates for the general population.

Table H-3. Comparison of Veteran and Non-Veteran Home Ownership Rates

Population Group	SCF		Census		CPS		NSV
	2001	1983	1990	1980	2002	1980	2001
Veteran	80.9%[36]	77.3%	73.0%	76.9%	83.6%	79.7%	78.5%
Non-Veteran/Civilian	62.9%[37]	55.2%	53.6%	54.1%	64.4%	62.0%	NA
General Population	67.7%	63.5%	59.9%	60.7%	68.0%	67.9%	NA
Difference between Veteran and Non-Veteran	***18.0% points***	***22.1% points***	***19.4% points***	***22.8% points***	***19.2% points***	***17.7% points***	***NA***
Difference between Veteran and General Population	***13.2% points***	***13.8% points***	***13.1% points***	***16.2% points***	***15.6% points***	***11.8% points***	***NA***

Source: Survey of Consumer Finance, Census, Current Population Survey, National Survey of Veterans

Modest growth occurred in the general populations' home ownership rates, as well as for veterans and non-veterans. The growth in home ownership rates that we find for veterans, non-veterans, and the general population generally follows the trends that we identify in the literature.

Age, Marital Status, and Dependent Children

Table H-4 presents the home ownership rates for veterans and non-veterans by age, martial status, and dependent children and by the data source. The general trend is that home ownership increases with age; the higher the age, the higher the home ownership rates for both veterans and non-veterans. Although there are some differences in home ownership rates by data source, they are not significantly different.

[36] It may exclude some veteran respondents. The publicly available data set collapses military employment and public administration employment into a single group, which is excluded from the analysis. Appendix A provides additional details.
[37] It may exclude some civilian non-veteran respondents. The publicly available data set collapses military employment and public administration employment into a single group, which is excluded from the analysis. Appendix A provides additional details.

Table H-4. Home Ownership Rates for Veteran and Non-Veteran Populations by Age, Marital Status, and Dependent Children

<table>
<tr><th rowspan="2"></th><th colspan="2">SCF 2001</th><th colspan="2">Census 1990</th><th colspan="2">CPS 2002</th><th>NSV 2001</th></tr>
<tr><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th></tr>
<tr><td colspan="8">Age of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>18 to 24</td><td>20.3%</td><td>13.3%</td><td>12.3%</td><td>8.7%</td><td>22.2%</td><td>22.9%</td><td>13.4%</td></tr>
<tr><td>25 to 34</td><td>45.0%</td><td>48.3%</td><td>36.4%</td><td>42.0%</td><td>55.3%</td><td>46.5%</td><td>49.3%</td></tr>
<tr><td>35 to 44</td><td>74.2%</td><td>65.5%</td><td>68.4%</td><td>60.8%</td><td>71.9%</td><td>68.1%</td><td>66.9%</td></tr>
<tr><td>45 to 54</td><td>80.4%</td><td>74.7%</td><td>77.0%</td><td>67.3%</td><td>81.5%</td><td>74.7%</td><td>77.6%</td></tr>
<tr><td>55 to 64</td><td>85.5%</td><td>80.8%</td><td>81.6%</td><td>68.6%</td><td>88.3%</td><td>77.3%</td><td>85.2%</td></tr>
<tr><td>65 to 74</td><td>89.8%</td><td>76.5%</td><td>81.2%</td><td>67.6%</td><td>91.0%</td><td>78.1%</td><td>88.4%</td></tr>
<tr><td>75+</td><td>87.3%</td><td>67.9%</td><td>69.3%</td><td>59.2%</td><td>88.8%</td><td>73.4%</td><td>86.0%</td></tr>
<tr><td colspan="8">Marital Status of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>Never Married</td><td>55.5%</td><td>30.9%</td><td>32.0%</td><td>19.3%</td><td>52.9%</td><td>34.6%</td><td>38.4%</td></tr>
<tr><td>Married Overall</td><td>84.3%</td><td>75.5%</td><td>82.9%</td><td>71.1%</td><td>90.2%</td><td>78.7%</td><td>87.4%</td></tr>
<tr><td>Married-Civilian Spouse Present</td><td rowspan="2">86.3%</td><td rowspan="2">78.0%</td><td rowspan="2">84.0%</td><td rowspan="2">73.6%</td><td>90.7%</td><td>80.0%</td><td>NA</td></tr>
<tr><td>Married-Armed Forces Spouse Present</td><td>37.5%</td><td>42.8%</td><td>NA</td></tr>
<tr><td>Married-Spouse Absent (not separated)</td><td>65.4%</td><td>18.3%</td><td>31.00%</td><td>29.7%</td><td>75.4%</td><td>44.9%</td><td>NA</td></tr>
<tr><td>Widowed</td><td>76.1%</td><td>71.2%</td><td>57.8%</td><td>59.9%</td><td>82.9%</td><td>74.3%</td><td>75.6%</td></tr>
<tr><td>Divorced</td><td>63.7%</td><td>57.9%</td><td>39.0%</td><td>46.7%</td><td>58.9%</td><td>59.0%</td><td>47.2%</td></tr>
<tr><td>Separated</td><td>52.3%</td><td>32.9%</td><td>26.4%</td><td>32.1%</td><td>42.4%</td><td>37.3%</td><td>36.4%</td></tr>
<tr><td colspan="8">Number of Dependent Children of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>0</td><td>82.6%</td><td>58.2%</td><td>NA</td><td>NA</td><td>NA</td><td>NA</td><td>79.8%</td></tr>
<tr><td>1</td><td>79.1%</td><td>66.6%</td><td>NA</td><td>NA</td><td>NA</td><td>NA</td><td>76.3%</td></tr>
<tr><td>2</td><td>76.5%</td><td>72.3%</td><td>NA</td><td>NA</td><td>NA</td><td>NA</td><td>76.4%</td></tr>
<tr><td>3</td><td>68.7%</td><td>68.6%</td><td>NA</td><td>NA</td><td>NA</td><td>NA</td><td>76.4%</td></tr>
<tr><td>>3</td><td>75.1%</td><td>58.9%</td><td>NA</td><td>NA</td><td>NA</td><td>NA</td><td>72.5%</td></tr>
<tr><td>OVERALL</td><td>80.9%</td><td>62.9%</td><td>73.0%</td><td>53.6%</td><td>83.6%</td><td>68.2%</td><td>78.5%</td></tr>
</table>

Source: Survey of Consumer Finance, Census, Current Population Survey, National Survey of Veterans

For age groups among veterans, home ownership rates increase with age through the 65 to 74 age cohort, after which home ownership rates fall slightly. The lowest home ownership rates, consistently, are for the 18 to 24 age cohort for both veterans and non-veterans across all data sources. Home ownership rates increase with age among non-veterans until the 55 to 64 cohort or the 65 to 74 age cohort, depending on the data source.

Home ownership rates for veterans are higher than those for non-veterans in each age cohort, except for the 25 to 34 age cohort in the SCF 2001 and Census 1990 data. The differences, in general, increase by age cohorts. For example, the largest differences between veteran and non-veteran home ownership rates are in the 75 and older age group, where veterans have rates that are 19.4 and 15.4 percentage points higher than those of non-veterans in the SCF 2001 and CPS 2002 data, respectively.

In general, home ownership rates for veterans are higher than those for non-veterans in each marital status group. The largest significant difference is in the “never married” group (13 to 25 percentage points).

For marital status groups among veterans and non-veterans, home ownership rates are highest for married veterans, with a range of 83 to 90 percent for married veterans and 71 to 79 percent for married non-veterans, depending on the data source. Veterans who are separated from their spouses have the lowest home ownership rates among all veterans (26 to 52 percent), whereas non-veterans who have never been married have the lowest home ownership rates among all non-veterans (19 to 35 percent).

The average difference in home ownership rates between veterans and non-veterans with and without dependent children is 12 percent. The largest difference in home ownership rates is for households with no dependent children (24 percent); the smallest difference is for households with three dependent children (0.1 percent).

The results for the number of dependent children in veteran households show that the lowest home ownership rates are for veteran households with three children (69 percent) and the highest home ownership rates are for veteran households with no children (83 percent). In contrast, the lowest home ownership rates for non-veteran households are observed in households with no children (58 percent), and the highest are for veteran households with two children (72 percent). Data were not available to measure the number of dependent children with the CPS 2002 and Census 1990 data.

Income and Education

Home ownership rates based on income and education are presented in Table H-5. Home ownership rates generally increase as household income increases. Veteran home ownership rates are higher than non-veteran home ownership rates across all income ranges. The largest difference between veterans and non-veterans is in the $10,001 to $20,000 income range across all data sources. The differences in home ownership rates between veterans and non-veterans decrease as income increases.

Home ownership rates for veterans are higher than those for non-veterans in all education groups. The largest difference in home ownership rates is in the group without a high school degree, whereas the smallest difference is in the group with a

Ph.D. or professional degree. The higher the educational attainment, the lower the difference between the veteran and non-veteran home ownership rates.

Table H-5. Home Ownership Rates for Veteran and Non-Veteran Populations by Income and Education

	SCF 2001		Census 1990		CPS 2002		NSV 2001
	Veteran	Non-Veteran	Veteran	Non-Veteran	Veteran	Non-Veteran	Veteran
Annual Household Income							
<=$10,000	45.8%	33.2%	50.9%	39.9%	59.6%	39.8%	46.3%
$10,001 to $20,000	71.6%	46.1%	62.9%	48.8%	76.1%	51.4%	64.8%
$20,001 to $30,000	81.5%	50.6%	68.9%	54.2%	79.7%	52.6%	72.3%
$30,001 to $40,000	73.4%	59.2%	73.8%	63.7%	80.6%	58.7%	75.8%
$40,001 to $50,000	84.7%	69.4%	78.7%	70.7%	83.5%	63.9%	81.3%
$50,001 to $60,000	83.3%	79.7%	82.9%	76.4%	84.1%	69.8%	88.2%
$60,001 to $70,000	88.8%	77.7%	84.9%	80.1%	87.2%	74.4%	
$70,001 to $80,000	83.2%	86.1%	85.7%	83.3%	89.6%	79.9%	
$80,001 to $90,000	81.2%	93.8%	87.3%	85.2%	90.0%	82.7%	
$90,001 to $100,000	90.8%	88.4%	87.7%	86.4%	89.5%	84.5%	
$100,001 +	91.1%	95.2%	89.9%	88.7%	92.6%	86.8%	
Educational Attainment of Householder (or Veteran/Non-Veteran)							
Less than High School	78.4%	54.4%	64.4%	36.6%	83.6%	52.9%	77.9%
High School/GED	82.2%	59.3%	71.7%	54.7%	82.8%	63.5%	76.9%
Some College	76.9%	59.3%	69.8%	49.1%	80.4%	64.3%	75.6%
College Degree	80.4%	69.0%	76.9%	59.7%	86.7%	69.8%	83.8%
Master's	87.0%	80.6%	82.7%	68.6%	91.0%	75.9%	86.4%
Ph.D. or Professional Degree	87.4%	85.7%	82.7%	69.6%	90.0%	77.1%	89.1%
OVERALL	**80.9%**	**62.9%**	**73.0%**	**53.6%**	**83.6%**	**68.2%**	78.5%

Source: Survey of Consumer Finance, Census, Current Population Survey, National Survey of Veterans

Gender, Race, and Ethnicity

Table H-6 presents home ownership rates based on gender, race, and ethnicity. Home ownership rates are higher across the data sources for male veterans and non-veterans, compared with rates for female veterans and non-veterans. Male veterans' home ownership rates are much higher than male non-veterans' home ownership rates (11.9 percent, 16.1 percent, and 16.2 percentage points higher for male veterans, according to the SCF 2001, Census 1990, and CPS 2002 data, respectively), but female veterans and non-veterans have a much smaller difference (5 percentage points higher for female veterans) in the CPS 2002 data. In contrast, according to the SCF 2001 and Census 1990 data, female veterans have a lower home ownership rate than non-veterans (7.1 and 3 percent, respectively).

Veteran home ownership rates are consistently higher than non-veteran rates for all races. The White population has a higher home ownership rate than other races for both veterans and non-veterans in all data sources except for the SCF 2001 data. The Asian/Other Pacific Islander/Native American veterans have the highest home ownership rates in the SCF data (91 percent). This may be attributed to the categories defined in the SCF 2001 data. Asian is combined with American Indian/Alaska Native, Native Hawaiian/Pacific Islander, and races other than White and African American. Across all data sources, African Americans have the lowest home ownership rates.

Table H-6. Home Ownership Rates for Veteran and Non-Veteran Populations by Gender, Race, and Ethnicity

<table>
<tr><th></th><th colspan="2">SCF 2001</th><th colspan="2">Census 1990</th><th colspan="2">CPS 2002</th><th>NSV 2001</th></tr>
<tr><th></th><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th><th>Non-Veteran</th><th>Veteran</th></tr>
<tr><td colspan="8">Gender of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>Male</td><td>81.7%</td><td>69.8%</td><td>76.6%</td><td>60.5%</td><td>84.4%</td><td>68.2%</td><td>79.2%</td></tr>
<tr><td>Female</td><td>43.3%</td><td>50.4%</td><td>41.6%</td><td>44.6%</td><td>65.9%</td><td>60.5%</td><td>66.8%</td></tr>
<tr><td colspan="8">Race of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>White</td><td>82.7%[38]</td><td>70.6%</td><td>75.3%</td><td>56.7%</td><td>85.3%</td><td>68.2%</td><td>81.4%</td></tr>
<tr><td>African American</td><td>68.5%</td><td>42.7%</td><td>48.1%</td><td>34.4%</td><td>68.4%</td><td>44.9%</td><td>57.3%</td></tr>
<tr><td>Native American/ Alaska Native</td><td rowspan="3">91.7%[39]</td><td rowspan="3">44.2%</td><td>47.1%</td><td>41.0%</td><td>73.2%</td><td>49.6%</td><td>66.2%</td></tr>
<tr><td>Asian/Pacific Islander</td><td>64.7%</td><td>44.7%</td><td>71.2%</td><td>51.7%</td><td>67.6%</td></tr>
<tr><td>Other</td><td></td><td></td><td></td><td></td><td>62.9%</td></tr>
<tr><td colspan="8">Ethnicity of Householder (or Veteran/Non-Veteran)</td></tr>
<tr><td>Hispanic</td><td>60.2%</td><td>40.6%</td><td>54.2%</td><td>33.0%</td><td>74.3%</td><td>47.3%</td><td>66.8%</td></tr>
<tr><td>Non-Hispanic</td><td>81.7%</td><td>65.2%</td><td>73.4%</td><td>55.1%</td><td>84.0%</td><td>66.5%</td><td>78.9%</td></tr>
</table>

Source: Survey of Consumer Finance, Census, Current Population Survey, National Survey of Veterans

The Hispanic population group has lower home ownership rates (between 19 percent and 25 percentage points) than those of the non-Hispanic population group across all data sources. The veteran population has higher home ownership rates for both Hispanics and non-Hispanics, compared with those of non-veterans.

[38] These races are for non-Hispanics. The 2001 SCF does not include a separate question on respondent/spouse ethnicity. Therefore, there is not enough information to identify race by Hispanic and non-Hispanic ethnicity.

[39] In the publicly available 2001 SCF, Asian is combined with American Indian/Alaska Native, Native Hawaiian/Pacific Islander, and Other.

Home ownership rates are higher for non-Hispanic veterans and non-veterans than for Hispanic veterans and non-veterans (a difference of 21 percent and 25 percentage points, respectively). The home ownership rate for Hispanic veterans is 20 percentage points higher than that for Hispanic non-veterans, whereas the home ownership rate for non-Hispanic veterans is 16 percentage points higher than that for non-Hispanic non-veterans.

Home Ownership Rates for Active Duty Personnel

In this section, the Study Team compares home ownership rates for active duty personnel, on the basis of analysis of Census 1990 and CPS 2002 data. As shown in Table H-7, active duty personnel have lower home ownership rates than civilians. CPS 2002 data show a 28.2 percentage point difference, whereas Census 1990 suggests a higher difference (32.2 percentage points). Since we are not able to identify those active duty members not living in group quarters in the Census data, we focus more on the findings from the CPS data, which include military members living in civilian housing units only.

Table H-7. Comparison of Active Duty and Civilian Home Ownership Rates

Home Ownership Rates	Census		CPS	
	1990	1980	2002	1980
Active Duty	21.4%	20.7%	40.0%	37.6%
Civilian	53.6%	54.1%	64.4%	62.0%
General Population	59.9%	60.7%	68.0%	67.9%

Source: Census and Current Population Survey

The civilian and general populations experienced a slight decrease in home ownership rates from 1980 to 1990 in the Census data, but only the civilian population experienced a decrease in home ownership between 1980 and 2002, according to CPS. Active duty servicemembers experienced an increase in home ownership from 1980 to 1990 and from 1980 to 2002.

The Study Team finds that differences in home ownership rates for active duty personnel and civilians are the greatest in the younger age groups (between 25 and 34 years old) but diminish as the ages increase. Civilians with incomes between $20,001 and $30,000 have a home ownership rate that is 43 percentage points higher than that of active duty personnel with the same income. However, active duty personnel with less than a high school education have a higher home ownership rate than that of civilians. Native American/Alaska Native and Asian/Pacific Islander racial groups have similar home ownership rates for both active duty personnel and civilians. White and African American active duty personnel have home ownership rates that are 27 and 15 percentage points lower than those of civilians, respectively.

Age and Marital Status

Table H-8 shows that home ownership rates for active duty personnel and civilians vary by age cohort. Until age 45, active duty personnel experience home ownership rates that are lower than rates for civilians. The difference is more profound in lower age groups; as age increases, the rate difference between active duty personnel and civilians diminishes. After age 45, the active duty home ownership rate is similar to that of civilians.

When looking at marital status, divorced or never married active duty personnel and civilians have similar home ownership rates. Active duty personnel who are married but have an absent spouse have a higher home ownership rate (52.8 percent) than that of civilians in the same group (44.9 percent). Additionally, separated active duty personnel have a higher home ownership rate (49.8 percent) than that of separated civilians (37.3 percent).

Table H-8. Home Ownership Rates for Active Duty and Civilian Populations by Age and Marital Status

	Census 1990		CPS 2002	
	Active Duty	Civilian	Active Duty	Civilian
Age of Householder or Active Duty Member				
18 to 24	1.2%	8.7%	25.2%	22.9%
25 to 34	17.9%	42.0%	22.5%	46.5%
35 to 44	42.7%	60.8%	57.1%	68.1%
45 to 54	62.5%	67.3%	79.6%	74.7%
55 to 64	72.2%	68.6%	73.0%	77.3%
65 to 74	75.5%	67.6%	NA	78.1%
75+	86.8%	59.2%	NA	73.4%
Marital Status of Householder or Active Duty Member				
Never Married	2.3%	19.3%	38.9%	34.6%
Married Overall	25.9%	71.1%	39.5%	78.7%
Married-Civilian Spouse Present	30.1%	73.6%	39.4%	80.0%
Married-Armed Forces Spouse Present	NA	NA	34.7%	42.8%
Married-Spouse Absent (not separated)	2.3%	29.7%	52.8%	44.9%
Widowed	9.7%	59.9%	0.0%	74.3%
Divorced	12.3%	46.7%	57.2%	59.0%
Separated	9.3%	32.1%	49.8%	37.3%

Source: Census and Current Population Survey

Income and Education

Civilians with a household income of $20,001 to $30,000 have a home ownership rate that is 43 percentage points higher than that of active duty personnel with the same household income. Overall, as the household income goes up, the differences between the two groups become smaller (Table H-9).

Active duty personnel with less than a high school education or with a Ph.D. or professional degree have a home ownership rate higher than the rate of civilians with those same education levels (10 percentage points higher for less than high school education and 10 percentage points higher for Ph.D. or professional degrees). All other educational levels show civilians with higher home ownership rates.

Table H-9. Home Ownership Rates for Active Duty and Civilian Populations by Income and Education

	Census 1990		CPS 2002	
	Active Duty	Civilian	Active Duty	Civilian
Annual Household Income				
<=$10,000	5.7%	39.9%	35.8%	39.8%
$10,001 to $20,000	9.9%	48.8%	11.4%	51.4%
$20,001 to $30,000	21.3%	54.2%	9.5%	52.6%
$30,001 to $40,000	33.5%	63.7%	27.6%	58.7%
$40,001 to $50,000	39.4%	70.7%	26.5%	63.9%
$50,001 to $60,000	45.5%	76.4%	40.6%	69.8%
$60,001 to $70,000	46.1%	80.1%	48.1%	74.4%
$70,001 to $80,000	50.7%	83.3%	51.2%	79.9%
$80,001 to $90,000	39.0%	85.2%	61.2%	82.7%
$90,001 to $100,000	41.7%	86.4%	73.9%	84.5%
$100,001 +	77.1%	88.7%	80.7%	86.8%
Educational Attainment of Householder or Active Duty Member				
Less than High School	4.2%	36.6%	62.7%	52.9%
High School/GED	9.1%	54.7%	26.6%	63.5%
Some College	19.1%	49.1%	43.2%	64.3%
College	33.2%	59.7%	41.7%	69.8%
Master's	51.0%	68.6%	55.7%	75.9%
Ph.D. or Professional Degree	42.7%	69.6%	87.0%	77.1%

Source: Census and Current Population Survey

Gender, Race, and Ethnicity

Table H-10 shows the differences in home ownership rates by gender, race, and ethnicity. Male and female civilians have home ownership rates that are higher than those of male and female active duty personnel.

Asian or Pacific Islander active duty personnel and civilians have almost identical home ownership rates. Additionally, the difference in home ownership rates for civilian and active duty personnel who are Native American/Alaska Native is about 3 percentage points. This is in contrast to the differences in the other race groups, which range from 27 percentage points for Whites and 15 percentage points for African Americans.

The difference in home ownership rates for active duty Hispanics and civilian Hispanics is smaller (15 percentage points) than the difference between non-Hispanic active duty and non-Hispanic civilians (25 percentage points).

Table H-10. Home Ownership Rates for Active Duty and Civilian Population by Gender, Race, and Ethnicity

	Census 1990		CPS 2002	
	Active Duty	Civilian	Active Duty	Civilian
Gender of Householder or Active Duty Member				
Male	21.1%	60.5%	40.6%	68.2%
Female	23.7%	44.6%	38.2%	60.5%
Race of Householder or Active Duty Member				
White	22.9%	56.7%	41.1%	68.2%
African American	13.8%	34.4%	30.1%	44.9%
Native American/ Alaska Native	7.7%	41.0%	46.6%	49.6%
Asian/Pacific Islander	26.9%	44.7%	51.1%	51.7%
Ethnicity of Householder or Active Duty Member				
Hispanic	7.2%	33.0%	32.2%	47.3%
Non-Hispanic	17.5%	55.1%	41.7%	66.5%

Source: Census and Current Population Survey

Multivariate Analysis

In this section, we employ multivariate statistical analysis to examine in detail the factors affecting home ownership, the impact of the funding fee, and home ownership goals of VA. The home ownership rates given in the tables above do not take into account the simultaneous effects of income, age, marital status, veteran status, number of dependent children, and education. Consequently, the home ownership rates for these different demographic and socioeconomic groups may be a result of multiple effects. Multivariate analysis is a statistical methodology that allows us to separate the effects of these variables on home ownership rates. To this end, this section focuses on three issues: barriers to home ownership, impact of the funding fee, and the setting of a home ownership rate goal by VA.

The analysis of barriers to home ownership focuses on credit constraints of the veteran population. The VA loan program relaxes the credit constraints faced by veterans. An investigation into the effect of credit constraints on veterans' home ownership rates sheds light on the efficacy of the VA loan program in reducing barriers to home ownership.

The second part of the multivariate analysis focuses on whether or not the funding fee affects veterans' home ownership rates. The fiscal year 1983 reenactment of the funding fee and subsequent increases in the funding fee have effectively made using the VA loan program more expensive for veterans. The Study Team looks at whether this may have resulted in lower veteran participation in the VA loan program.

Selecting a home ownership goal is the third issue that we address with a multivariate analysis. Currently, VA sets a fixed home ownership rate goal for veterans that is 12 percent higher than the rate of the general population. The Study Team addresses whether a home ownership rate goal should vary according to the demographic and socioeconomic makeup of the general and veteran populations.

Multivariate Analysis of Home Ownership Rates

Choice of Factors

The Study Team starts by identifying a set of factors that potentially influence home ownership outcomes for households, based on our review of the literature (see the Literature Review section above). For our analysis, we include socioeconomic, economic, and financial variables. The sample of SCF respondents is not large enough to obtain valid representation for detailed geographic areas. For socioeconomic variables, we include age, race, education, number of children, duration at current job, and knowledge of next year's income as possible influences on home ownership. We also include household income as a possible factor affecting home ownership.

Data

The Study Team uses data from the 2001 SCF for our multivariate analysis of the barriers to home ownership. The SCF is a particularly rich data set for the purposes of our multivariate analysis for two reasons. First, it allows us to identify households that are credit constrained, which enables us to assess the impact of credit constraints on home ownership rates. Second, the SCF allows us to identify the veteran participants in the VA loan program.

Table H-11 reports the definitions, means, and counts of the variables used in our multivariate analysis of home ownership.

Results

The results of our analysis of home ownership provide estimates of how much more likely households in a given demographic or financial category are to own a home, as opposed to renting, for given changes in explanatory variables. The dependent or target variable is whether a household owns its current residence, and the explanatory variables are several demographic, socioeconomic, and financial-related variables. Table H-12 presents estimates of the change in probability of home ownership for each incremental increase/change in age, education, income, and other variables.[40] Table H-12 shows results for two separate analyses, one that includes the general population and another that includes veterans only.

Table H-11. Variables for Multivariate Analysis of Home Ownership

Variable	Definition	Mean[41]	No. of Observations[42]
Dependent Variable			
Home Ownership	= 1 if household owns primary residence	.68	15,835
Explanatory Variables			
Household Head or Veteran Demographics			
Age	Age of household head or veteran	48.97	22,210
White	= 1 if household head or veteran is White	.76	17,902
Education	Number of years of schooling of household head	13.12	22,210
Children	Number of dependent children living in the household	.81	22,210
Veteran Status	= 1 if household head or spouse is a veteran and not currently serving in the military	.23	5,665
Household Financial Characteristics			
Income	Household gross income (in thousands of dollars, year 2000)	67.12	22,210
Credit Constrained	= 1 if household ever filed for bankruptcy or household had payment more than 60 days past due in the past year	.32	6,028
Household Financial Stability			
Job Duration	Years worked at current job	7.04	22,210
Know Income Next Year	= 1 if head of household has a good idea of what next year's income will be	.68	15,265

Source: 2001 SCF data files

[40] Appendix B provides detailed regression results and definitions of variables.
[41] Weighted mean over five implicates. These means will be representative of the U.S. population.
[42] Number of observations over five implicates. The number of observations should be divided by 22,210 to get the percentage of respondents for which a binary variable is equal to 1.

Table H-12. Factors Affecting Home Ownership—Multivariate Analysis Results

Variable	Change in Probability of Home Ownership	
	Veteran	All
Household Head or Veteran Demographics		
Age	3.4%***	2.7%***
White	15.8%***	13.8%***
Education	7.8%***	6.6%***
Children	18.2%***	26.5%***
Veteran	NA	4.8%***
Household Financial/Economic Characteristics		
Income	0.05%***	0.04%***
Credit Constrained	-14.7%***	-16.4%***
Job Duration	4.02%***	3.4%***
Know Income Next Year	4.6%***	4.4%***

**** Denotes that the variable is statistically significant at the 95% level.*
Source: 2001 SCF data file

Among veteran households, age, race, education, income, and number of dependent children have a statistically significant and positive relationship to home ownership. Of these, the number of dependent children and whether a veteran is White have the strongest influence on home ownership. An additional dependent child increases the probability of a veteran household owning a home by 18 percent, whereas veteran households that are White are 16 percent more likely to own a home than are minority veteran households.

The level of household income also has a statistically significant positive effect on veteran home ownership. The probability of home ownership increases by 0.5 percent with a $10,000 increase in annual veteran household income.

Whether a veteran household is credit constrained is another statistically significant determinant of home ownership. A veteran household that is credit constrained is 14.7 percent less likely to own a home than a veteran household that is not credit constrained. In the SCF data source, the Study Team defines a household as credit constrained if it had any late payments for the 60 days before the survey or if it had ever filed for bankruptcy. Our statistical result implies that households for which any one of these two conditions is true are 14.7 percent less likely to own homes than are households that had no late payments and were never bankrupt. We attribute the 14.7 percent difference in probability of home ownership to credit-constrained households having greater difficulty in obtaining a mortgage.

The financial stability of veteran households has a statistically significant and positive relationship to home ownership. Veteran households that know next year's household income are 5 percent more likely to own a home than are those that do not know next year's level of household income. Furthermore, every additional year of employment in a veteran's current job increases the probability of owning a home by 4 percent.

In comparing results for veterans to all households, the explanatory variables have the same positive or negative effect on home ownership, but the magnitude of the effect differs for certain variables. In particular, among all households, age, education, income, veteran status, whether a household is White, and number of dependent children are positively related to home ownership. An additional child increases the probability of owning a home by 27 percent, whereas White households are 14 percent more likely than non-White households to own a home. The probability of home ownership increases 0.4 percent with a $10,000 increase in annual household income. Whether a household is credit constrained is also a significant determinant of home ownership. A household that is credit constrained is 16.4 percent less likely to own a home than is a household that is not credit constrained, which is notably higher than the 14.7 percent found for veterans only. The financial stability of households has a statistically significant and positive relationship to home ownership. Households that know next year's income are 4 percent more likely to own a home than are those that do not know. Every additional year of employment in a current job increases the probability of owning a home by 3 percent.

Of the statistically significant factors, the effects on the probability of home ownership of age, income, and whether next year's income is known are greater for veteran households than for all households (by 1, 0.01, and 2 percentage points, respectively). The effects of the number of children, whether a household is credit constrained, and job duration are greater for all households than for veteran households (by 8, 2, and 0.1 percentage points, respectively). Our result for the credit constraint variable means that a less than perfect credit history matters less for veteran households when buying a home than it does for non-veteran households.

The results reported in Table H-12 can be summarized as follows:

- Home ownership rates for the general and veteran populations are influenced by the demographic composition of the respective populations. When taking into account the demographic composition of the general population, veteran households are 5 percent more likely to own a home than are all households (general population),[43] as opposed to the 12 percent stated in the VA home ownership goal.

- Credit constraints and financial uncertainty about the future are barriers to home ownership among veterans.

[43] Some of the influence that veteran status has on home ownership is because the SCF data have proportionately more married veterans than married non-veterans. We included a variable to capture marital status in earlier analyses but found that this variable "swamped" the effects of other variables.

- Good credit history is less important in determining home ownership for veteran households than for non-veteran households. This suggests that the VA loan program mitigates some of the difficulties that veteran households with less than perfect credit history would face in getting mortgages that are not VA backed.

ATTACHMENT H-1: DATA

Survey Questions Related to Veteran Status and Home Ownership in Secondary Data Sources

SCF Questions

2001

Veteran Status

- Have you ever been in the military service? (for respondent)
- Has he/she ever been in the military service? (asked to respondent regarding spouse/partner)

Home Ownership

- Where does respondent live?

Lives on a farm/ranch --> GO TO Question A

Lives in a mobile home/RV --> GO TO Question C

All other types of housing --> GO TO Question D

- Question A: Do you (or anyone in your family living here) operate a farming or ranching business on this property?

Yes —> GO TO Question B

No —> GO TO Question D

- Question B: What is the legal ownership status of this (farm/ranch)? Do you (or your family living here) own this (farm/ranch), do you own part of it, do you rent it, is it all owned by a business, or what?

Owns all

Owns only part

Sharecropper

Rents/leases all

Owned by a business

Other

- ♦ Question C: Do you (or your family living here) own both this mobile home and site or lot, do you own only the mobile home, do you own only the site, do you rent both the home and site, or what?

Own both home and site

Own only site

Own only home

Rent both

Neither own nor rent

- ♦ Question D: Do you (and your family living here) own this (ranch/farm/house and lot/apartment), do you pay rent, do you own it as a part of a condo, co-op, townhouse association, or what?

Owns or is buying/land contract

Pays rent

Condo

Co-op

Townhouse association

Retirement lifetime tenancy

Neither owns nor rents —> GO TO QUESTION E

- ♦ Question E: Do you (and your family living here) own any part of this (ranch/farm/house and lot/apartment)?

A respondent who answered “Owns all” or “Owns only part” to Question B; “Owns both home and site,” “Owns only site,” or “Owns only home” to Question C; or “Owns or is buying/land contract,” “Condo,” “Co-op,” “Townhouse association,” or “Retirement lifetime tenancy” to Question D; “Neither owns nor rents” to Question D; and “Yes” to Question E is defined as a homeowner.

Mortgage Backer

- ♦ Is the first or main mortgage a federally funded mortgage, such as FHA or VA?

Yes —> GO TO NEXT QUESTION

- Is it an FHA mortgage, a VA mortgage, or is it from some other program?

Federal Housing Administration (FHA)

Veterans Administration (VA)

Federal land bank

Federal National Mortgage Association ("Fannie Mae")

Federal Home Loan Mortgage Corporation ("Freddie Mac")

State housing programs

First-time buyer program, not elsewhere classified

Other Federal loan programs

Other

VA, Federal land bank, State housing, and first-time buyer program are collapsed into one category in the publicly available data set.

1983

Veteran Status

- Have you ever been in the military service? (for respondent)
- Has (he/she) ever been in the military service? (asked to respondent regarding spouse/partner)

Home Ownership

- Do you (and your family living here) own this (house/apartment/mobile/home), do you pay rent, do you own it as a part of a condo, co-op, townhouse association, or what?

Owns or is buying

Land contract

Pays rent

Mortgage Backer

- Is it an FHA mortgage, a VA mortgage, or is it from some other Federal Government program?

Federal Housing Administration (FHA)

Veterans Administration (VA)

Federal land bank

Federal National Mortgage Association ("Fannie Mae")

No

Other

CPS Questions

2002

Veteran Status

- Did (name/you) ever serve on active duty in the U.S. Armed Forces?
- Previously I was told that (name/you) served on active duty in the U.S. Armed Forces. When did (you/he/she) serve?

Vietnam era (Aug. ‘64–Apr. '75)

Korean war (June '50–Jan. '55)

WWII (Sept. '40–July '47)

WWI (Apr. '17–Nov. '18)

Other service (All other periods)

Non-veteran

Active Duty Military

- (Are/Is) (name/you) (still/now) in the Armed Forces? (2002)

Home Ownership

- Are your living quarters (2002)

Owned or being bought by you or someone in your household?

Rented for cash?

Occupied without payment of cash rent?

Other variables used for each year for the head of household or spouse of head of household

- Age
- Household Income
- Sex
- Race
- Ethnicity
- Marital Status
- Educational Attainment

1980

For the 1980 CPS, the interviewers did not ask any of the following questions; instead, they took the answers from a control card. The control card was used as mechanism for carrying demographic and case management information forward from one wave to the next for each sample member.

Veteran Status

Filled in at the same time as “Sex” is filled in, and only males were asked their veteran status. Choices were:

- Vietnam era (Aug. '64–Apr. '75)
- Korean war (June '50–Jan. '55)
- WWII (Sept. '40–July '47)
- WWI (Apr. '17–Nov. '18)
- Other service (All other periods)
- Non-veteran

Active Duty Military/Civilian

An individual was either classified as a “Civilian 14+” or “Armed Forces Member.”

Home Ownership

Are your living quarters (1980)

- ♦ Owned or being bought by you or someone in your household?
- ♦ Rented for cash?
- ♦ Occupied without payment of cash rent?

Census Questions

1990

Active Duty

- ♦ 17a. Has this person ever been on active-duty military service in the Armed Forces of the United States or ever been in the United States military Reserves or the National Guard?
- ♦ If service was in Reserves or National Guard only, see instruction guide.
  - Yes, now on active duty
  - Yes, on active duty in past, but not now
  - Yes, service in Reserves or National Guard only - *Skip to 18*
  - No - Skip to 18

For a person with service in the National Guard or a military reserve unit, fill one of the two **Yes, active duty** circles if and only if the person has ever been called up for active duty other than training; otherwise, mark **Yes, service in Reserves or National Guard only**. For a person whose only service was as a civilian employee or volunteer for the Red Cross, USO, Public Health Service, or War or Defense Department, mark **No**. Count **World War II** Merchant Marine Seaman service as active duty; do **not** count other Merchant Marine service as active duty.

Veteran Status

- ♦ Did (name/you) ever serve on active duty in the U.S. Armed Forces?
- ♦ Previously I was told that (name/you) served on active duty in the U.S. Armed Forces. When did (you/he/she) serve?
  - Vietnam era (Aug. '64–Apr. '75)
  - Korean war (June '50–Jan. '55)

- WWII (Sept. '40–July '47)
- WWI (Apr. '17–Nov. '18)
- Other service (All other periods)
- Non-veteran

Home Ownership

♦ Is this house or apartment

- Owned by you or someone in this household with a mortgage or loan?
- Owned by you or someone in this household free and clear (without a mortgage)?
- Rented for cash rent?
- Occupied without payment of cash rent?

Other variables used for each year for the head of household or spouse of head of household

1980

Active Duty/Veteran Status

♦ Is this person a veteran of active-duty military service in the Armed Forces of the United States?

- Yes
- No - Skip to 19

Mark **Yes** if this person was ever on active duty in the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard, even if the time served was short. For persons in the National Guard or military reserve units, mark **Yes** *only* if the person was ever called to active duty; mark **No** if the only service was active duty for training.

♦ Was active-duty military service during

- May 1975 or later
- Vietnam era (August 1964–April 1975)
- February 1955–July 1964
- Korean conflict (June 1950–January 1955)
- World War II (September 1940–July 1947)

- World War I (April 1917–November 1918)
- Any other time

Home Ownership

♦ Are your living quarters

- Owned or being bought by you or by someone else in this household?
- Rented for cash rent?
- Occupied without payment of cash rent?

Mark **Owned or being bought** if the living quarters are owned outright or are mortgaged. Also mark **Owned or being bought** if the living quarters are owned but the land is rented. Mark **Rented for cash rent** if any money rent is paid. Rent may be paid by persons who are not members of your household. **Occupied without payment of cash rent** includes, for example, a parsonage, military housing, a house or apartment provided free of rent by the owner, or a house or apartment occupied by a janitor or caretaker in exchange for services.

Construction of Study Variables

SCF

Veterans are defined in this report as individuals who had served in the military but were not in military service when the questionnaire was administered. Non-veterans are defined in this report as individuals who had never served in the military and were not in military service when the questionnaire was administered. Identifying veterans and non-veterans with the 1983 SCF is a straightforward application of the veteran status and active duty status questions described above.

As noted earlier in this appendix, active duty personnel cannot be identified in the publicly available 2001 SCF because it collapses military and public administration into one employment category. The following effects occur when veterans are identified as those respondents who answered “yes” to the veteran status question and who were not employed in any of the industries found in the collapsed industry code group that includes military. First, individuals who work in public administration and who have served in the military will not be counted as veterans.[44] Second, individuals who work in public administration and who have not served in the military will not be counted as non-veterans.[45]

[44] Three percent of respondents who answered “yes” to the veteran status question are employed in an industry in the collapsed industry code group.
[45] Two percent of respondents who answered “no” to the veteran status question are employed in an industry in the collapsed industry code group.

The preceding paragraphs discuss how individuals are identified as veterans and non-veterans. In this report, we compute home ownership rates for veteran households. A veteran/non-veteran household is identified as one in which either the respondent or the respondent's spouse or partner is a veteran/non-veteran. The Study Team constructs home ownership rates by summing all veteran households that are homeowners and dividing this by the sum of all veteran households.

We also compute home ownership rates for chosen demographic and socioeconomic groups of households. For groups that are defined at an individual level, as opposed to a household level (e.g., race, age, education), a veteran household is placed into a group on the basis of the characteristic of the veteran. Similarly, a non-veteran household is placed into a group on the basis of the characteristics of the respondent. For example, to get home ownership rates for veterans who have a bachelor's degree, the Study Team computes the number of households with a veteran who has a bachelor's degree and who are homeowners. We then divide this by the number of households with a veteran who has a bachelor's degree.

Earlier in this appendix, we discuss factors that affect whether or not a veteran has a VA loan. Identifying veterans as VA loan holders in the 1983 SCF is a straightforward application of the mortgage backer question described above.

As noted earlier, however, VA loan holders cannot be identified in the publicly available 2001 data set because "VA" responses to the mortgage backer question are combined with "Federal land bank," "State housing," and "first-time buyer program" responses. Therefore, the Study Team may be identifying veterans who have a Federal land bank, State housing, or first-time buyer program mortgage as VA loan participants. We speculate that this number is small, however. The emphasis on VA loans in the question suggests that the majority of veterans who have a mortgage in this group will be carrying a VA loan.

The 2001 SCF uses multiple imputation to treat missing data. In particular, observations are imputed five times, so that the publicly available data set has approximately 20,200 observations. When presenting descriptive statistics, the Study Team takes all five implicates into account by dividing the weight variable by five.[46] Home ownership rates are then constructed with this weight.

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[46] The weight variable in the 2001 SCF is different from the weight variable in the 1983 SCF. The 2001 SCF weights were revised to account for home ownership and race/ethnicity. See Kennickell, A. B. (January 1999). Revisions to the SCF weighting methodology: Accounting for race/ethnicity and homeownership Federal Reserve Board.

Table H1-1. SCF Variables and Definitions

Survey Question Number	Description
For Tables and Regressions	
Y1	Sequence number to identify implicates.
X42001	Weight.
X5906, X6106	Identifies respondents/spouses who have been in military service.
X7020	Identifies if spouse is part of PEU.[47]
X7402, X7412	Industry in which respondent/spouse employed. Used to exclude active duty respondents.
X14, X19	Age of respondent/spouse at time of survey.
X8021, X103	Gender of respondent/spouse.
X5901, X5902, X5904, X5905, X6901, X6102, X6104, X6105	Education of respondent/spouse. Identifies number of years of schooling as well as highest degree earned.
X8023	Marital status.
X7000	Spouse presence in family.
X108 to X226	Number of children in PEU.
X6809, X6810	Race/ethnicity of respondent/spouse.
X5729	Gross annual income of PEU.
For Regressions Only	
X3105, X407, X409, X6772	Identifies PEUs: with any late payments in last 60 days; denied loan in past 5 years; did not apply for loan in past 5 years for fear of denial; and ever filed for bankruptcy. These four questions are used to identify credit-constrained households.
X7586	Identifies respondents with a good idea of next year's income.
X4115, X4715	Duration of currently held job.
X702	Identifies if occupied unit is multiple unit.
X720	Identifies year housing unit was purchased. Used to identify units purchased prior to 1982.
X726	Identifies mortgage backer.

Source: Survey of Consumer Finances

CPS

The March Supplement is micro-level data, provided on three levels: individual, family, and household. Our analysis concentrated on the household and individual levels.

The universe is the U.S. civilian noninstitutional population living in housing units and members of the Armed Forces living in civilian housing units not on a military base.

[47] Primary economic unit.

Armed Forces living in group quarters are not included in the sample. A probability sample is used in selecting housing units.

The March Supplement sample includes the 60,000 eligible housing units from the basic CPS, and for more reliable data for certain minority groups (e.g., Hispanic households that are not included in the monthly labor force estimates), an additional 21,000 eligible housing units were included in the 2002 survey.

We used the March Supplemental weight to produce our home ownership rates. This weight is assigned to everyone in a household and is used specifically to make projections on the basis of the March Supplement survey.

In analyzing home ownership rates, the Study Team used the variables from the CPS March Supplement listed in Table H1-2.

In this analysis, we used two years of CPS March Supplements, 2002 and 1980. The Study Team used the 1980 data as the source for earlier home ownership rates, and we used the 2002 data as the source for the current home ownership rates, as well as for the demographic characteristics of homeowners.

Table H1-2. CPS March Supplement Variables and Definitions

VARIABLE NAME	VARIABLE DEFINITION
H_SEQ	Identifying number unique to each household. All persons in a household are assigned the same serial number.
HSUP_WGT	Household weights describing how many households in the U.S. population are represented by a given household in the March Supplement.
H_TENURE	Indicates whether the household rented or owns its housing unit. Households that acquired their unit with a mortgage or other lending arrangement are understood to "own" their unit even if they had not yet completed repayment.
HTOTVAL	Total money income of all age 15+ household members during the previous year.
HHDREL	Describes an individual's relationship to the head of household or householder. Used to apply demographic information at the household level.
A_AGE	The person's age in years as of their last birthday prior to or on the day of enumeration.
A_SEX	Gender.
A_RACE	Race.
FSPANISH	Ethnicity (Hispanic or not).
A_MARITL	Marital status.
A_HGA	Educational attainment.
P_STAT	Indicates whether the respondent was a child, civilian over 15 years old, or in the Armed Services.
A_VET	Indicates a veteran. A "veteran" is defined as a civilian who had served in the U.S. Armed Forces but who was not serving at the time of the survey.

Source: Current Population Survey

To prepare the data file for the analysis, we first aggregated the information for the household and indicated whether there was a veteran or active duty military member in the household. To determine if there was a veteran present, the Study Team used the veteran status indicator and the household relationship indicator, restricted to householder and spouse of householder. With this, we created a new variable to indicate whether the householder or spouse was a veteran. We used the same methodology to determine active duty members, except that we used the population indicator (civilian over 15 years old, child, or Armed Forces) in place of the veteran status indicator. Again, the Study Team created a new variable to indicate whether the householder or spouse was in the Armed Forces (referred to as active duty in this report).

The variables that the Study Team used for the demographic characteristics include age, household income, race, ethnicity, gender, marital status, and educational attainment.

Census

We use the 1980 1 percent sample for the earlier home ownership rate analysis and the 1990 1 percent sample for the current home ownership rate and demographic analysis.[48] Complete Census 2000 data were not available through IPUMS at the time of this study. Both 1980 and 1990 samples are a 1-in-100 random sample of the population. For both samples, no place smaller than 100,000 population can be identified with any geographic variable. For 1990, weights must be used to produce accurate home ownership rates. We used the household weight (HHWT) variable once we compiled a household-level file. For 1980, there are approximately 2,267,000 personal records. For 1990, there are approximately 2,500,000 personal records.[49]

To analyze home ownership rates, the Study Team used the variables in Table H1-A-3 from IPUMS.

For active duty, we were unable to separate active duty and reservist and maintain consistent definitions for both 1980 and 1990. The 1990 Census elaborated on the 1980 VETSTAT question to include active duty status and reservist status. These results were included in the 1990 Industry (IND) variable. However, in 1980, this distinction was not available. As a result, the Study Team used EMPSTATD only for active duty home ownership rates. These rates include reservists.

[48] The 1980 1 percent sample is the metro data B sample.
[49] Ruggles, S., and M. Sobek. (1997). Integrated Public Use Microdata Series: Version 2.0, "Description of IPUMS Samples." Minneapolis: Historical Census Projects, University of Minnesota. http://www.ipums.org.

Table H1-3. Census Variables and Definitions[50]

VARIABLE NAME	VARIABLE DEFINITION
YEAR	Identifies the census year for each case.
SERIAL	Identifying number unique to each household. All persons in a household are assigned the same serial number.
HHWT	Household weights describing how many households in the U.S. population in a census year are represented by a given household in the IPUMS. This variable is used for 1990 data only.
OWNERSHP (general)	Indicates whether the household rents or owns its housing unit. Households that acquired their unit with a mortgage or other lending arrangement are understood to "own" their unit, even if they had not yet completed repayment.
HHINCOME	Total money income of all age 15+ household members during the previous year. The amount should equal the sum of all household members' individual incomes as recorded in the person-record variable INCOMT.
RELATE (general)	Describes an individual's relationship to the head of household or householder. Used to apply demographic information at the household level. Possible answers include relatives and nonrelatives.
AGE	Person's age in years as of the person's last birthday prior to or on the day of enumeration.
HISPANG	Classifies individuals of Hispanic origin. Possible answers include not Hispanic, Mexican, Puerto Rican, Cuban, other, and not reported.
SEX	Gender
MARST	Indicates the marital status of the individual. The possible answers include married (spouse present), married (spouse absent), separated, divorced, widowed, and single.
RACE (general)	Possible answers to this variable include White, Black/Negro, American Indian, Japanese, Chinese, Other Asian or Pacific, and other race.
EDUC99	Indicates the respondents' highest level of educational attainment. Those without a high school diploma were asked to indicate the highest grade level attained, and those with a high school diploma were asked to indicate the highest degree or diploma obtained.
EMPSTATD (detailed)	Indicates whether the respondent was a part of the labor force—working or seeking work—and, if so, whether or not he/she was currently unemployed. This was used to ascertain whether the individual was listed as active duty (employed by the Armed Forces).
VETSTAT	Indicates a veteran. A "veteran" in the census is defined as a civilian of a certain age (which varied by census year) who had served in the Armed Forces of the United States but who was not serving at the time of the census.

Source: Census

Additionally, the Study Team was unable to measure the number of dependent children with the 1990 Census data. One question—pertaining to the number of dependent children in a household—counts the number of the person's own children living in the

[50] Ruggles, S., and M. Sobek. (1997). Integrated Public Use Microdata Series: Version 2.0, "Data Dictionary." Minneapolis: Historical Census Projects, University of Minnesota. http://www.ipums.org.

household. There is no way of accounting for dependent children who live outside of the household, making this variable inaccurate for counting dependent children.

To calculate home ownership rates, we first had aggregated micro-level data to the household level. The Study Team created indicator variables for veteran, active duty, or civilian households by assigning this status to a household if the head of the household or spouse qualified. To get the home ownership rate, we created additional indicator variables for households with any veteran, active duty member, or civilian residing in that household.

For home ownership by age, race, and gender, we used the head of household (or the spouse if that person qualified as the veteran or active duty member for the veteran and active duty home ownership rates). For home ownership by income range, the Study Team used the household income variable (HHINCOME).

National Survey of Veterans

The 2001 National Survey of Veterans (NSV 2001) was conducted by VA. The survey target population was noninstitutionalized veterans of the U.S. uniformed services living in private households in the United States, including Puerto Rico. The NSV 2001 questionnaire reflects the needs and contributions of many VA stakeholders. The survey provides VA with extensive data about veterans' military background, education and training, health care usage, and understanding and use of a broad array of VA benefits.

There were 20,048 completed interviews; 98.5 percent of the respondents were veterans, and 1.5 percent were non-veterans. A sampling weight was used so that the responses could be expanded to represent the entire veteran population. The weight calculations took into account the original selection probability, nonresponse, households with multiple residential telephone lines, and undercoverage due to the omission of nontelephone households and households with unlisted telephone numbers belonging to "zero-listed telephone banks" not covered in the list-assisted random-digit dialing methodology.

We began our analysis by determining which respondents were veterans (based on the screening question) and then narrowed our sample of interest to those veterans who owned a home or lived in a household where the home was owned. To refine our sample for analysis, we selected only those veterans who received a loan to purchase a home, make home improvements, or refinance a loan after they left the military.

The Study Team used the variable indicating the receipt of a loan after military service and the variable indicating whether the veteran ever used the VA loan program to separate the users from the nonusers. The remainder of the analysis was conducted on these two samples.

We used the sample weights that had been constructed to represent the entire veteran population, based on the responses of the sampled veterans. The weight calculations took into account the following factors:

- ♦ Original selection probability
- ♦ Nonresponse
- ♦ Households with multiple residential telephone lines
- ♦ Undercoverage due to the omission of households without a telephone and households with unlisted telephone numbers.

ATTACHMENT H-2: MULTIVARIATE ANALYSIS OF HOME OWNERSHIP

This attachment presents the regression equations that we estimate in Chapter 6 of the report. We estimate a dichotomous (0, 1) dependent variable model of home ownership.

Our logit model of home ownership is

$$Pr(Y_j = 1) = 1/[1 + e^{-(X_j\beta + \delta 1 \times d1,j)}]$$

where

Y_j is equal to 1 if household *j* owns the unit it currently resides in and equal to 0 otherwise[51]; X_j is a vector of household *j's* socioeconomic and financial characteristics; $d_{1,j}$ is a dummy variable equal to 1 if household *j* is a veteran household and equal to 0 if household *j* is a non-veteran household.

We estimate the equation above for all households, using 2001 SCF data.

Table H-2-1 lists the definitions, means, and counts of the variables used.

In Chapter 6, marginal estimates for the home ownership equation are presented. Marginal estimates on the continuous variables for veteran households are the coefficient estimates multiplied by the probability of home ownership, where the probability of home ownership is evaluated at explanatory variable means and for the veteran dummy variable equal to 1. Marginal estimates for the categorical variables for veteran households are the differences in the probability of home ownership evaluated at dummy variables equal to 1 and 0. The marginal estimates for the general population are similarly estimated, where the probability of home ownership is evaluated at the means of the general population for all variables, including veteran status.

The marginal estimate on the veteran dummy variable is the difference in the probability of home ownership evaluated at the veteran dummy variable equal to 1 and the probability of home ownership at the veteran dummy variable equal to the mean.[52]

The results are presented in Table H2-2.

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[51] We use the terms household and primary economic unit (PEU) interchangeably.

[52] We recognize that marginal estimates can be calculated by estimating a home ownership equation for the veteran population separately. This was done by the Study Team, and results are similar. Another useful approach for analyzing the effect of the socioeconomic composition of the veteran and general populations on home ownership rates is to estimate the probability of home ownership (using coefficients for the general population) evaluated at the variable means for the veteran population. This is compared to the home ownership rate for the veteran population. The difference is the effect of veteran status on home ownership not explained by the socioeconomic composition of the populations. This gives a similar result to just using the coefficient on veteran status.

Table H2-1. Variable Definitions and Summary Statistics

Variable	Definition	Mean[53]	No. of Observations
Dependent Variable			
Home Ownership	= 1 if household owns primary residence	.68	15,835
Explanatory Variables			
Household Head or Veteran Demographics			
Age	Age of household head or veteran	48.97	22,210
White	= 1 if household head or veteran is White	.76	17,902
Black	= 1 if household head or veteran is Black	.13	2,312
Education	Number of years of schooling of household head	13.12	22,210
Children	Number of dependent children living in the household	.81	22,210
Veteran Status	= 1 if household head or spouse is veteran and not currently serving in the military	.23	5,665
Household Financial Characteristics			
Income	Household gross income (in thousands of dollars, year 2000)	67.12	22,210
Assets	Household financial assets (in thousands of dollars, year 2000)	190.65	22,210
Debts	Total household debt (in thousands of dollars, year 2000)	54.51	22,210
Credit Constrained	= 1 if household ever filed for bankruptcy or household had payment more than 60 days past due in the past year	.32	6,028
Household Financial Stability			
Job Duration	Years worked at current job	7.04	22,210
Know Income Next Year	= 1 if head of household has a good idea of what next year's income will be	.68	15,265

[53] The mean is the weighted mean over five implicates. These means will be representative of the U.S. population. The number of observations is the count over five implicates. The number of observations is divided by 22,210 to get the percentage of respondents for which a binary variable is equal to 1.

Table H2-2. Determinants of Home Ownership

Variable	Coefficient Estimates	Standard Error
Intercept	-4.2	.29
Age	.05	.001
Education	.1	.006
Veteran Status	.34	.05
Income	.00067	.00007
White	.75	.07
Job Duration	.05	.002
Know Income Next Year	.25	.04
Number of Children	.39	.02
Credit Constraint	-.7	.039

Note: The standard errors have been adjusted to take into account multiple imputation in the data set.

APPENDIX I

MULTIVARIATE ANALYSIS OF DEFAULTS AND FORECLOSURES

APPENDIX I: MULTIVARIATE ANALYSIS OF DEFAULTS AND FORECLOSURES

This appendix presents the technical detail of the multivariate analysis of defaults and foreclosures reported in Chapter 7.

Econometric Model

We estimate two dichotomous dependent variable models of loan default and foreclosure for VA Home Loan Guaranty program borrowers. In concept, this approach is identical to the multivariate analysis of home ownership rates reported in the study's interim report on home ownership rates.

Our logit model of VA loan default is:

$$Pr\ (y_j = 1) = 1/(1 + e^{-(Xj\beta\ +\ \delta 1\ *\ d1,j\ +\ \delta 2 *\ d2,j)}) \qquad (1)$$

where,

Y_j is equal to 1 if borrower *j* is in default and 0 otherwise; X_j is a vector of borrower *j's* socioeconomic and financial characteristics. Dummy variables (d1 and d2) indicate a borrower's active duty status (= 1 if a borrower is in active duty; = 0 otherwise) and whether a borrower qualifies for a conventional mortgage (= 1 if qualifies for a conventional mortgage; = 0 otherwise.)

Our logit model of VA loan foreclosures is essentially identical for equation (1) except that the dependent variable Y represents foreclosure. It is equal to 1 if borrower *j* is in foreclosure and 0 otherwise. The model for foreclosure is:

$$Pr\ (y_j = 1) = 1/(1+e^{-(Xj\beta\ +\delta 1\ *\ d1,j\ +\ \delta 2 *\ d2,j\ )}) \qquad (2)$$

where,

Y_j is equal to 1 if borrower *j* has a mortgage that is in foreclosure and 0 otherwise; X_j is a vector of household *j's* socioeconomic and financial characteristics. As in equation (1), the dummy variables indicate borrower's active duty status and qualification for a conventional mortgage.

We estimate equations (1) and (2) using Guaranteed and Insured Loan (GIL) and default data provided by VA.

Results

Table 7-4 gives marginal estimates for the loan default equation. Marginal estimates on the continuous variables for veteran borrowers are the coefficient estimates multiplied by the probability of default, where the probability of default is evaluated at explanatory variable means. Marginal estimates for the categorical variables (active duty status and whether the borrower qualifies for a conventional mortgage) for VA Home loan program borrowers are the differences in the probability of default evaluated at dummy variables equal to 1 and 0. The coefficient estimates and standard errors are presented in Table I-1.

Table I-1. Determinants of VA Loan Default

Variable	Estimated Coefficient	Standard Error
Intercept	-.17	.46
Active Duty Status	.47	.004
Income	-.02	.001
Would Qualify for a Conventional	-.52	.007
Debt Ratio	.27	.0006
Interest Rate	.31	.011
Purchase Price	.32	.13
Guarantee Amount Ratio	.095	.002
Age	-.21	.02

Source: VA LGY Data & Study Team Analysis

Table 7-5 in Chapter 7 gives marginal estimates for the loan foreclosure equation. Marginal estimates on the continuous variables for veteran borrowers are the coefficient estimates multiplied by the probability of foreclosure, where the probability of foreclosure is evaluated at explanatory variable means. Marginal estimates for the categorical variables for veteran borrowers are the differences in the probability of foreclosure evaluated at dummy variables equal to 1 and 0.

Table I-2. Determinants of VA Loan Foreclosure

Variable	Estimated Coefficient	Standard Error
Intercept	-.13	.39
Active Duty Status	.31	.003
Income	-.01	.001
Would Qualify for a Conventional	-.64	.003
Debt Ratio	.32	.0002
Interest Rate	.26	.021
Purchase Price	.29	.004
Guarantee Amount Ratio	.064	.001
Age	-.28	.03

Source: VA LGY Data & Study Team Analysis

APPENDIX J

METHODOLOGY FOR LENDERS, REAL ESTATE PROFESSIONALS, AND APPRAISERS INTERVIEWS

APPENDIX J: METHODOLOGY FOR LENDERS, REAL ESTATE PROFESSIONALS, AND APPRAISERS INTERVIEWS

Approach

To address these research issues, the Study Team met with VA officials and with staff of the National Association of Home Builders (NAHB), the National Association of Realtors (NAR), and the Mortgage Bankers Association of America (MBAA), and conducted informal interviews with nine VA appraisers, nine VA lenders, and nine real estate professionals. The meetings and interviews included discussion of the following topics: Veterans Benefits Administration (VBA) rules and guidelines; Home Loan Guaranty Handbook for Lenders and Appraisers; VBA audit and review procedures; certification process for appraisers; adjustable rate mortgages; and awareness of energy efficiency improvement loans. The sources of information used to address these issues include the 2001 and 2002 Lender Satisfaction Surveys conducted by VA and the 2003 VA Borrower Survey, conducted by the Study Team. Where appropriate, administrative data were also included.

Some key results from the Stakeholder meetings are also included in this chapter as supporting information. The Study Team met with several stakeholders and VA Home Loan program officials to obtain views on expectations and assumptions about the program. The meetings were held with representatives of the VA Home Loan Guaranty Service, the Office of Management and Budget, Congressional staff of the House and Senate Veterans Affairs Committee and the Senate Indian Affairs Committee, and representatives of the Veterans Service Organizations (VSOs) and of the private industry. The private industry and VSO participants include the following organizations:

- National Association of Realtors
- National Association of Home Builders
- Mortgage Bankers Association of America
- Potomac Partners
- Disabled American Veterans
- Fleet Reserve Association.

Interviews with appraisers, lenders, and real estate personnel were more open-ended discussions than formal interviews. All interviews were conducted by phone. The meetings and interviews included the discussion of the following topics: VBA rules and guidelines, Home Loan Guaranty Handbook for Lenders and Appraisers, VBA audit and review procedures, certification process for appraisers, adjustable rate mortgages, and awareness of energy efficiency improvement loans.

The interviews of appraisers, lenders, and real estate personnel provided information on the VBA procedures for obtaining and certifying appraisers. All participants were asked to offer opinions pertaining to the selection of VA appraisers, VA appraisal standards versus Federal Housing Administration (FHA), Federal National Mortgage Association (FNMA), and other conventional appraisal standards, and how the industry interpret these different standards. By asking similar questions of each group of participants, the study group was able to gauge how opinions may differ by position in the real estate industry. Furthermore, the interviews provided key information on the barriers to the approvals of VA loans attributable to the appraisal process or relationships between appraisers, lenders, and real estate agents.

The Study Team questioned participants about adjustable rate mortgages (ARMs), the need among veterans for an ARM option, and the prospective benefits to veterans. The team also questioned them on their awareness of the Energy Efficiency Improvement Guarantees.

The interviews yielded information about the participants' adherence to VBA rules and guidelines, which led to discussion on the participant's compliance with these guidelines and the means of continuing education regarding the VBA rules and guidelines. The Study Team also obtained information from the participants about the VBA review procedures.

The interview format for lenders and appraisers are almost identical. They vary only in the extent that the Study Team asked some participants for additional detail on certain topics such as underwriting standards for lenders and appraisal rules and guidelines for appraisers. Therefore, the opinions of lenders or appraisers are more prominent in the discussion of these topics. The results for real estate professionals are more limited. None of those interviewed are familiar with the energy efficiency improvement guarantees, and few of them opined on the appraisal rules and guidelines. The questions are listed as follows:

- ♦ When were you certified and how often do you appraise residences for VA loans? (Appraisers only)
- ♦ How do you obtain information regarding VA rules and guidelines for the appraisal process? (Appraisers only)
- ♦ Do you follow the guidelines of the VA Handbook for the appraisal process? (Appraisers Only). Do you have problems with the Lenders Handbook? Do you have suggestions for changes, additions, or improvements to this handbook?
- ♦ What is your knowledge and understanding of VA rules and guidelines for VA Appraisals?
- ♦ What is your knowledge and understanding of VA rules and guidelines for VA loans?
- ♦ In your opinion, how do the rules compare to conventional and FHA standards?
- ♦ Are there any barriers to the approval of VA appraisals?

- How well does VA communicate the availability and benefits of its loan program to private industry? How could they do more effective outreach?
- What are the barriers to home ownership? Does the VA Home Loan program help to reduce any barriers?
- How well does the appraisal process for VA loans work? Do you have any comments on the process for selecting VA loan appraisers? How does the VA appraisal process compare to conventional or FHA processes? Are the VA appraisal guidelines or standards good or should changes be made?
- What is your awareness of energy efficiency improvement guarantees in the VA loan program?
- What is your knowledge or experience of how VA has reviewed and audited your VA loans or appraisals? From your perspective, has this process worked well?
- Do you have any suggestions or recommendations for improving the VA Home Loan Guaranty program?

Information from the 2001 and 2002 Lender Satisfaction Survey for the VA Home Loan Guaranty Program supplement the interviews that the Study Team conducted. This survey measured lender satisfaction at both the regional and national level. A random sample of 5,049 (2001) and 4,977 (2002) lenders was selected with a national response rate of about 21 percent. Lenders' satisfaction with the process of completing a VA home loan increased from 74 percent in 2001 to 91 percent in 2002. Overall, there are many similarities between the results of the Study Team interviews and VA's Lender Satisfaction Survey, including sources of information, overall program satisfaction, and VA appraisers. Differences in opinions occurred primarily with lenders' satisfaction with the Lender Appraisal Processing Program (LAPP) and communication with VA personnel for program information. The differences are explained in further detail in latter sections of this report.

The Study Team also examined foreclosure rates for ARM loans and interest rates for ARM versus fixed rates. The team also reviewed the sampling approach for audits of lenders and loans.

List of Lenders, Appraisers, and Real Estate Professionals

Lender Companies and Locations

Continental Homes, Scottsdale, AZ

First Horizon Home Loans, Irving, TX

Hibernia National Bank, Baton Rouge, LA

National City Mortgage, Dayton, OH

Plains Capital McAfee Mortgage, Amarillo, TX

Residential Mortgages, Bellevue, NE

Trust Mortgage Corp., South Bend, IN

VMP Mortgage Solutions (Bankers Systems Inc.), Fraser, MI

Wells Fargo Mortgages, Minneapolis, MN

Real Estate Professionals

CHR Realty, GMAC Real Estate, Brunswick, ME

Coldwell Banker Residential Brokerage, Glen Burnie, MD

Dolan Real Estate, Helena, MT

Gateway Realty, Vacaville, CA

Lorraine Santo Real Estate, Biloxi, MS

Prudential Churchill & Associates Inc., Oak Harbor, WA

RE/MAX Allegiance, Alexandria, VA

Twin Oaks Realty, Minneapolis, MN

William E. Wood Realtors, Virginia Beach, VA

Appraisers

Baton Rouge, LA

Colorado Springs, CO

Houston, TX

Manchester, NH

Newark, DE

Rochester, MA

Topeka, KS

Virginia Beach, VA

APPENDIX K

NATIVE AMERICAN DIRECT LOAN PROGRAM— SUPPORTING DOCUMENTATION

APPENDIX K: NATIVE AMERICAN DIRECT LOAN PROGRAM—SUPPORTING INFORMATION

Site Visits and Stakeholders Meetings

Phoenix Regional Loan Center Visit

In October 2002, the Study Team met with staff at VA's Phoenix Regional Loan Center (RLC) to discuss many of the issues related to the evaluation study. Part of these meetings covered the direct loan program for Native American veterans living on trust lands.

The Phoenix RLC has experienced problems with tribal interest in the program. One such problem is that tribes are more interested in grant programs than in loan programs because most Native Americans do not have the income to qualify for a loan program and they lack of good credit. According to the U.S. Census 2000 statistics, the median family income for Navajo is $13,940, compared with $35,225 for other U.S. families. In addition, 47 percent of Navajo families are poor, compared with 10 percent for other U.S. families overall. Besides needing to have the income and credit to qualify, the Native American veterans have other costs associated with the loan that they have to cover, such as the funding fee, the appraisal, and the credit report.

The lack of interest may also stem from the fact that trust lands are usually very remote and do not have the needed infrastructure or laws. A Department of Housing and Urban Development (HUD) study[1] reports that the American Indian/Native Alaskan population faces more frequent housing problems than the non-Indian population. For example, 28 percent of American Indians/Native Alaskan households living on tribal areas are either overcrowded or lack kitchen or plumbing facilities, compared with the national average of 5 percent living under similar conditions. The purchase price of a home increases because of the need to develop the lacking infrastructure]. The tribes are also required to have local ordinances pertaining to leaseholds and foreclosures; it can take some time for the tribes to obtain these ordinances because it may be a new concept for them. However, the Native American Direct Loan (NADL) program offers benefits to the tribes other than increasing home ownership. The Memorandums of Understanding (MOUs) influence the tribes to bring building codes and related infrastructures up to date, determine leasehold rights, and promote the concept of mortgages on reservations.

The Phoenix RLC has not issued a direct loan since 1998. Many Native American veterans may have considered completing an application but decided not to because of personal credit problems, their perception that they would not qualify, or who simply change their mind about buying a home. Furthermore, veterans need to obtain a

[1] Assessment of American Indian Housing Needs and Programs, The U.S. Department of Housing and Urban Development, May 1996.

leasehold agreement in their name, which can take between 6 months and 1 year. If the veteran has an allotment then he may encounter the issue of fractionated ownership of the trust land where the veteran wishes to build a home. In fractionated ownership cases, the veteran has to get permission from every partial owner (e.g., in one case there were about 200 partial owners) to build a home. This is often very difficult, if not impossible.

The Phoenix RLC actively conducts outreach on the NADL program. However, they are not always invited to make presentations to Native Americans; when they are invited, it is often on short notice. Given the lack of interest in the NADL program and the problems that the Native American veterans have to qualify for the loan, Phoenix RLC officials believe that the only way to increase interest in the VA Home Loan program is to provide the benefit as a grant rather than a loan.

Stakeholder Meetings

The Study Team met with stakeholders from the Senate Indian Affairs Committee to discuss issues related to the overall evaluation study and specific research issues. The stakeholders were concerned that the VA Home Loan program was not being marketed evenly throughout the trust lands. The team concluded that it might be better for VA to have a constant presence with the tribal housing entities to ensure accurate information and promote interest in the program.

Congressional stakeholders requested that the Study Team examine why there are tribes with MOUs that have no VA loans and the problems that tribal sovereignty pose with signing MOUs. The stakeholders asked the Study Team to determine if there is a way to adjust the program to make it work better in the Native American community.

Conference Call with National American Indian Housing Council

Donna Fairbanks, a technical assistance specialist for the National American Indian Housing Council (NAIHC), spoke with members of the Study Team about her experiences with VA's NADL program. She believes that the VA staff does not know enough about the tribes or how to contact them; she thinks that the video VA sent out a few years ago was very good.

Ms. Fairbanks suggests that VA train Native American staff to go out and process the loans, similarly to how the U.S. Department of Agriculture (USDA) does, because tribal members are more comfortable dealing with other Native Americans. She also recommends that VA advertise the program in the periodicals of the tribes and community or in NAIHC's newsletter that goes out to all the tribal housing authorities.

Ms. Fairbanks indicates that the VA loan process is not difficult in comparison to the processes at USDA or HUD, although HUD's 184 program is very user-friendly. All loans are plagued by fractionated ownership, and the tribes have to come to some sort of resolution on the issue. She recommends that VA devise a flowchart that shows the steps to participate in the NADL program (e.g., first step is obtaining a lease or leasehold agreement, then obtain BIA Title Status Report, etc.). She also suggests that

VA have a National Native American Housing Coordinator who is Native American; he or she will be more familiar with Native American culture and issues.

Number of Loans by Tribes

Table K-1 presents the total number of loans made between 1994 and June 2003 by tribe, whereas Table K-2 presents the numbers by State. This table displays the loans before they are refinanced, thus portraying the original loans that are accepted in the program. While a tribe may cover more than one State, the intent here is to show the geographical distribution of the loans made in the NADL program. Table K-1 and Table K-2 illustrate that the areas outside of the mainland U.S.A. account for most of the loans in this program. Hawaii, Northern Mariana Islands, American Samoa, and Guam combined consist of 83 percent of all loans originated since the inception of this program. Figure K-1 shows the number of all loan originations covered by MOUs, by month, since 1994. The program experienced small peaks in originations early in the pilot program, with a large spike in October 1998. In recent years (2001-2002) the number of loans originated increased significantly, and it seems that the increases are not due to refinances. The unofficial count of refinances in FY2001 and FY2002 is 20; the number of refinances in FY2003 is not available yet. The increase in number of loans is consistent with the recent Home Mortgage Disclosure Act (HMDA) data showing that the home purchase loans to Native Americans increased 23 percent from 2001 to 2002, after a decline of 39 percent in 2001 and 5 percent in 2000. The executive director of the NAIHC attributes the increase to the lenders recognizing the good business aspect of making loans to Native Americans. Despite the increase in loans, the Native American population does not fully utilize mortgage loans backed by the Government. According to the HMDA data, the percentage of Native Americans who applied for Government-backed mortgages—such as Section 184 or VA loans—is lower (19%), compared with the percentage for Black (28%) and Hispanic applicants (27%).

Table K-1. Number of Loans by Tribe

MOU	Tribe	Year of Origination										TOTAL
		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
1	Hawaii	6	38	31 (2)	7 (1)	24 (2)	11	6	6	14	2	145 (5)
11	Territory of American Samoa	0	1	6	8	6	2	2	5	17	1	48
7	Commonwealth of the Northern Mariana Islands	0	0	1	3	3	4	1	5	4	2	23
44	Colville Tribe	NA	NA	NA	0	1	1	3	0	0	0	5
60	Guam/Chamorro	NA	NA	NA	0	0	0	0	1	1	3	5
3	Omaha Tribe of Nebraska	0	1	0	3	0	0	0	0	0	0	4
8	Lac Du Flambeau Band of Lake Superior Chippewa Indians	1	1	0	0	0	0	1	0	0	1	4
10	Rosebud Sioux	0	0	0	0	0	1	0	1	0	1	3
26	Navajo	NA	2	0	0	1	0	0	0	0	0	3
29	Lummi Nation	NA	0	0	1	1	0	0	0	0	1	3
33	Oglala Sioux	NA	NA	2	0	0	1	0	0	0	0	3
16	San Carlos Apache Tribe	0	1	1	0	0	0	0	0	0	0	2
22	Passamaquoddy Tribes	0	0	0	0	0	1	0	1	0	0	2
23	Menominee Indian Tribe	0	0	0	1	0	0	0	1	0		2
35	Chippewa Cree Rocky Boy’s	NA	0	0	0	0	2	0	0	0	0	2
4	Cheyenne River Sioux Tribe	0	0	0	0	1	0	0	0	0	0	1
9	Three Affiliated Tribes of Fort Berthold	0	0	1	0	0	0	0	0	0	0	1
12	Winnebago Tribe of Nebraska	0	0	1	0	0	0	0	0	0	0	1
25	San Juan Tewa Indian Nation	NA	0	1	0	0	0	0	0	0	0	1
27	Standing Rock Sioux Tribe	NA	0	0	0	0	0	0	0	0	1	1
28	White Earth Band of Chippewa Indians	NA	0	0	0	0	0	0	1	0	0	1
30	Blackfeet Nation	NA	0	1	0	0	0	0	0	0	0	1
31	Laguna Pueblo	0	0	0	0	0	0	0	1	0	0	1
43	Grand Traverse Band of Ottawa and Chippewa Indians	NA	NA	0	1	0	0	0	0	0	0	1
46	Eastern Band of Cherokee	NA	NA	NA	1	0	0	0	0	0	0	1
58	Shoshone-Bannock Tribes	NA	NA	NA	NA	NA	NA	0	1	0	0	1
52	Tulalip Tribe	NA	NA	NA	NA	0	0	1	0	0	0	1
	Total Number of Loans	7	44	45 (2)	25 (1)	37 (2)	23	14	23	36	12	266 (5)

Source: VA LGY data

Note: NA indicates that the MOU had not signed yet, thus was not eligible to receive loans. Numbers in parentheses indicate loans that were paid off.

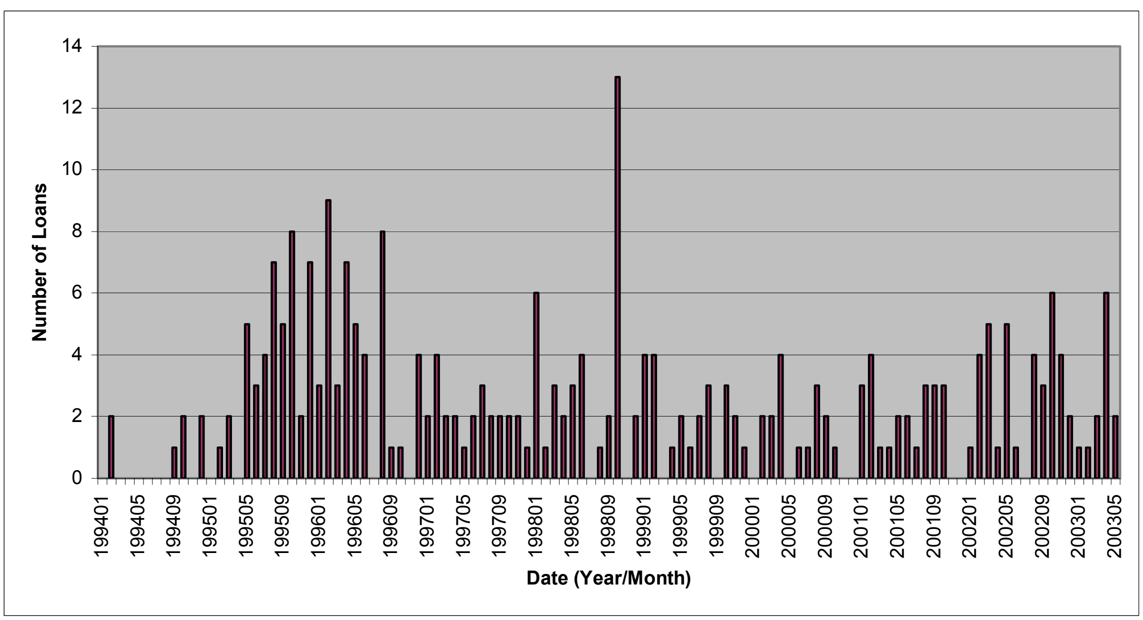
Table K-2. Number of Loans by State/Territory

State or Territory	Year of Origination										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
Hawaii	6	38	31 (2)	7 (1)	24 (2)	11	6	6	14	2	145 (5)
American	0	1	6	8	6	2	2	5	17	1	48
Mariana	0	0	1	3	3	4	1	5	4	2	23
Washington	0	0	0	1	2	1	3	1	0	1	9
South Dakota	0	0	2	0	1	2	0	1	0	1	7
Wisconsin	1	1	0	1	0	0	1	1	0	1	6
Nebraska	0	1	1	3	0	0	0	0	0	0	5
Guam	0	0	0	0	0	0	0	1	1	3	5
Arizona	0	2	1	0	1	0	0	0	0	0	4
Montana	0	0	1	0	0	2	0	0	0	0	3
New Mexico	0	1	1	0	0	0	0	1	0	0	3
Maine	0	0	0	0	0	1	0	1	0	0	2
North Dakota	0	0	1	0	0	0	0	0	0	1	2
Idaho	0	0	0	0	0	0	1	0	0	0	1
Michigan	0	0	0	1	0	0	0	0	0	0	1
Minnesota	0	0	0	0	0	0	0	1	0	0	1
North Carolina	0	0	0	1	0	0	0	0	0	0	1
Total	7	44	45(2)	25 (1)	37 (2)	23	14	23	36	12	266 (5)

Source: VA LGY data

Note: Numbers in parentheses indicate loans that are paid in full.

Figure K-1. Number of Loan Originations by Month



Source: VA LGY data

As Table K-3 shows, by June 30, 2003 a total of $22,769,615 had been loaned to veterans according to the Countrywide data. Native Americans located in only three locations (Hawaii, American Samoa, and Mariana Islands) account for $20,076,770 (88.2%) of these loans. Hawaii has the highest average loans, with an average of $106,476, well above the total mean of $85,600.

Table K-3. Amount of Original Loans by MOU

State or Territory	Tribe	Average Amount of Loan	Total Amount of Money Loaned	Percentage of Total
1	Hawaii	$106,476	$15,438,990	67.81%
11	Territory of American Samoa	$56,008	$2,688,389	11.81%
7	Commonwealth of the Northern Mariana Islands	$84,756	$1,949,391	8.56%
60	Guam/Chamorro	$99,736	$498,681	2.19%
44	Colville Tribe	$51,816	$259,081	1.14%
29	Lummi Nation	$80,665	$241,994	1.06%
33	Oglala Sioux	$65,403	$196,208	0.86%
26	Navajo	$56,058	$168,174	0.74%
35	Chippewa Cree Rocky Boy's	$78,565	$157,131	0.69%
8	Lac Du Flambeau Band of Lake Superior Chippewa	$37,207	$148,827	0.65%
16	San Carlos Apache Tribe	$68,966	$137,931	0.61%
3	Omaha Tribe of Nebraska	$30,250	$121,000	0.53%
23	Menominee Indian Tribe	$59,750	$119,500	0.52%
10	Rosebud Sioux	$38,544	$115,631	0.51%
22	Passamaquoddy Tribes	$48,094	$96,188	0.42%
52	Tulalip Tribe	$83,125	$83,125	0.37%
12	Winnebago Tribe of Nebraska	$75,380	$75,380	0.33%
46	Eastern Band of Cherokee	$57,645	$57,645	0.25%
27	Standing Rock Sioux Tribe	$38,475	$38,475	0.17%
25	San Juan Tewa Indian Nation	$36,956	$36,956	0.16%
9	Three Affiliated Tribes of Fort Berthold	$34,425	$34,425	0.15%
31	Laguna Pueblo	$23,663	$23,663	0.10%
28	White Earth Band of Chippewa Indians	$20,250	$20,250	0.09%
30	Blackfeet Nation	$19,541	$19,541	0.09%
43	Grand Traverse Band of Ottawa& Chippewa	$16,583	$16,583	0.07%
58	Shoshone-Bannock Tribes	$15,000	$15,000	0.07%
4	Cheyenne River Sioux Tribe	$11,457	$11,457	0.05%
Total		$85,600	$22,769,615	100.00%

Source: VA LGY data

Table K-4 breaks down the loan amount distribution by State and territory. There is a large discrepancy between the average loan amounts of the top two tribes: Hawaii's average loan amount ($106,476) is nearly doubled that of Samoa ($56,008).

Table K-4. Amount of Original Loans by State/Territory

State	Average Amount of Loan	Total Amount of Money Loaned	Percentage of Total
Hawaii	$106,476	$15,438,990	67.81%
American Samoa	$56,008	$2,688,389	11.81%
Mariana Islands	$84,756	$1,949,391	8.56%
Washington	$64,911	$584,200	2.57%
Guam	$99,736	$498,680	2.19%
South Dakota	$46,185	$323,296	1.42%
Wisconsin	$44,721	$268,327	1.18%
Arizona	$56,139	$224,556	0.99%
Nebraska	$39,276	$196,380	0.86%
Montana	$58,891	$176,672	0.78%
New Mexico	$47,389	$142,168	0.62%
Maine	$48,094	$96,188	0.42%
North Dakota	$36,450	$72,900	0.32%
North Carolina	$57,645	$57,645	0.25%
Minnesota	$20,250	$20,250	0.09%
Michigan	$16,583	$16,583	0.07%
Idaho	$15,000	$15,000	0.07%
Total	$85,600	$22,769,615	100.00%

Source: VA LGY data

Home Ownership Rates of Veterans and Non-Veterans Living on Trust Lands

When asked about the number of veterans living on trust lands, the Phoenix RLC told the Study Team that they believe that the Census numbers are underestimated because of the remoteness of the lands and because the tribal culture does not support reporting their population figures. We acknowledge this and recommend that the results presented below be viewed as estimates rather than actual figures.

The number of veterans living on the trust lands of the tribes for which VA currently has an MOU is approximately 98,037 according to the Census data. This figure does not include the number of veterans living on Hawaiian Homelands because we were unable to find a data source reporting this information. Table K-5 presents the tribes, the associated trust lands, the percentage of the veteran population living on the trust lands, and the number of veterans living on the trust lands. We are unable to determine how many veterans reported living on trust lands are Native American.

Table K-5. Tribes That Have MOUs with VA, Sorted by the Number of Veterans Living on Trust Lands

MOU Number	Tribe Name	Trust Land Name	Percentage of Population (18 and over) Living on Trust Lands that are Native American, Hawaiian	Percentage of Population (18 and over) Living on Trust Lands that are Veterans	Number of Veterans Living on Trust Lands
57	Santo Domingo Pueblo	Santo Domingo Pueblo	97.30%	9.50%	184
31	Laguna Pueblo	Laguna Pueblo Reservation	96.60%	15.30%	390
6	Ute Mountain Ute Indian Tribe	Ute Mountain Reservation	96.40%	4.30%	44
26	Navajo*	Navajo Reservation	96.20%	7.20%	7,689
35	Chippewa Cree Rocky Boy's*	Rocky Boy's Reservation	95.70%	10.40%	149
16	San Carlos Apache Tribe*	San Carlos Apache Indian Reservation	95.50%	8.50%	449
41	Zuni Pueblo	Zuni Indian Reservation	95.30%	7.60%	379
55	Turtle Mountain Clan of Chippewa	Turtle Mountain Chippewa Reservation	95.00%	10.20%	494
40	Hopi Tribe	Hopi Reservation	94.50%	8.40%	364
13	Hualapai Indian Nation	Hualapai Reservation	93.90%	8.10%	65
23	Menominee Indian Tribe*	Menominee Reservation	93.80%	13.60%	245
11	(Territory of American Samoa)*	Territory of American Samoa	93.40%	3.40%	1,073
17	Gila River Indian Community	Gila River Indian Community	91.90%	7.20%	466
59	Confederated Tribes of Warm Springs	Warm Springs Indian Reservation	91.30%	10.70%	209
33	Oglala Sioux*	Pine Ridge Reservation	90.60%	11.40%	971
45	Pascua Yaqui Tribe	Pascua Yaqui Indian Reservation	89.70%	6.10%	108
32	Isleta Pueblo	Isleta Pueblo	88.40%	11.10%	236
22	Passamaquoddy Tribes*	Pleasant Point Reservation & Indian Township Reservation	87.20%	13.60%	56
19	Lower Brule Sioux Tribe	Lower Brule Sioux Reservation	87.00%	14.00%	106
18	Yavapai-Apache Tribe	Yavapai-Apache Reservation	86.70%	11.50%	48
71	Crow Creek Sioux	Crow Creek Reservation	86.40%	12.60%	158

MOU Number	Tribe Name	Trust Land Name	Percentage of Population (18 and over) Living on Trust Lands that are Native American, Hawaiian	Percentage of Population (18 and over) Living on Trust Lands that are Veterans	Number of Veterans Living on Trust Lands
42	Shoshone-Paiute of Duck River	Duck Valley Reservation	86.10%	18.10%	136
64	Sokaogon Chippewa Community	Sokaogon Chippewa Community	85.20%	12.50%	27
20	White Mountain Apache Tribe	White Mountain Apache Reservation	85.10%	19.60%	22
30	Blackfeet Nation*	Blackfeet Indian Reservation	83.10%	11.10%	692
10	Rosebud Sioux*	Rosebud Reservation	82.70%	14.00%	806
43	Grand Traverse Band of Ottawa and Chippewa Indians*	Grand Traverse Band of Ottawa and Chippewa Indian Res.	81.40%	14.20%	48
1	(Hawaii)*	Hawaiian Home Lands	81.30%	Unknown	Unknown
48	Bay Mills Indian Community	Bay Mills Reservation	80.00%	11.70%	65
65	Bad River Lake Superior Chippewa	Bad River Reservation	78.30%	17.30%	146
14	Seminole Tribe	Big Cypress Reservation	76.70%	16.70%	16
53	Quinalt Tribe	Quinault Reservation	75.30%	13.10%	112
34	Nooksak Indian Tribe	Nooksak Reservation	75.30%	12.30%	43
70	Catawba Indian Nation	Catawba Indian nation	75.10%	9.90%	33
54	Spokane Tribe	Spokane Reservation	75.00%	16.40%	202
4	Cheyenne River Sioux Tribe*	Cheyenne River Reservation	67.90%	14.40%	736
62	Lac Courte Oreilles Band of Lake Superior Chippewa Indians.	Lac Courte Oreilles (LCO) Band of Lake Superior Chippewa Indian Reservation	66.90%	17.90%	329
27	Standing Rock Sioux Tribe*	Standing Rock Reservation	66.40%	14.70%	743
38	Bois Forte Band of Chippewa Indians	Bois Forte Band of Chippewa Indians Reservation's	65.50%	17.10%	80
9	Three Affiliated Tribes of Fort Berthold*	Fort Berthold Service Unit	61.10%	13.90%	519
58	Shoshone-Bannock Tribes*	Fort Hall Reservation	60.40%	10.80%	409
44	Colville Tribe*	Colville Reservation	57.10%	18.10%	940
39	Ft. Peck Assiniboine Sioux	Fort Peck Reservation	55.70%	15.10%	1,003
67	Salt River Pima-Maricopa Indian Community	Salt River Pima-Maricopa Indian Reservation	53.80%	11.60%	471
12	Winnebago Tribe of Nebraska*	Winnebago Reservation	50.00%	13.60%	220
60	(Guam/Chamorro)*	Guam/Chamorro	50.00%	9.40%	8,962

MOU Number	Tribe Name	Trust Land Name	Percentage of Population (18 and over) Living on Trust Lands that are Native American, Hawaiian	Percentage of Population (18 and over) Living on Trust Lands that are Veterans	Number of Veterans Living on Trust Lands
21	Ft. Mojave Indian Tribe	Ft. Mojave Reservation	49.80%	15.10%	103
8	Lac Du Flambeau Band of Lake Superior Chippewa Indians*	Lac du Flambeau Indian Reservation	49.40%	18.50%	388
69	Confederated Tribes of the Umatilla Indian Reservation	Umatilla Indian Reservation	45.20%	17.60%	355
29	Lummi Nation*	Lummi Reservation	45.10%	13.80%	402
63	Cochiti Pueblo	Cochiti Pueblo	41.10%	14.80%	163
28	White Earth Band of Chippewa Indians*	White Earth Reservation	36.90%	16.00%	998
3	Omaha Tribe of Nebraska*	Omaha Tribal Reservation	35.70%	14.50%	483
36	Yankton Sioux Tribe	Yankton Indian Reservation	34.30%	15.30%	648
56	Ponca Tribe of Oklahoma	Ponca	33.90%	13.50%	220
7	(Northern Mariana Islands)*	Northern Mariana Islands	28.80%	1.70%	868
2	Sisseton-Wahpeton Sioux Tribe	Lake Traverse Indian Res.	28.00%	14.30%	1,028
68	Keweenaw Bay Indian Community	Keweenaw Bay Indian Community Reservation or L'Anse Reservation	24.60%	17.30%	477
51	Yakama Indian Nation	Yakama Indian Reservation	23.70%	8.40%	1,676
15	Colorado River Tribe	Colorado River Indian Reservation	23.30%	14.40%	939
46	Eastern Band of Cherokee*	Eastern Cherokee Reservation	19.70%	12.90%	662
25	San Juan Tewa Indian Nation*	San Juan Pueblo	19.60%	10.70%	507
52	Tulalip Tribe*	Tulalip Reservation	19.40%	18.60%	1,220
24	Oneida Tribe of Indians of Wisconsin	Oneida Nation Reservation	14.80%	13.70%	2,008
5	Southern Ute Indian Tribe	Southern Ute Reservation, Colorado	12.80%	16.10%	1,284
49	Nez Perce	Nez Perce Reservation	10.80%	18.60%	2,514
50	Picuris Pueblo	Picuris Pueblo	10.00%	13.70%	181
37	Upper Sioux Community Pejuhutazizi Oyate	Upper Sioux Indian Community	NA	23.50%	12

*Note: * indicates that at least one loan has been made to a veteran in this tribe.*

Statistics for the tribes in parenthesis include Native Hawaiian and/or Other Pacific Islanders.

Source: http://factfinder.census.gov/home/aian/aian_aff2000.html

In examining the Census data for these tribes, the percentage of individuals living on trust lands and identifying themselves as American Indian ranges between 10 percent and 97 percent, which is unexpected because the usual assumption is that the majority of individuals living on trust lands are American Indian. For those tribes in the South Pacific (such as Hawaii, American Samoa, Guam, and Northern Mariana Islands) the percentages, which include Native Hawaiians and Other Pacific Islander races, range between 29 percent (Northern Marianas) and 93 percent (American Samoa). Many of the trust lands classify a large percentage of their population as White. We have not compensated for this in our analysis, but we present our findings with the assumption that if a veteran is living on trust land, he/she is a Native American and associated with a tribe. We make no assumptions on a veteran's income/debt qualifications or their holding of a meaningful interest in the land.

The data are not available to fully answer the research question on the home ownership rates for Native American veterans living on and off trust lands. Of the publicly available data, we are able to analyze home ownership by

- Race at the trust land level (Source: *Census Summary File 3–Census SF 3*)
- Race and veteran status at the State level (Source: *Integrated Public Use Microdata Sample–IPUMS*)
- Race and veteran status at the county level (Source: *Current Population Survey, 2002*)

We use race and living on trust land as a proxy for identifying Native American individuals who are associated with a tribe, because no data source allows us to identify those individuals. Being associated with a tribe is one eligibility requirement dictated in the Legislation and the only requirement that can be used to identify individuals in the population. Both the *IPUMS* and the *Current Population Survey* allow us to identify veteran status, but not on the trust land level, which is key for this analysis. The *Census SF 3* is the only publicly available data source that has data on the trust land level, but it does not contain a veteran status indicator. Faced with these choices of data sources, we elected to use the *Census SF 3* data for our analysis on home ownership rates and housing prices. These results, combined with the information presented in Table K-6, form the basis for our estimates on the home ownership rates of veterans living on and off trust lands. As stated above, race may be problematic for some trust lands because of the number of people reporting themselves as White.

We also analyzed the data from the *2001 National Survey of Veterans (NSV).* We included in our data set the following relevant race categories for our analysis: American Indian/Alaska Native, Native Hawaiian, and Other Pacific Islander. We tabulated the survey results for home ownership and the use of the VA Home Loan Guaranty program by the three races above, but we were not able to identify whether the veterans lived on trust lands.

Table K-6 presents the home ownership rate for the overall population as well as the Native American/Alaskan Natives living on the trust lands. Only three trust lands have higher home ownership rates for Native Americans/Alaskan Natives than for the overall trust land population (Hawaii, Navajo Reservation, and Rocky Boy's Reservation). The average home ownership rate for all those living on trust lands and for Native Americans/Alaskan Natives living on trust lands is almost identical (69.0% and 70.1%, respectively).

The results from the NSV data are similar. About two-thirds (66.2%) of veterans who identify themselves as American Indian/Alaska Native, Native Hawaiian, and Other Pacific Islander indicate that their current living quarters are owned or being bought by veterans or someone in their household. Almost half (48.7%) of the respondents say that they received loans to purchase a home, make home improvements, or refinance a home loan since leaving the military. Among those who received loans since leaving the military, almost two-thirds (65.5%) indicate that they have used the VA Home Loan Guaranty program to purchase a home, make home improvements, or refinance a home loan.

Table K-6. Tribes That Have Active MOUs with VA, Sorted by the Home Ownership Rates

MOU Number	Tribe Name	Trust Land Name	Overall Home-Ownership Rate	Home Ownership Rate for Native American or Alaska Native	Difference
1	Hawaii	Hawaii	84.3%	91.2%	-6.9
31	Laguna Pueblo	Laguna Pueblo Reservation	82.8%	83.8%	-1.0
26	Navajo	Navajo Reservation	75.8%	78.2%	-2.4
29	Lummi Nation	Lummi Reservation	80.1%	77.8%	-2.3
58	Shoshone-Bannock Tribes *	Fort Hall Reservation	79.5%	76.8%	2.7
25	San Juan Tewa Indian Nation	San Juan Pueblo	82.2%	73.7%	8.5
22	Passamaquoddy Tribes	Pleasant Point Reservation & Indian Township Reservation	71.1%	69.7%	1.4
46	Eastern Band of Cherokee	Cherokee Indian Reservation	73.2%	70.8%	2.4
44	Colville Tribe	Colville Reservation	67.6%	65.0%	2.6
23	Menominee Indian Tribe	Menominee Reservation	63.6%	62.9%	0.7
16	San Carlos Apache Tribe	San Carlos Apache Indian Reservation	63.2%	63.5%	-0.3
52	Tulalip Tribe	Tulalip Reservation	82.1%	61.7%	20.5
28	White Earth Band of Chippewa	White Earth Reservation	77.5%	63.4%	14.1
4	Cheyenne River Sioux Tribe	Cheyenne River Reservation	56.3%	46.1%	10.2
30	Blackfeet Nation	Blackfeet Indian Reservation	55.5%	55.6%	-0.1
8	Lac Du Flambeau Band of Lake Superior Chippewa Indians	Lac du Flambeau Indian Reservation	70.4%	53.3%	17.1
33	Oglala Sioux	Pine Ridge Reservation	48.7%	47.7%	1.0
9	Three Affiliated Tribes of Fort Berthold	Fort Berthold Service Unit	58.8%	45.2%	13.6
3	Omaha Tribe of Nebraska	Omaha Tribal Reservation	63.2%	44.1%	19.1
35	Chippewa Cree Rocky Boy’s	Rocky Boy’s Reservation	43.0%	42.9%	0.1
10	Rosebud Sioux	Rosebud Reservation	45.4%	41.7%	3.7
12	Winnebago Tribe of Nebraska	Winnebago Reservation	56.7%	39.1%	17.6
27	Standing Rock Sioux Tribe	Standing Rock Reservation	53.4%	38.1%	15.3
43	Grand Traverse Band of Ottawa and Chippewa Indians	Grand Traverse Band of Ottawa and Chippewa Indian Reservation	44.4%	42.1%	2.3
11	Territory of American Samoa	American Samoa	77.2%	82.5%**	-5.5
60	Guam/Chamorro	Guam/Chamorro	48.4%	54.5%**	-6.1
7	Northern Mariana Islands	Northern Mariana	30.7%	64.1%**	-33.4
AVERAGE***			69.0%	70.1%	-1.1

Source: VA LGY data

*** Includes only the citizens who are of complete Native Hawaiian or Native Pacific Island background.*

Appropriateness of $80,000 Ceiling

Table K-7 presents the median as well as mean loan amounts and median home values for the trust lands with MOUs. Only seven trust lands have median home values that are above the $80,000 maximum loan limit set by VA's NADL program (Guam/Chamorro, Northern Marianas, Tulalip Reservation, Lac du Flambeau Indian Reservation, Hawaii, Lummi Reservation, and San Juan Pueblo). The median home value for all the tribes with signed MOUs, on average is $72,730, somewhat under the $80,000 maximum loan limit. However, this translates that almost half of the home values are above the $80,000 loan limit.

Table K-7. Tribes That Have Active MOUs with VA, Sorted by the Median Home Value

MOU Number	Tribe Name	Trust Land Name	Mean VA Loan Amount	Median VA Loan Amount	Median Home Value
60	Guam/Chamorro	Guam/Chamorro	$99,617	$111,881	$171,900
7	Commonwealth of the Northern Mariana Islands	Northern Marianas	$84,669	$85,817	$159,800
52	Tulalip Tribe	Tulalip Reservation	$83,125	$83,125	$146,300
8	Lac Du Flambeau Band of Lake Superior Chippewa Indians	Lac du Flambeau Indian Reservation	$41,276	$24,752	$139,400
1	Hawaii	Hawaii	$103,102	$110,627	$137,578
29	Lummi Nation	Lummi Reservation	$80,665	$77,225	$126,800
25	San Juan Tewa Indian Nation	San Juan Pueblo	$36,956	$36,956	$83,000
44	Colville Tribe	Colville Reservation	$51,816	$36,408	$72,100
58	Shoshone-Bannock Tribes*	Fort Hall Reservation	$15,429	$15,429	$66,900
43	Grand Traverse Band of Ottawa and Chippewa Indians	Grand Traverse Band of Ottawa and Chippewa Indian Reservation	$16,583	$16,583	$66,000
4	Cheyenne River Sioux Tribe	Cheyenne River Reservation	$11,457	$11,457	$65,500
46	Eastern Band of Cherokee	Cherokee Indian Reservation	$57,645	$57,645	$62,500
30	Blackfeet Nation	Blackfeet Indian Reservation	$19,541	$19,541	$61,200
31	Laguna Pueblo	Laguna Pueblo Reservation	$23,663	$23,663	$61,000
28	White Earth Band of Chippewa Indians	White Earth Reservation	$20,034	$20,034	$59,700
3	Omaha Tribe of Nebraska	Omaha Tribal Reservation	$28,888	$28,498	$56,400
23	Menominee Indian Tribe	Menominee Reservation	$58,284	$58,285	$52,500
12	Winnebago Tribe of Nebraska	Winnebago Reservation	$69,836	$69,836	$52,000
22	Passamaquoddy Tribes	Pleasant Point Reservation & Indian Township Reservation	$48,094	$48,094	$51,200
11	Territory of American Samoa	American Samoa	$56,621	$51,073	$44,800
9	Three Affiliated Tribes of Fort Berthold	Fort Berthold Service Unit	$26,664	$26,664	$44,700
35	Chippewa Cree Rocky Boy's	Rocky Boy's Reservation	$78,565	$78,565	$35,300
27	Standing Rock Sioux Tribe	Standing Rock Reservation	$38,475	$38,475	$29,000
10	Rosebud Sioux	Rosebud Reservation	$38,260	$29,735	$28,000
16	San Carlos Apache Tribe	San Carlos Apache Indian Reservation	$68,966	$68,966	$27,200
26	Navajo	Navajo Reservation	$47,959	$43,313	$25,900
33	Oglala Sioux	Pine Ridge Reservation	$65,403	$65,812	$25,300
TOTAL			$83,845	$85,817	$72,730*

Source: VA LGY data

**Represents the average of the above values and not the median of the overall data.*

APPENDIX L

GLOSSARY OF ABBREVIATIONS

APPENDIX L: GLOSSARY OF ABBREVIATIONS

ABC	Activity-Based Costing
ACE	Automated Certification of Eligibility
AFL–CIO	American Federation of Labor–Congress of Industrial Organizations
ALPS	Automated Loan Processing System
ARM	Adjustable Rate Mortgage
BAH	Basic Allowance for Housing
BPR	Business Process Reengineering
BRAC	Base Realignment and Closure Committee
C&V	Construction and Valuation
CBO	Congressional Budget Office
CIO	Congress of Industrial Organizations
COE	Certificate of Eligibility
COTS	Commercial Off-the-Shelf
CPI	Consumer Price Index
CPS	Current Population Survey
CPTS	Centralized Property Tracking System
DIC	Dependency and Indemnity Compensation
DLRF	Direct Loan Revolving Fund
DoD	Department of Defense
EEMs	Energy Efficient Mortgages
ELF	VA's Electronic Lender Folders
ELI	Expanded Lender Information
FATS	Foreclosure Avoidance Through Servicing
FFIEC	Federal Financial Institutions Examination Council
FFPS	VA's Funding Fee Payment System
FHA	Federal Housing Administration
FHFB	Federal Housing Finance Board
FRM	Fixed Rate Mortgage
FTE	Full-Time Equivalent
FY	Fiscal Year

GAO	General Accounting Office
GIF	Guaranty and Indemnity Fund
GIL	Guaranteed and Insured Loan
GSEs	Government Sponsored Entities
HAP	Homeowner Assistance Program
HMDA	Home Mortgage Disclosure Act
HUD	U.S. Department of Housing and Urban Development
IND	Industry
IPUMS	Integrated Public Use Microdata Series
IRRRL	Interest Rate Reduction Refinancing Loan
IT	Information Technology
ITC	Information Technology Center
LA	Loan Administration
LAPP	Lender Appraisal Processing Program
LGC	Loan Guaranty Certificate
LGRF	Loan Guaranty Revolving Fund
LGY	VA Loan Guaranty Service
LP	Loan Processing
LS&C	Loan Service and Claims
LSRs	Loan Service Representatives
MBAA	Mortgage Bankers Association of America
MHA	Military Housing Area
MOU	Memorandum of Understanding
MPRs	Minimum Property Requirements
MSA	Metropolitan Statistical Area
NADL	Native American Direct Loan program
NAHB	National Association of Home Builders
NAIHC	National American Indian Housing Council
NAR	National Association of Realtors
NDS	National Delinquency Survey
NSV	National Survey of Veterans
Ocwen	Ocwen Federal Bank FSB
OFHEO	Office of Federal Housing Enterprise Oversight

OMB	Office of Management and Budget
PAE	VA Office of Program Analysis and Evaluation
PART	Program Assessment Rating Tool
PEU	Primary Economic Unit
PHMA	Professional Housing Management Association
PM	Property Management
PMI	Private Mortgage Insurance
PUMS-A	Census Public Use Microdata Sample
RLCs	Regional Loan Centers
SAH	Specially Adapted Housing
SAR	Staff Approved Reviewer
SCF	Survey of Consumer Finances
SF 3	Census Summary File 3
SHA	Special Home Adaptations
SIPP	Survey of Income and Program Participation
SITES	Standard Installation Topic Exchange Service
SLMP	Servicer Loss Mitigation Program
TAS	The Appraisal System
TLE	Temporary Lodging Expense
USDA	U.S. Department of Agriculture
VA	Department of Veterans Affairs
VAAS	VA Assignment System
VACO	VA Central Office
VALERI	VA Loan Event Reporting Interface
VAROs	VA Regional Offices
VBA	Veterans Benefits Administration
VHA	Variable Housing Allowance
VIP	Veterans Information Portal
VSOs	Veteran Service Organizations