LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

OF THE

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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May 20, 2010

LOAN GUARANTY PROGRAM

THURSDAY, MAY 20, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:08 p.m., in Room 334, Cannon House Office Building, Hon. Stephanie Herseth Sandlin [Chairwoman of the Subcommittee] presiding.

Present: Representatives Herseth Sandlin, Adler, and Boozman.

OPENING STATEMENT OF CHAIRWOMAN HERSETH SANDLIN

Ms. HERSETH SANDLIN. Good afternoon, ladies and gentlemen. The Committee on Veterans' Affairs, Subcommittee on Economic Opportunity, hearing on the status of the U.S. Department of Veterans Affairs' (VA's) Home Loan Guaranty Program will come to order.

In the 110th Congress, this Subcommittee held a series of hearings focused on the VA's Home Loan Program, including the specially adapted housing programs. Since then, we have been able to work in a bipartisan manner to increase the maximum loan guaranty amount, expand expiring adjustable rate mortgage programs, provide foreclosure prevention remedies for servicemembers and veterans, enhance specially adapted housing benefits, and require the VA to update the guidance it provides to veterans on the design and construction of specially adapted housing. In keeping with our commitment to meet the current needs of veterans, today's hearing seeks to review housing benefits that were first provided when President Franklin Delano Roosevelt signed the Servicemember's Readjustment Act of 1944. For over 65 years, VA's Home Loan Program has been an important benefit that has allowed thousands of veterans the opportunity to own a home.

While the overall VA-backed Home Loan Program has proven to be successful, today we have the opportunity to address several issues of concern. Some of these concerns, such as increasing the maximum loan guaranty or expanding the adjustable rate mortgage (ARM) program, were addressed in the 110th Congress and we hope to determine today if additional changes are warranted. Also, we will hear about veterans who were attracted by non-VA backed home loans who have joined the thousands of Americans struggling to make housing payments during difficult economic times. Fortunately, a growing number of veterans continue to take full advantage of the flexible program to refinance into a VA loan, allowing them to access the unique protections available through the VA to help ensure they remain homeowners.

I look forward to hearing from all of our panelists as we continue to improve the VA's home loan benefits. I now recognize the distinguished Ranking Member Mr. Boozman for this opening remarks.

[The prepared statement of Chairwoman Herseth Sandlin appears on p. 31.]

OPENING STATEMENT OF HON. JOHN BOOZMAN

Mr. BOOZMAN. Thank you very much, Madam Chair. It appears that in general the Loan Guaranty Program is working quite well and I congratulate VA for its management of the program. And we look forward to talking more about that today.

One of the problems that we would like to address also today is a broader issue. And we have had a little bit of a problem that it appears that perhaps senior VA is somewhat muzzling VA staff. And what I mean by that is that at a recent staff meeting Veterans Benefits Administration (VBA) staff were told they are not allowed to speak to Congressional staff without working through the Office of Congressional and Legislative Affairs (OCLA). Rightly or wrongly, VA staff informed our staffs that they could not speak directly to them, and to submit to even routine questions through OCLA. That policy is being interpreted as applying even to the most routine questions, like how many people have signed up for the GI Bill.

This new policy, which I can only describe as shortsighted, and I really think harmful to veterans, prevents our staffs from conducting even routine, day-to-day business with not only VA but also with our constituents. Previously, administrations on both sides of the aisle have tried this to some extent. It is not a Democrat thing, it is not a Republican thing. And it always fails because Congress and VA both need two-way communications, continuing a longstanding cooperative way of doing business. Even at some times when it is less than comfortable for the VA.

If we can have that level of communication, then certainly that fosters mutual trust that is in the long run good for veterans programs. In my opinion, questions from staffs that ask things like details on administrative procedure, or participation, or average times, etcetera, are a legitimate oversight function and VA employees should not be ordered not to respond directly to such requests. On the other hand, my staff has asked VA both directly and through OCLA for VA's positions on a risk retention provision in the Senate financial services. That is a request that requires the Department to make a statement of policy and OCLA should be involved. By the way, we have not gotten a reply on that matter, and I hope that we can also find out VA's position today. Because we have been informed that such a provision may negatively impact VA guaranteed loans in terms of higher fees or interest rates.

Finally, I ask unanimous consent to enter comments provided by Mr. Adam Sachs on the risk retention provision in S. 3217 and the Merkley Amendment to that bill in the record.

Ms. HERSETH SANDLIN. So entered.

Mr. BOOZMAN. Thank you. Mr. Sachs is a former member of the VA Committee Democratic staff and is now in private practice, and raises several issues with the provision and amendment.

Madam Chair it is imperative, I feel like, that our staffs be able to speak directly to VA employees who run these very important programs, and I look forward to a reversal of the policy. And with that, I yield back.

[The prepared statement of Congressman Boozman, and Mr. Sachs' comments, appear on p. 31.]

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman. You raise important considerations that, as always, we will work together, and with the VA, to continue to express our concerns and regardless of administration to seek a consistent policy that is most responsive to the needs of the Subcommittee, and the full Committee, and the constituents we represent.

I would like to welcome our panel who is testifying before the Subcommittee today. All three of the witnesses on our first panel are testifying before our Subcommittee for the first time. I thank all of you for being here. I would like to remind each of you that your complete written statements have been made part of our hearing record. If you could limit your opening statements to 5 minutes to provide us ample opportunity to pose questions, and recognizing that we have two additional panels, that way we again have sufficient time for followup once everyone has an opportunity to offer their verbal testimony.

Joining us in our first panel today we have Mr. James Barber. He is the Chairman and Chief Executive Officer (CEO) of Acacia Federal Savings Bank in Falls Church, Virginia, and he is representing the American Bankers Association (ABA); Mr. James Danis, President of the Residential Mortgage Corporation in Fayetteville, North Carolina, representing the Mortgage Bankers Association (MBA); and Mr. Maurice Veissi, Broker and Owner of Veissi and Associates, Inc. in Miami, Florida, representing the National Association of REALTORS® as their First Vice President.

Gentlemen, thank you for making travel arrangements to be with us here today. Welcome to the Subcommittee, and Mr. Barber we will start with you. You are recognized for 5 minutes.

STATEMENTS OF JAMES B. BARBER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ACACIA FEDERAL SAVINGS BANK, FALLS CHURCH, VA, ON BEHALF OF AMERICAN BANKERS ASSOCIATION; JAMES H. DANIS II, CMB, AMP, PRESIDENT, RESIDENTIAL MORTGAGE CORPORATION, FAYETTEVILLE, NC, ON BEHALF OF MORTGAGE BANKERS ASSOCIATION; AND MOE VEISSI, BROKER/OWNER, VEISSI & ASSOCIATES INC., MIAMI, FL, AND FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF REALTORS®

STATEMENT OF JAMES B. BARBER

Mr. BARBER. Thank you. Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee, my name is James Barber, and I am Chairman and CEO of Acacia Federal Savings Bank. I am pleased to be here today on behalf of the American Bankers Association.

The subject of this hearing is an important one for the millions of veterans who have taken advantage of the opportunity for home ownership through the Veterans Administration Loan Guaranty Program. This program is unique in the mortgage lending industry, in that it allows a veteran to obtain a mortgage with no down payment, and no requirement to obtain private mortgage insurance, or PMI. Maintaining the strength of this program will ensure that millions more of our servicemembers can access this valuable resource. There are simply no comparable conventional or Federal Housing Administration (FHA) insured options that can offer this kind of support and opportunity.

While zero down payment loan programs have come under increased and deserved scrutiny, evidence shows that the VA program is working well. There are three reasons for its strength. First and most importantly, the program has maintained strict underwriting standards. Second, the VA is supportive of the program and has improved it to support both lenders and borrowers. Finally, the men and women who access this program have a strong commitment to meeting their financial obligations despite economic difficulties that they may encounter.

In order to keep this program strong, Congress should avoid putting global requirements on lending that would severely hamper the good work of the program. Recent legislative proposals have contemplated requiring some down payment for any mortgage. This would be a mistake that would take away one of the main benefits of the program for our veterans, the ability to access homeownership. Because without this program the down payment may be difficult or impossible to maintain.

The VA has made an effort to improve and upgrade the program over the years. Notably in recent years, VA has modified its guidelines for high cost areas, a move that has had lasting implications. Despite these improvements there is still more that can be done.

We believe there should be more consistency between regional offices that handle applications and underwriting. And although the VA has worked on making information available, the Web sites can still be improved to make information easier to find and to improve their reliability.

The banking industry appreciates the work that has been done over the years to make the VA Loan Guaranty Program a useful one for military personnel. We hope that the program will continue to offer unique opportunities to our servicemen and servicewomen. We plan to work together with Congress and the VA to make improvements so that the program can serve its customers better.

Thank you for the opportunity to present ABA's views. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Barber appears on p. 33.]

Ms. HERSETH SANDLIN. Thank you very much, Mr. Barber. Mr. Danis, you are recognized.

STATEMENT OF JAMES H. DANIS II, CMB, AMP

Mr. DANIS. Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee. Thank you for the opportunity to testify on behalf of the Mortgage Bankers Association.

My name is Jim Danis, and I am the President of Residential Mortgage Corp is Fayetteville, North Carolina, a certified mortgage banker, and MBA member. I have been in the mortgage business for 17 years and have worked with the VA Home Loan Guaranty Program my entire career. I know full well how important it is to the men and women of our military. Today, approximately 70 percent of the loans my company closes are VA loans. As credit markets have tightened, and loan underwriting has become more strict, finding affordable, low down payment mortgages has become increasingly difficult. That is where the VA comes in, providing 100-percent loan to value loans to our veterans who have dedicated their lives to serving our country.

The VA program has been a tremendous success and the numbers pretty much speak to themselves. The homeownership rate among veterans is an astounding 82 percent, compared to 67 percent for the general population. And VA loans have performed better than any other segment of the market. Despite most of these borrowers not having skin in the game, VA loans have outperformed their counterparts through the recent housing crisis. According to MBA data, the seriously delinquent rate for the first quarter of 2010 was 5.29 percent, well below even the 7 percent delinquency rate for prime loans.

The VA portfolio has been able to weather today's turbulent market largely due to its conservative underwriting standards. VA mortgages have always been fully documented and fully underwritten loans on owned or occupied properties.

Madam Chairwoman, although the VA Guaranty Loan Program has had an excellent track record of providing benefits to veterans and active-duty military personnel, MBA would like to recommend a few ways to keep it strong. First and foremost, Congress should avoid mandating costly new risk retention requirements that could cripple the program and harm our economic recovery. Both the House and the Senate Financial Reform Bills contain provisions that would require mortgagees and securitizers to retain a 5 percent interest in any mortgage they originate, sell, or securitize. This would directly hurt the VA program and it will also harm small independent lenders like my company, which serve military communities. Congress should specifically exempt VA loans as well as any other loans or securities ensured or guaranteed by the government, such as FHA, Rural Housing, Fannie Mae, and Freddie Mac. Failure to exclude the VA and other safe and properly underwritten loans will negatively affect the housing recovery and veterans' opportunities to secure affordable home mortgages.

To further help with the housing recovery, Congress should extend VA's higher loan limits. The Veterans' Benefits Improvement Act of 2008 provided a temporary increase in the maximum guaranty for loans closed through the end of 2011. It also allows borrowers to refinance 100 percent of the value of their home. Prior to this, refinances were generally limited to 90 percent. MBA supports these changes, and we thank this Subcommittee for ensuring that veterans who reside in high cost areas can enjoy their much deserved housing benefits. We would ask that Congress consider extending these limits until the housing crisis has subsided.

MBA would further recommend that the VA Loan Program be reviewed and updated so that it is better aligned with prudent industry standards. VA management should have the flexibility to make programmatic changes to keep that program competitive, current, and relevant in a rapidly changing market. And while my company does not service mortgage loans, I know that MBA members who do often report that VA's processes can be made simpler or more cost effective.

My full written statement goes into greater detail on these important, highly technical issues. We believe these changes would encourage more lenders to participate in the VA program and would directly benefit military families.

Madam Chairwoman, I would like to close on a personal note. My commitment to the VA program goes beyond merely professional. The homes my parents purchased to raise me and my siblings were bought with VA loans. And in keeping with our family tradition, after my discharge from the Army in 1989, I financed my very first home with a VA loan. For so many reasons I am a strong advocate of this program. It is invaluable to the brave men and women who have sacrificed so much for this country, and the enhancements discussed in my testimony would make it even more attractive and beneficial to veterans and their families. Thank you.

[The prepared statement of Mr. Danis appears on p. 36.]

Ms. HERSETH SANDLIN. I appreciate your recommendations, Mr. Danis, and I also apologize for not pronouncing your name correctly in your introduction.

Mr. DANIS. No, that is fine.

Ms. HERSETH SANDLIN. We have a series of votes. But I think that, Mr. Veissi, we will go ahead and take your testimony, and then we will take a short break. When we return we will pose questions to the three of you on this panel. So Mr. Veissi, you are recognized for 5 minutes.

STATEMENT OF MOE VEISSI

Mr. VEISSI. Madam Chairwoman, Ranking Member Boozman, and the Members of the Subcommittee, my name is Moe Veissi. I have been a realtor for over 40 years and am a broker/owner of Veissi and Associates in Miami, Florida. I also serve as First Vice President of the National Association of Realtors, and previously to that the President of the Florida Association of REALTORS®.

Today I speak on behalf of 1.1 million realtors working in all aspects of the real estate transaction. On a personal note, I also speak as the father of a soldier. My son is on active duty with the Army in Iraq and when he, along with all America's sons and daughters, returns home, I will be most proud that the VA is there to make good on the promises our Nation made when they joined the military.

The VA Home Loan Guaranty Program created under the GI Bill encourages the private lenders to offer favorable home loans to qualified veterans. Today, the VA has guaranteed nearly 19 million loans to American veterans with a total loan value of just over $1 trillion. Because of programs such as the VA Home Loan Guaranty Program, the homeownership for veterans is significantly higher than the national average, as high in many cases as 80 percent.

The program is most effective when it provides veterans who are unable to qualify for conventional loans with favorable loan terms. VA's strong yet flexible underwriting allows veterans the ability to purchase a home of their own without depleting their savings. More than 90 percent of the veterans utilize the zero down payment provided by VA, and their track record is absolutely fantastic. The default rate and delinquency rate for VA loans is far better than subprime, better than FHA, and yes, even better than prime loans.

Despite all the talk of skin in the game, this program shows that solid underwriting is the key to substantial homeownership. VA requires participating lenders to ensure that the loan payments are appropriate for the veteran's present and anticipated income and expenses. The VA also requires the use of manual underwriting for those veterans who might be on the margin. It is important to note that VA has never guaranteed subprime loans, never. However, as a result of the work of this Subcommittee, and the passage of the Veterans' Benefits Improvement Act of 2008, veterans have been able to refinance their distressed non-VA loans into a safe, affordable VA loan.

The VA Loan Guaranty Program is more important than ever today. As a result, the National Association of REALTORS® has stepped up its efforts to educate our members about this valuable program and last fall the National Association of REALTORS® partnered with the Veterans Affairs Department to produce "Unlocking the Future: A VA Toolkit for Realtors and Homeowners." Madam Chair, with your permission we would like to submit a copy of this toolkit into the record.

Ms. HERSETH SANDLIN. Yes, we will so enter that into the record.

[The toolkit, entitled "Unlocking the Future, a VA Toolkit for Realtors and Homeowners," is being retained in the Committee files. The toolkit may also be accessed on the National Association of REALTORS®, Web site at http://www.realtor.org/wps/wcm/connect/b5d4f2804043162b8adcff205f470b6e/VA__ToolKit__Booklet.pdf?MOD=AJPERES&CACHEID=b5d4f2804043162b8adcff205f470b6e.]

Mr. VEISSI. Thank you. This comprehensive information DVD and brochure, complete with videos and frequently asked questions, provides realtors with the information they need to successfully guide a veteran through the home loan process. [The DVD can be accessed at http://www.realtor.org/government__affairs/va__tool__kit__faq.]

As we have discussed, the Subcommittee has been instrumental in making a number of changes to the VA Home Loan Guaranty, making this program even more useful for veterans and we think there are a few other changes that could help our Nation's military families. Approximately 60 percent of the veterans live in urban areas, where the median prices of homes are often above the national average. The current loan limits, which provide loans up to 125 percent of local area median price, expire in 2011. We urge the Subcommittee to take action to make these limits permanent. Veterans in high cost areas should not be penalized for geographic differences in this housing market.

Furthermore, since military families tend to move often, an adjustable rate or hybrid ARM can be a very reasonable mortgage choice. The curtain law extended authority for the adjustable rate and hybrid ARMs through 2012. We encourage Congress to authorize these products permanently.

While we fully support VA's efforts to limit fees paid by veterans, our members report that veterans using the VA Home Loan Program have found themselves at a disadvantage when purchasing a home because sellers refused to pay pest inspections or other fees customarily paid by the buyers. In States like my home State like Florida, where a large number of veterans live, a high percentage of the sales are foreclosure or short sales. Since there is no seller to pay the fees, veterans are completely shut out of this market, and it often includes the most affordable homes. NAR believes that VA should provide borrowers with flexibility to negotiate these fees as a normal part of the home purchase transaction.

I thank the Subcommittee for this opportunity to share the views of the National Association of REALTORS® regarding veterans' housing. We strongly support housing opportunities for our Nation's veterans and active-duty military professionals, and we hope the Subcommittee will support our recommendations for enhancing and improving the VA Home Loan Guaranty so that it may be a real benefit to those who have bravely served our country.

[The prepared statement of Mr. Veissi appears on p. 42.]

Ms. HERSETH SANDLIN. Thank you very much for your testimony, Mr. Veissi. Thank you all. We are going to take a short recess. We have four votes. So we hope to return within about a half an hour. It might be a little bit longer than that, but that is our hope. Thank you.

[Recess.]

Ms. HERSETH SANDLIN. I thank our witnesses for their patience as we recess for votes. I would like to start my questions for you, Mr. Danis, and the other two witnesses in this panel can provide feedback on this question as well if you would like. In your written testimony you state that the VA Loan Program should be aligned with prudent industry standards. I was wondering if you could give us some examples, or elaborate on the standards that you believe that the VA should consider?

Mr. DANIS. Yes, ma'am. The main difference that I see is with closing cost issues. At VA, there are certain closing costs that VA will not allow the veteran to pay for in the closing process. And this is in an effort to protect the veteran, although what it does at times, depending on the situation, it can actually put the veteran at a disadvantage as far as when they are negotiating the sales contract. There are certain closing costs, like I said, that VA does not allow the veteran to pay for and the seller may not be able to, or may not be willing to pay for those closing costs. So, and I have seen this happen quite a bit, contracts or negotiations can fall through and the veteran can actually lose the property that they may be purchasing, or putting a bid on.

As far as other industry standards, I think VA needs the flexibility to be able to make programmatic changes as they come about, depending on what the market is doing. As of now, they do not have that authority or the actual flexibility to do so. And those are the main issues that I see.

Ms. HERSETH SANDLIN. Also, some of the changes you propose would make the VA loan more similar to the FHA loan. Can you speak to how the typical VA borrower may be considered versus your typical FHA borrower?

Mr. DANIS. I think those changes mainly have to do on the servicing side.

Ms. HERSETH SANDLIN. Okay.

Mr. DANIS. The reason being is FHA has on the servicing side, if there is a foreclosure for example, FHA has the ability to do a partial claim or a partial refunding. Whereas VA does not have that ability, FHA does. So those are the main differences that I see on the servicing side there. On the originations side, there really are not that many differences. Now, the various loan programs, as you know, FHA has an up front mortgage insurance and a monthly built into the payment, where VA is just the funding fee.

Ms. HERSETH SANDLIN. Okay. Mr. Veissi and Mr. Barber, do you have any comments on either of those questions?

Mr. VEISSI. The only additional comment I might have is when a vet goes into a marketplace, especially one like today, that is replete with short sales and foreclosures, that vet is at an enormous disadvantage predicated upon the fact that they cannot compete with those fees up front that were just mentioned. But more importantly, because there is no one to address that fee structure to. Those sellers are represented by asset managers or agents that represent usually a lender, who is like a second or third party down. So they are really in a hole when they deal with that kind of situation, and are unable to make those kinds of decisions.

Ms. HERSETH SANDLIN. Well, I think you just answered, in part answered the question I was going to pose to you in terms of how difficult it is for a veteran to find a lender that participates in the VA Loan Guaranty Program?

Mr. VEISSI. It is, in some areas of the country, especially where the location is, is a stronger military, has a stronger military presence than others, it is probably not quite as difficult. Nonetheless, given the standards of VA and the foreclosure rate of VA, you would think that there would be a, just a tremendous opportunity for lenders to jump into that arena. But it is not quite always that way. Part of the reason is basically the same thing, there is not a secondary marketplace for that VA loan. So that restricts as well the opportunities for them to be as much of an advantage in the lending process as a nonveteran.

Ms. HERSETH SANDLIN. Okay. And then finally, Mr. Barber, you state that the certificate of eligibility is confusing for both the lender and the veteran. In your opinion, should VA update the certificate to state what is acceptable for each veteran? Or how can we deal with a situation that may be more confusing than necessary for both parties?

Mr. BARBER. It is my understanding from talking with staff that the certificate sometimes is different in different places and different eligibilities. So it has to do with creating a consistent model nationally.

Ms. HERSETH SANDLIN. More uniform, okay. Thank you. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair. Really, to all of the panel, the Senate Financial Services Bill contains a retention of risk provision. Additionally, Senator Merkley has offered an amendment that appears to affect processing of refinanced loans. Do you all have a position on either of those provisions? And do you believe they will negatively affect VA-backed loans and VA lenders? And if so, in what ways? And I think some of you alluded to that in your testimony.

Mr. DANIS. Yes, sir. I do. The Merkley Amendment, the way it will affect VA loans, and I believe negatively it will, it has to with the VA interest rate reduction loans. This loan is a rate and term refinance, where it allows the veteran to either refinance the rate, or the term or a combination. It is not a fully documented or a fully underwritten loan as a purchase would be. The veteran is not providing income or credit documents. And the loan was designed, basically, so that a veteran could refinance their mortgage, very quickly take advantage of the market conditions, and not have to, not have to provide all of that documentation.

Now VA with an interest reduction loan is not suffering an additional risk. You are refinancing the VA to a VA mortgage. So they are not suffering any additional risk on that loan. So the Merkley Amendment in that respect would make the VA interest reduction loan a full qualifying mortgage, whereas that was not the intended purpose in the beginning of it.

Mr. BOOZMAN. This is a program that seems to be working pretty well. From your testimony, and then from listening to veterans, so many veterans that have been part of the program through the years. This seems to be something that does well. And then also when you look at the statistics of this program versus the others, again, it does indicate, too, that it is working well and doing what we want it to do.

If we made it such that instead of it being a full loan so that you can get 100 percent, if it were reduced to 95 percent, or 90 percent, or whatever, how would that affect the individual's eligibility as far as to be able to participate in the program? One of the things that we have is high ownership by veterans compared to the general population, low foreclosures, and things like that. How would that adjustment, how would that impact veterans as far as their ability to acquire the loans in the first place?

Mr. BARBER. I will just start by saying it would negatively impact them, and some percentage of veterans would not be able to make that initial step on the housing ladder.

Mr. BOOZMAN. A significant percentage?

Mr. BARBER. Some significant percentage, I would suspect.

Mr. DANIS. And——

Mr. BOOZMAN. Go ahead.

Mr. DANIS. Excuse me. I would say at least 90 percent of the loans that I originate are 100 percent loan to value mortgages. If the veteran were to, were required to put a down payment, I believe that they would not be able to qualify for those mortgages. A significant portion of them would not. So that would make housing, housing financing a lot more difficult for them.

Mr. BOOZMAN. Would you agree with that also, sir?

Mr. VEISSI. I would, and additionally that is an entitlement that those veterans believed they were going to have initially when they came back from their tours of duty and service. The success of this program is absolutely unparalleled. The numbers that you heard are unparalleled even in the prime mortgage market. The prime is probably about three-quarters of a point higher in foreclosure than the VA loan process. Even in the ARM factors, knowing that most vets are moved from place to place in a 1- to 3-year period, when most of us live in our homes for 11 or 12 years, they need those kind of advantages to be able to take an opportunity of home ownership in America today. It is just a different kind of a, a different kind of a buy-sell relationship.

Mr. DANIS. You know——

Mr. BOOZMAN. Go ahead, sir.

Mr. DANIS. I also believe because the VA's underwriting standards, as conservative and as strict as they have been, and I have been underwriting VA loans since 1993, 1996, excuse me, since 1996. And over that history, I have not seen changes, large changes, or major changes, to the underwriting standards. And I believe because of their underwriting standards that a down payment would not be required. As you can see in the past history and the performances of those loans, which the majority are 100 percent mortgages, a down payment is not going to make a major change one way or the other. It would just decrease the availability of the mortgage for the veteran.

Mr. BOOZMAN. Good, well I very much agree with you. And I just really wanted to get that, you all are our experts in that field. I really wanted to get that for the record that you felt very strongly. And I can say that in the sense that you do feel very strongly, it appears, that that would have a real negative impact to the ability of our veterans to use the program. Thank you, Madam Chair.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman. Mr. Adler.

Mr. ADLER. Thank you, Madam Chair, and thank you for holding this hearing. This actually gives me comfort. This is almost a hearing in search of a problem, because this is a program that is really working well. So I am reassured by your questions, and the good responses by this panel, Mr. Boozman's questions and the good responses by this panel, that things are going okay here. We have a very low delinquency rate, and it is partly for the reasons of that last colloquy, really good underwriting, that seems to have worked well. And as the realtors make the point, there is an understanding that there is going to be no down payment and that has not been detrimental as it certainly was with the no doc loans in a different context that have, you know, helped drag our economy down. This is a program that is really serving us well.

I am going to direct one of my questions to Mr. Barber, and maybe the other panelists, with respect to one tweak in the underwriting process regarding 180 days, sort of old documents versus 30 days. In testimony you suggested one possible change in underwriting might be to have documents be required to be a little more current than 180 days. Do you want to comment on that at all?

Mr. BARBER. Yes, again it is a consistency issue I am hearing regarding some documents required on new construction, and creating consistency in the program compared to other non-VA programs.

Mr. ADLER. From a mortgage bank's perspective, or from a realtor's perspective, do you think that would cause any serious disruption in what is generally a good program, but probably one place where it is sort of irrationally out of line with conventional underwriting process?

Mr. DANIS. As far as the 180-day time limit, like Mr. Barber said, that applies to new construction. When you get into existing homes, those underwriting time frames are less. I believe it is 120 days. You know personally, and this is just our philosophy, my personal philosophy, our document time frames are a lot less, just to make sure that we have the most available current information on those veterans.

Mr. VEISSI. I concur.

Mr. ADLER. Thank you. To followup Mr. Boozman's questions regarding risk retention, I know the House had some amendment in its bill. I think Mr. Minnick and Mr. Miller. The Senate has an amendment, and I know Mr. Merkley is talking about something on the Senate side. Are there any other things you would suggest as a compromise position that would ameliorate the anticipated negative consequences of the skin in the game, 5 percent risk retention? Maintain some of that notion, but not go quite as far as you fear?

Mr. VEISSI. You know, one of the things that we probably do not recognize has nothing to do with the lend/borrower side. It has to do with the military itself. Not only do they have a good counseling program for a vet that is going into the housing market, but there is another kind of a risk fail safe. It could be a renter, it could be a purchaser, anytime that that vet is having a problem with their loan, or their rental for that matter, that information goes right back to their commanding officer (CO). There is a difference in that kind of a loan than a loan to you and I. It does not go back to my dad or my mom, it goes back to his or her CO. And that is an enormous lever when those folks come back and say, "Hey we told you ahead of time, this is what you have to try and accomplish." So I just think it is a real solid vehicle right as it stands right now.

Mr. ADLER. Mr. Danis, I know in your written comments you were opposed to any sort of risk retention in this context, distinguishing this from other situations perhaps. Is there a compromise point that you could see short of maybe farther along than the Minnick Amendment, farther along than the Landrieu Amendment, that you think would be a compromise point that you could tolerate?

Mr. DANIS. To be honest with you, no. And as far as risk retention is concerned, we believe that fully documented, fully underwritten loans should have a zero risk carve out. The reason being, especially on the VA side, with the risk retention piece it creates a model where the independent mortgage lender, any independent mortgage lender, it becomes totally unsustainable. To be blunt, if the bill passes through the House and the Senate without a carve out, independent mortgage lenders are done. There are no ifs, ands, or buts about it, we are done. We would have to shut our doors. So we would not be able to serve our communities and we would not be able to serve the veterans and the markets that we are in. It sounds blunt, but that is the best and clearest way to put it. If there is not a carve out for fully qualified loans, whether they are VA or any other type of mortgage. FHA, Rural Housing, and Fannie, and Freddie, the independent mortgage bankers are done.

Mr. ADLER. Bankers have a different view? Same view?

Mr. BARBER. Oh, I think the VA, it should be just carved out. And if it is not, in my mind, it is kind of coming in and shooting the survivors. Right? The subprime lenders are gone, VA survived the process and the downturn very well, and it should be carved out. I mean, we have had a tremendous downturn and the VA Loan Program, it seems to me, has done very well. No reason to shoot the survivors.

Mr. ADLER. Gentlemen, thank you. And Madam Chair, I am going to stop as I started. This is a happy situation, and this Subcommittee has analyzed a lot of situations where veterans are struggling in this segment of society or that. This is one of those happy successes where government has worked to honor those that have served our country.

Ms. HERSETH SANDLIN. Well, thank you, Mr. Adler. Mr. Boozman and I feel strongly in light of the fact that the House version of the Financial Regulatory Reform Bill does provide a carve out for the VA Loan Program, that we will work with you and other Members of our Subcommittee to communicate effectively to conferees the importance of at least getting that carve out, understanding the broader points that Mr. Danis is making.

One final question for each of you, from your perspective, do you think the VA, each of you is representing national organizations where you have a lot of members who have done some very creative, innovative things as it relates to marketing products that are good for consumers. In your experience, do you think that there is anything more that the VA could be doing either for the veterans or the lenders as it relates to sort educating potential users of the VA Loan Guaranty Program?

Mr. VEISSI. Well, I think one of the things, yes, and I think one of the things that we did in conjunction with the VA was to produce this toolkit. It is not, it is not the be all, end all. But it is an attempt to try and not only educate our folks on how to deal with a very unique part of the real estate industry and the financing industry, but also to the veteran as well. When we stop doing that, we stop doing some of the things that we promised that veteran when they entered the service in the entitlement program. So I think it behooves us to continue to make sure that they understand and know the opportunities that exist for them, yes.

Ms. HERSETH SANDLIN. All right. Thank you, and I thank you for identifying the fact that this could be a partnership with other stakeholders and the VA to advance more helpful information about the program to the veterans themselves. Any other final comments from the panel? Well, I thank you all, again, for your testimony, for being with us at this hearing today, the recommendations that you have provided, your thoughtful responses to our questions. We are going to continue to work with you and your organizations to explore some of the proposals that you have submitted to the Subcommittee for consideration. Thank you very much.

Mr. VEISSI. Thank you.

Mr. DANIS. Thank you.

Ms. HERSETH SANDLIN. Joining us on our second panel is Mr. Joseph Sharpe, Director of the National Economic Commission for the American Legion; Major General David Bockel, Executive Director for the Reserve Officers Association (ROA) of the United States. General Bockel is also representing the Reserve Enlisted Association (REA) today. Also joining us is Mr. Timothy Embree, Legislative Associate for the Iraq and Afghanistan Veterans of America (IAVA). Gentlemen, welcome to the Subcommittee. We will start with Mr. Sharpe, and go ahead and begin your testimony. You are recognized for 5 minutes.

STATEMENTS OF JOSEPH C. SHARPE, JR., DIRECTOR, NATIONAL ECONOMIC COMMISSION, AMERICAN LEGION; MAJOR GENERAL DAVID R. BOCKEL, USA (RET.), EXECUTIVE DIRECTOR, RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES, AND ALSO ON BEHALF OF RESERVE ENLISTED ASSOCIATION; AND TIM S. EMBREE, LEGISLATIVE ASSOCIATE, IRAQ AND AFGHANISTAN VETERANS OF AMERICA

STATEMENT OF JOSEPH C. SHARPE, JR.

Mr. SHARPE. Good afternoon, Chair, and Ranking Member Boozman, and Members of the Subcommittee. Thank you for the opportunity to present the American Legion's view on the status of VA's Loan Guaranty Program. In the last 5 fiscal years, VA has assisted more than 947,000 veterans in obtaining home loan financing totaling almost $180 billion. In fiscal year 2009, VA guaranteed over 325,000 loans, with the average loan being over $200,000.

The American Legion has been very pleased to watch the performance of VA loans during the unprecedented downturn in the mortgage marketplace over the last 2½ years. Historically, the Mortgage Bankers Association has tracked the performance of prime, subprime, Federal Housing Administration, and VA loans using its national delinquency survey. The most recent available survey is the for the fourth quarter of 2009 and it shows that serious delinquency rates for those loan types is as follows: prime, 7 percent; subprime, over 30 percent; FHA, about 9 percent; and VA at 5 percent. The data clearly shows that VA loans are performing better than all other mortgage loan types in the marketplace. This favorable performance during a difficult economic period can likely be attributed to several factors. One, VA has continued to maintain its prudently crafted credit underwriting standards while other players in the mortgage industry compromised their standards to generate more business. Two, VA selects the appraiser that will be used for the VA loan from its list of approved appraisers, and does not allow lenders to make the selected as is typical in the rest of the mortgage industry. Three, VA has always maintained a comprehensive and aggressively administered program of assisting veterans who encounter trouble making their loan payments. And four, the fact that veterans and servicemembers are generally more responsible borrowers as a result of the maturity and discipline they developed while serving their country.

However, in 1982 Public Law 97–253 was enacted and imposed a half percent funding fee on all veterans using the loan program, with the exception of those veterans in receipt of a compensation for a service-connected disability. This was considered to be a temporary measure to help reduce the national debt. Unfortunately, this fee has been a fixture of the Home Loan Program, and even more unfortunately it has been raised numerous times by Congress since 1982. The American Legion strongly urges Congress to consider either eliminating this fee or significantly reducing it. Veterans should not have to make such a significant financial sacrifice in order to use a benefit that they have earned as a result of their service to America.

In addition, the American Legion supports that all spouses of deceased veterans gain eligibility for the VA Home Loan Program. The current eligibility for a home loan for spouses is an unmarried spouse of a veteran who died while in service or from a service-connected disability, or are from a spouse of a serviceperson missing in action, or a prisoner of war. It is unfair for a veteran spouse only to become eligible for a home loan if the veterans dies of a service-connected disability.

Finally, as the mortgage crisis continues to unfold, the VA needs to do more to promote their excellent home loan program and to encourage veterans facing housing problems to contact the VA Financial Counseling Center.

In conclusion, thank you for the opportunity to submit the American Legion's views on the status of the Home Loan Program.

[The prepared statement of Mr. Sharpe appears on p. 46.]

Ms. HERSETH SANDLIN. Thank you, Mr. Sharpe. General Bockel, you are recognized.

STATEMENT OF MAJOR GENERAL DAVID R. BOCKEL, USA (RET.)

General BOCKEL. Madam Chairwoman, Ranking Member Boozman, Members of the Subcommittee, I am Major General David Bockel. I am the Executive Director of the Reserve Officers Association and I would like to thank you for the opportunity to testify today.

One advantage of either a Guard or a Reserve veteran is that they have dual careers. They bring into the military their civilian skills. What the Reserve Officers Association and the Reserve Enlisted Association, which represents 66,000 members, can bring to this hearing is the perspective of individuals who have been in the real estate industry or perhaps in mortgage loans as well as the point of view of a veteran.

Despite the fact that the demand for Veterans Affairs Home Loan Guaranty Program has diminished over the last few years, it is not because it is a bad product but because there are more home loan choices for veterans in the marketplace. The key to any economic environment is the fact that this product provides veterans a back up plan should their options fall through. Some veterans are so content with the program they have never sought home financing from any other conventional loan source. ROA and REA would like to see changes in the funding fees to encourage subsequent use of this VA benefit.

As some 57 million Americans are eligible for the program, if anything it demonstrates that it is underutilized likely because most of these veterans are unaware of this program and their qualifications. Veterans Affairs is dependent upon the real estate and mortgage industry to get the word out. Coming myself from the advertising industry, I am personally certain that there are means other than having veterans go to the VA Web site to get that word out.

The Reserve Officers Association feels it is important to authorize this program beyond 2012 and we are appreciative that this Committee is holding a hearing early in the legislative cycle to take a look at the program. Of concern to the associations is that the National Guard and Reserve members not yet mobilized have to pay a VA funding fee that is 25 basis points higher than those serving members or veterans who earned this benefit on active duty. It is important to remember that for nearly 10 years the Guard and Reserve have performed the same missions and accepted the same risk as the active-duty force, often providing up to 40 percent of those who are deployed, and augmenting the active force so that the active members can return to their home purchased under the VA Home Loan Guaranty Program. While a quarter of a percent seems like a small amount, this fee is added to the loan amount and continues adding to its expense. On a $417,000 by a Reserve component member, the VA funding fee adds over $10,000 to the loan amount, which is nearly 12 percent higher than what the active duty member pays. Now, some would say that this is a small amount of money compared to the total amount of the loan. Yet this can affect the dollar level of the mortgage qualifications that continues to send out the message that the National Guard and Reserve members are second class warriors.

As a number of selected Reservists are also full time Active Guard and Reserve, or AGR, personnel, I would like to finish my testimony by talking about how the VA Home Loan Program needs to be more flexible for those members serving on active duty in that capacity. Losing access to the guaranty is a problem for active Guard and Reserve members who purchase a home using the VA Loan Program, but upon transfer to a new station are unable to sell the first house. They lose their eligibility for a new VA loan until the first property is sold. Should they decide to rent it in order to keep their home for a later tour or retirement, there can be challenges from the VA about renting the property if the transfer occurs too soon after the initial purchase.

Lastly, VA will only allow spouses to occupy a newly purchased house if a servicemember is deployed. ROA and REA hope this might be expanded to include parents or siblings, as some overseas members would like to own homes during their deployment but they are precluded if they are not married.

Again, I thank the Subcommittee for this opportunity to testify and stand by for your questions.

[The prepared statement of General Bockel appears on p. 48.]

Ms. HERSETH SANDLIN. Thank you very much, General Bockel. Mr. Embree, welcome back to the Subcommittee. You are recognized.

STATEMENT OF TIM S. EMBREE

Mr. EMBREE. Thank you, ma'am. Madam Chairwoman, Ranking Member, and Members of the Subcommittee, on behalf of Iraq and Afghanistan Veterans of America's 180,000 members and supporters, I would like to thank you for inviting IAVA to testify today. My name is Tim Embree. I am from St. Louis, Missouri, and I served two tours in Iraq with the United States Marine Corps Reserve. Veterans housing and homeownership is a critical issue facing Iraq and Afghanistan veterans and IAVA welcomes the opportunity to discuss the VA Loan Guaranty Program with you today.

Due to the current housing crisis, we are beginning to see some of the shortfalls of the VA Loan Guaranty Program. This popular benefit is well administered, and since 1944 the VA has made 18 million homes affordable for troops and veterans by acting as a guarantor of the mortgage loans. Tragically, during the peak of the housing bubble the number of new VA loans declined as the marketing of subprime mortgages seemed to have drawn troops and veterans away from the VA Home Loan Program. In early 2008, foreclosure rates in military towns were increasing at four times the national average. The net effect of the widespread, targeted advertising of subprime loans, and the deterrence of limits and fees of the VA loans is that veterans who might have qualified for VA-backed mortgages are now struggling with a subprime mortgage at high risk of foreclosure. This is especially unfortunate given that VA-backed home loans protect the veteran borrower from many of the risks associated with the mortgage offered to subprime borrowers.

As the mortgage crisis has expanded, one positive is that the popularity of the VA Home Loans Program has increased. The renewed interest in VA loans is good news. Veterans are better served by VA loans and we have earned our benefit. But there is much more to be done to help servicemembers and veterans to get the full benefit of the VA Loan Program.

Congress has already taken some action to improve the resources to troops and veterans facing mortgage problems. The Housing and Economic Recovery Act of 2008 raised the loan ceiling for VA home loans in some areas and gave servicemembers 9 months of protection from foreclosure after returning from a deployment. In addition, VA authority to refinance loans has been expanded. But there remains serious concerns about the structural limitations of the VA refinancing program and a lack of outreach to veterans regarding VA financial counseling.

The VA Home Loan Guaranty helps thousands of our Nation's veterans realize the dream of homeownership each year, but we must keep this program secure and ensure that it continues to meet the future needs of servicemembers, veterans, and their families. Veterans have earned their GI Bill benefits and are using this benefit to increase their value to the civilian workforce. Currently the money they receive from the VA benefits is not taken into consideration when they apply for a VA home loan. Without the benefit income on their application, veterans can look like an inferior loan candidate. Student veterans should not have to choose between taking advantage of the new GI Bill Benefit and buying a home.

Purchasing your first home is not like buying a television. There are many steps and hidden costs that can catch the potential homebuyer unaware. If we have learned anything from the recent housing crisis, it is the importance of the well informed homebuyer. The VA Loan Guaranty Program is one of the best deals out there, but it is still a complicated process. The VA should implement local home purchasing workshops to prepare veterans for the complicated process of purchasing a home as well as to promote the benefits of the VA Loan Guaranty Program. These workshops should be held at local Vet Centers. These are welcoming facilities where veterans and their families can learn about the many different programs available to them as well as meet fellow veterans facing similar situations.

Due to the current financial crisis, interest rates across the board have remained low. The limited number of VA-approved lenders makes it nearly impossible for a veteran to shop around for a better interest rate for a VA loan. This noncompetitive environment puts veterans at a great disadvantage. While interest rates are artificially low we must encourage more lending institutions to take part in this program. Many lenders are leery of the process to become an approved VA lender due to ignorance of the program and ignorance of the ease of the process to become an approved VA lender. The VA must aggressively market this program to more lenders across the country.

Although 90 percent of current VA-backed home loans were given without a down payment, the VA program has seen relatively few foreclosures compared with non-VA lenders nationwide. As lenders are becoming more risk averse the VA must preach to mortgage lenders the inviolability of the VA Loan Guaranty Program.

Our veterans have earned the VA Home Loan benefit and thousands of these veterans are ready to purchase their first home. We must update and streamline this phenomenal benefit to ensure today's and tomorrow's veterans will be able to purchase their own home.

Thank you for your time today and I look forward to answering any questions you may have.

[The prepared statement of Mr. Embree appears on p. 51.]

Ms. HERSETH SANDLIN. Well, thank you all for your thoughtful testimony. Let me just pose a question to you that I posed to the last panel. I think General Bockel you had mentioned you had been in the advertising business, and Mr. Embree you indicated the for lack of competitiveness when we do not have enough lenders participating. Do you have some ideas you prepared the Subcommittee today, or could followup on some of what might work effectively for the VA to more effectively market this program? I think, as Mr. Adler had mentioned and the conversation I was having with Mr. Boozman. I mean if it has been underutilized but yet its record is strong as it relates to what happened here, within the last 2 years, with the housing bubble and sort of the subprime lending. We did not have the same kind of problems. Mr. Veissi testified that that this program and the borrowers within this program fared better than even some of the prime borrowing that was going on. Any ideas that you can share with us today on how we might be able to market this more effectively, and have more lenders, more veterans participating? Particularly some of our National Guard and Reservists, if we can level the playing field, General, as you indicated?

General BOCKEL. Well I would like to say if we had an advertising campaign that would probably solve all of our problems. Unfortunately, we are dealing with such a small segment of the population, probably the best thing that could happen is if Department of Veterans Affairs and Department of Defense (DoD) were to collaborate to get it down through command channels to the serving soldier at the lowest level what the advantages are of all of the Veterans Affairs benefits to them, not just the Home Loan Guaranties, but GI Bill, and other things. I think that is, that really is the best way to do it, through counseling and through the command channels.

Mr. EMBREE. Yes, ma'am. I think just off the top of my head, the first two things I would really like to see to help get this program out there, one is to engage the veterans service organization (VSO) community actively. If you look at the military coalition itself, of all the members, every one of our organizations has a very active Web presence. So something as simple as reaching out to the veterans service organizations, asking them to put some sort of line, or widget, or button on their Web sites. Because what happens is, our members are the veterans that need this information. These are folks that are very active in the community that want to learn this kind of stuff. So just one, engaging the veterans service organizations. And two, using the Vet Centers. We have seen recently that Vet Centers are becoming kind of the go to shop for a lot of different things that the current veterans, or new veterans are dealing with currently. And it is not just the veterans that are using it now, we are seeing some of their spouses are actually attending the Vet Centers. So it is a really great opportunity to get information in front of not just the individual veteran, but their spouses as well.

Mr. SHARPE. Well we have always been concerned with the lack of a comprehensive Transition Assistance Program (TAP) for the Reserves and National Guard, that that is still not happening and once that takes place I think that will alleviate some of those problems.

Ms. HERSETH SANDLIN. Thank you, Mr. Sharpe. I was just asking counsel for existing TAP programs. Do you know how aggressive the information is being shared? Again, a point, a source point for people making the transition about all of the VA benefits. Mr. Boozman and I have long shared the concern about the number of active duty and National Guard and Reservists who are not going through TAP. I think that goes to the DoD, VA, the U.S. Department of Labor (DOL), collaboration making all agencies involved in getting accurate information for spouses to participate in those programs. I also think Mr. Embree you make a very good point in terms of all the potential partners that VA has out there to share information about the program with the VSO community as well as with the Vet Centers. I thank you for your responses there.

General Bockel, you had mentioned the issue of the funding fees being 25 basis points higher for National Guard and Reservists. Do you know if there has been an historic justification for this differential in terms of how the fees are calculated?

General BOCKEL. I am not aware of why that number is 25 basis points higher than a serving member. I will say this, at the rate that Guard and Reserve people are mobilized eventually it will not mean that, be that big of a deal. But we do have a significant number who will have to pay that 25 basis point penalty for being a drilling Reservist as opposed to an active component.

Ms. HERSETH SANDLIN. All right. Well, we will pursue that further. I think in light of a lot of what has been happening in the last decade we need to always look for other opportunities, as we have done with other benefits, including educational benefits and others, to again address some of these inequities that have sort of gone either unnoticed or unaddressed for a period of time.

Mr. Sharpe, have you heard of veterans having any problems with unscrupulous refinancing firms?

Mr. SHARPE. Well, we have received a number of complaints from Reservists, active duty and veterans, who are currently in foreclosure. And they have asked for assistance. And what we have done is to refer them to the VA, because it is our understanding not only does VA intervene for those servicemembers that have loans with them but they will also act on behalf of those that do not. And again, a lot of that, from what we have been told, is based on the fact that many of them have caught up in these subprime loans and the ads are supposedly very slick, and have been able to get a lot of veterans in trouble.

Ms. HERSETH SANDLIN. In addition to when you hear of a concern from one of your members, or others, that are brought to your attention, of veterans that are experiencing potential foreclosure, and need refinancing. This is a question to all of you, do you think the VA is doing enough on its own proactively to identify and help veterans at risk of becoming delinquent to be able to refinance their home loans?

Mr. SHARPE. I have been surprised how active the VA has been. I knew that they intervened for those that had VA loans, but I was not aware that they also assisted veterans who were having problems that did not have a home loan with them. And they have been very responsive. And I have not heard any follow-up complaints from veterans that have used them.

Ms. HERSETH SANDLIN. Okay. General Bockel.

General BOCKEL. The only thing I would say is that if I were a lender who had to choose between a veteran as a first time buyer, maybe not even a first time buyer, based on the delinquency numbers, I would go with that veteran before I would go to somebody who might fall into a subprime category.

Ms. HERSETH SANDLIN. Okay. Thank you. Mr. Embree.

Mr. EMBREE. From hearing from our membership, we have had kind of anecdotal evidence of folks that are struggling through these programs. But my understanding is our membership does divert these folks over to the VA for the VA counseling because it is a very robust program.

Ms. HERSETH SANDLIN. Very good. Final question, Mr. Embree, should veterans and servicemembers negotiate their own fees with the sellers instead of the VA requiring certain fees to be paid? This relates to some of the points that were made by members of the first panel.

Mr. EMBREE. I would actually like to look into that a little further for you, and if I can submit an answer to you at a later time?

[Mr. Embree provided the response in the Post-Hearing Questions and Responses for the Record, which appear on p. 64.]

Ms. HERSETH SANDLIN. Certainly. Thank you. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair. Mr. Embree, what is the source of your statement regarding the foreclosure rates in military towns? In your opinion, what is the primary reason for the high foreclosure rates?

Mr. EMBREE. Well sir, actually——

Mr. BOOZMAN. Do you remember where you got it from?

Mr. EMBREE. Actually, yes sir. I actually got that from our report that we wrote recently, in 2009, on veterans coming home. We handled homelessness as well as homeownership. There is a lot of different anecdotal evidence of why those foreclosure rates were so high at the peak. Some of it has been explained to be from the, not predatory lending, but because the subprime mortgage programs were targeted towards military families very often in a lot of these small town environments.

Mr. BOOZMAN. Mr. Sharpe, your suggestion about a limited authority to test market new loan guaranties is interesting. What types of products or services are you thinking about?

Mr. SHARPE. It was an overall recommendation from some of our membership that really admire the Home Loan Program. They do not want to see the VA tamper with it in any way, and they are more concerned with trying to keep the program as it is. And if there were any new changes that could be made they would like to really keep it limited in nature and have it really vented and have Congressional oversight.

Mr. BOOZMAN. Okay, very good. Thank you, Madam Chair.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman. Again I want to thank our witnesses on the second panel. We appreciate the service you provide to the members of your organizations, your continued service to our Nation's veterans, again, the insight you have been able to provide us as it relates to the dynamics of the housing market and their impact on your members, and your legislative proposals. So again, as with the first panel, we will look forward to working with you as we move forward and looking at acting on some of the proposals made at the Subcommittee hearing today and enhancing the current housing benefits that have worked well for our Nation's veterans. So thank you very much for joining us today.

I would now like to invite the third panel to the witness table. And as our witnesses come up we are just going to take a short one or 2-minute recess.

[Recess.]

Ms. HERSETH SANDLIN. Okay, I appreciate the indulgence of a little time between panels. Joining us on our third panel is Mr. Thomas Pamperin, Associate Deputy Under Secretary for Policy and Program Management, Veterans Benefits Administration, U.S. Department of Veterans Affairs. He is accompanied by Mr. Mike Frueh, Assistant Director for Loan Management, Loan Guaranty Service, Veterans Benefits Administration, U.S. Department of Veterans Affairs. So Mr. Pamperin, welcome to the Subcommittee. Thank you for being here. You are now recognized.

STATEMENT OF THOMAS J. PAMPERIN, ASSOCIATE DEPUTY UNDER SECRETARY FOR POLICY AND PROGRAM MANAGEMENT, VETERANS BENEFITS ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY MIKE FRUEH, ASSISTANT DIRECTOR, LOAN MANAGEMENT, LOAN GUARANTY SERVICE, VETERANS BENEFITS ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS

Mr. PAMPERIN. Thank you, Madam Chairman. Madam Chairman, Ranking Member Boozman, and Members of the Subcommittee, I appreciate the opportunity to appear here before you today to discuss the VA's Home Loan Guaranty Program.

The VA Home Loan Guaranty Program provides an important benefit to our veterans and eligible servicepersons. Since the crisis in the subprime mortgage markets became evident in the summer of 2008, the VA Home Loan Guaranty Program has been a model of stability, helping veterans and servicemembers continue to realize the dream of homeownership. Since the start of the subprime crisis the number of home loans issued by the VA Guaranty has actually increased dramatically. This increase has been attributed to three factors. First, other forms of mortgage financing are presently more difficult to obtain. Second, interest rates are at historic lows. And third, changes to the VA Home Loan Program enacted in 2008 increased the maximum guaranty amount available to individuals purchasing homes in high cost areas.

In 2009, VA guaranteed 335,000 loans, an 82 percent increase over 2008. While VA has seen an increase in both purchase and refinance loans since 2008, it has been primarily the increase in refinance loans that have driven the loan volume during this period. From 2008 to 2009, refinance loan volume increased 288 percent.

The continued stability of the VA Home Loan Guaranty Program can be attributed to several factors. First, VA's adherence to sound credit and underwriting principles prohibited the program from engaging in risky or subprime lending practices. Second, our strong lender oversight ensured that VA's mortgage industry partners complied with these policies. Additionally, VA's panel of fee appraisers, who are assigned on a rotational basis and monitored by VA, ensures that home values are reasonable in light of market conditions. VA also attributes the strength of the program to the strong sense of commitment that veterans and servicemembers demonstrate with regard to their financial obligations. And finally, VA has a robust default servicing program to oversee loan servicing efforts by private mortgage servicers, and when appropriate directly assist veterans and servicepersons in avoiding foreclosure. The servicing programs ensure that every effort is made to keep veterans and servicemembers in their homes while limiting adverse impacts when home retention is not possible.

Although foreclosures of VA loans have increased as a result of the poor economy, VA and its private partners have worked hard to ensure foreclosure as truly a last resort. Since early in the financial crisis, VA's seriously delinquency and foreclosure rate have remained the lowest of all mortgage types in the industry. According to the most recent data from the Mortgage Bankers Association National Delinquency Survey, the percent of outstanding VA loans that are considered seriously delinquent was 5.29 percent. The percent of outstanding VA loans that were in the foreclosure process was 2.63 percent. These figures compare favorably to the rates for even prime loans, which are 7.8 percent and 3.41 percent, respectively.

MBA data also illustrates that despite greater difficulties that many borrowers are experiencing in making mortgage payments, VA borrowers are more likely to reach a positive outcome. Although our total default rate, those loans 30 days or more delinquent excluding those in the process of foreclosure, has actually been slightly higher than the rate for prime loans, VA leads the field with the lowest number of seriously delinquent loans and foreclosures. This is due to VA's robust servicing, which has been very successful in helping veterans and servicemembers emerge from the default despite the state of the economy and turbulent market.

Although VA's loan volume has increased and our overall default and foreclosure situations compare favorably to others in the marketplace since the onset of the financial crisis, veterans and servicemembers have been impacted by the overall shortage of credit in the marketplace. Potential homebuyers have broadly faced stricter requirements for obtaining loans as more mortgage investors hedge against losses by establishing minimum credit scores for borrowers and by requirement of larger down payments. VA does not have the authority to prohibit lenders from imposing this extra layer of requirements. But additional lender requirements may make it more difficult for veterans and servicepersons to obtain homes.

The VA Home Loan Program provides a valuable benefit to veterans and servicemembers who want to obtain, retain, or adapt a home. We look forward to working with the Congress and our private sector partners to continue and improve our program.

Madam Chairman, this concludes my testimony and I appreciate the opportunity to be here today and look forward to your questions.

[The prepared statement of Mr. Pamperin appears on p. 65.]

Ms. HERSETH SANDLIN. Thank you, Mr. Pamperin. Well, let me first commend you, Mr. Frueh, and others of your team. Given the testimony of the prior panels, I think it is quite clear the good work that is being done to assist veterans with a program that is working quite effectively in meeting the needs in this downturn and all of the various economic pressures that are being placed on our veterans today and other families. I sensed from the witnesses in the second panel that they are feeling that the members that they are sending your way that are in trouble, underwater, need refinancing, that they are getting the attention and looking at their options through all of you and your office. I just want to focus my questions on a few of the other proposals, or some of the concerns that we are hearing about, again, just to make this work as effectively as possible. That is a concern that we have heard, that information about the program is difficult to find. That each region's Web portal is different, and the Web site suffers from frequent outages. I am interested to know if you have heard of these issues. Is the VA considering any steps to address some of these concerns? Any thoughts you have on the suggestions made by the prior panel with regard to reaching out to the VSO community, working to make sure information is readily available through the Vet Centers, you know, other information points where veterans can get more information on the program as well as encouraging more lenders to participate?

Mr. PAMPERIN. Ma'am, I will defer to Mike on the portal issue. But I will tell you that VA stood up a Benefits Assistance Service at the beginning of this month in VBA whose primary focus is on not only general outreach but focused outreach on specific demographics, on specific topics. And that they are also the people who are directly charged with oversight and ensuring that we are responsive with regard to our phone centers, and with regard to *Twitter,* and *Facebook,* and other social media. Mike, do you——

Mr. FRUEH. In regards to the Web site, I understand that there have been some outages in the last few months, and certainly over time before that there has been periods where the main VA or VBA Loan Guaranty portal has been down, where lenders communicate with VA, and different people come in to see it. We certainly take it seriously. We have it hosted at a VA site that is not under our control, under the VA auspices. So, but they are putting resources on it to address the up time, to make sure it is up when people need it to be up.

One thing that we did do several years ago to ensure consistency across all of the regional loan centers, and the offices in stations like Honolulu that administer the Loan Guaranty benefit, is to try to focus on principles that every single station can apply to veterans consistency. So any veteran no matter where they live will have the same opportunity to retain their home no matter who they talk to at VA. Because I know in the past there were several hundred people in my organization in servicing that work in these different loan centers. We wanted to make sure that they gave a consistent response to the servicers who had the relationship with the veterans, and maintain consistency with the veterans who call them directly. So we did generate a single toll free number for any veteran, whether they have a VA home loan or a non-VA home loan to call, so they can reach the nearest person in a VA regional loan center who is trained to talk to anyone no matter whether they are handling the case or another VA technician in another station is handling the case. They can access all of the information through the technology we have to hopefully provide the same solution to them.

So we are taking consistency very seriously. We do interact with VSOs on a national level. Our Acting Director, Grace Cooper, and I met with VSOs in central office last week to talk about what we do. We certainly enlist their help in spreading the word to all the different aspects, the Reservists, and the people who go to only their American Legion representative. And I know that happens at the stations as well.

Ms. HERSETH SANDLIN. Okay. So tell me a little bit more about the Benefits Assistance Service that was stood up this month. I mean, is that intended then through outreach to pursue even more aggressively some of the ideas that have been shared here today? Again, either sharing information to get more lenders to participate, to engage, further engage the VSO community on a more active basis? If outreach is sort of the key objective for standing up this service.

Mr. PAMPERIN. A core function of the Benefits Assistance Service is service organizations, and veterans, and the military. In terms of commercial partners, I believe that it would be more appropriate for the technical experts in Loan Guaranty to deal with those people.

Ms. HERSETH SANDLIN. Let us talk about the approval of the condominium loan. We are hearing some of the written testimony suggests that the approval for a loan for condominiums is more difficult. Have you heard of that concern? Is there any effort to review the process to see if we can find some consistency, or streamline, or address that concern?

Mr. FRUEH. I have not heard, other than the testimony today, of an issue with approval of condominium loans. For a veteran who is using their Home Loan Guaranty benefit to purchase a condo, it only has to belong in a condo that has general approval through FHA and VA. And we are fairly much in lock step with them, and there is not a lot of unapproved developments. Unless there is something structurally unsafe with the development in which many lenders would be on a disapprove list to lend for that particular development. So if we could get particulars we could take that for the record.

Ms. HERSETH SANDLIN. Just two final questions. Has the VA considered changes to the VA qualification from net income to gross income?

Mr. FRUEH. No, we have not made considerations to that aspect of that underwriting.

Ms. HERSETH SANDLIN. How about eliminating original signatures on certain loan documentation, with the exception of the legal closing documents, to speed up the process?

Mr. FRUEH. We are generally in agreement with the industry in adopting practices as they become standard in the industry, to the extent that it is legally permissible.

Ms. HERSETH SANDLIN. So you are open to some of the recommendations of the testimony in the first panel as it relates to making sure that you are on pace with adopting industry standards?

Mr. FRUEH. I think I would say we are open to recommendations that improve our processes and certainly make the experience better for the veteran.

Mr. PAMPERIN. But at the same time, exercising our fiduciary responsibility both to the veteran and to the taxpayer that we guarantee sound loans that have a high probability of being repaid.

Ms. HERSETH SANDLIN. Certainly. But if we are moving to a process whereby because of all of the documents that are required given regulations over time in this process, sometimes that can slow things up. And so if we are looking at legal and other liability issues, but as long as there are signatures on the closing documents, in addition to what you just described Mr. Pamperin, I mean, you are open, you do not foresee that you would ever sort of put up any barrier to particular recommendations that are industry standards given the ongoing discussions that are going on? Or the ongoing developments within the mortgage lending industry?

Mr. FRUEH. Let me give you an example. One aspect of our business is handling REO properties. An REO property is from a servicer who eventually forecloses on a loan and VA takes possession of the property. We used to send volumes of paper across the country to various custodians who control documents. We pull recorded notes from county recorders and send it somewhere else, and VA counsel will look at that, and send it to third counsel. And you have a lot of money and a lot of documents. And we have moved that to an entirely electronic process. As long as it is legally permissible as a valid and executed document, I think that we are open to adopting it as a practice. Because it will save the taxpayer money while not adding additional risk to the veteran.

Ms. HERSETH SANDLIN. Okay. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair. The House version of the Financial Service Reform Bill exempts VA guaranteed home loans from provisions that require loan originators or sellers of mortgage-based securities to assume risk retention. The Senate version exempts certain organizations but not VA. Based solely on the risk retention provisions, which one do you all prefer? In other words, are you for the risk retention language or not? Or——

Mr. PAMPERIN. I think that the President and the administration believe that certain financial reforms are essential. We can work with either one. To the extent that VA is not exempted, in our view the serviceperson or veteran would not be disadvantaged in that they would be having the same standard as every other borrower. But we would ask to be able to clarify that more in response.

Mr. BOOZMAN. I guess I would say these are earned benefits. It does not really have anything to do with every other borrower.

Mr. PAMPERIN. Yes, sir, understood.

Mr. BOOZMAN. So——

Mr. PAMPERIN. We will provide additional information.

Mr. BOOZMAN. We have heard concern that this would adversely affect the veteran and the lenders. So again, so your position right now is that you do not know? Or——

Mr. PAMPERIN. Yes, sir. What we would like to do is we would like to provide additional comment.

Mr. BOOZMAN. Okay. The Merkley Amendment—when do you think you could provide that to us? We really would like for you to go on the record. I think that is important.

Mr. PAMPERIN. Absolutely. Would, by the end of the month? Or does it have to be faster than that?

Mr. BOOZMAN. No, I mean, you know, that is, you all need to get it done as quickly as you can. I mean, that is——

Mr. PAMPERIN. Okay, sir.

Mr. BOOZMAN. That is up to you guys. But I do think it is important that you give us some direction——

Mr. PAMPERIN. Okay.

Mr. BOOZMAN [continuing]. As to what you are thinking in that regard. I have some real concerns because there seems to be concern in the lending community and the veteran community that this could adversely affect. And then again, that gives us, well like I say, I have real concerns.

The Merkley Amendment to the Senate Financial Services appears to require VA to revise its underwriting procedures for interest rate reduction loans. Those loans currently do not require a complete credit review. What is your position on the Merkley Amendment?

Mr. PAMPERIN. Sir, a refinance to a lower monthly payment seems to me to be even less risk than the risk that we had before. If we had adequate justification to make the initial loan we do not see what is to be gained by requiring a complete underwriting of an even lower monthly payment.

[The VA subsequently provided the following information:]

The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111–203, was enacted on July 21, 2010. VA did not issue a formal position on any version of the legislation while the Congress was considering such proposals. However, VA did provide technical assistance with staff of the relevant Committees, with the goal to ensure that there were no unintended consequences from the law that could lessen the benefit to Veterans of VA's Loan Guaranty Program. VA accomplished that goal.

Mr. BOOZMAN. Okay, good. Thank you very much. In regard to the other two, you said that you understood that we needed reform based on what was going on. But certainly, the VA program has nothing to do with the situation that went on.

Mr. PAMPERIN. Absolutely, sir. I completely understand the point of view, and America's veterans and servicepersons have requited themselves well in this financial crisis.

Mr. BOOZMAN. There was other testimony about the zero down versus having them put some down. Do you all, have you all thought about that? I mean, is that something that you could give us some direction on? Again, this is something that there appears to be real concern in the sense that with that then our other panel seemed to indicate that that would preclude a lot of veterans from participating.

Mr. PAMPERIN. Well over 90 percent of our loans are zero down. And I would just have two observations. One is, what exactly is the problem that people are trying to solve? It has worked well with zero down. And as I understand it, some studies that have been done show that veterans who get zero down loans have less than $5,000 in liquid cash. And if you were to require them to put that down when in fact they are not going to lose their house, then what fallback do they have if their furnace goes out, or they need a hot water heater, or things like that? It seems to me it is more prudent to allow the borrower to have some ready cash for those kinds of things that inevitably come up when you buy a house.

Mr. BOOZMAN. No, I think you make a very good point. Well, thank you. And again, do not misunderstand. As we have talked about earlier, this is a program I think that is a very good program. And it is being managed very well. And it is something that VA can be very proud of, and has had a very significant positive impact on so many veterans for so many years. So we do appreciate your hard work, and thank you Madam Chair.

Ms. HERSETH SANDLIN. Yes, and I appreciate, you know, the very thoughtful response to the last question from the Ranking Member, Mr. Pamperin. I just have a couple of other followups. You know, I think what we are trying to do here is recognize the strengths of this program, protect the program from some of the pressures coming to bear based on some of what was happening outside of the parameters of this program, but also make it work as effectively as we know it can for more veterans with maintaining, you know, the conservative underwriting standards. Sort of, again, retaining the strengths of the program but looking at some modifications just that could make it work for more veterans and not put it in any way the risk, the program, the way we saw in some other contexts outside of the VA. So let me just, a couple of quick followups, when I had asked about whether or not the VA had considered any changes to VA qualification from net income to gross income, and Mr. Frueh said no you had not, does that mean you have not considered that question at all? Or you have but you are not going to make the change because of certain ramifications that you have evaluated?

Mr. FRUEH. I am not aware that we have discussed that change at all. Because, again, net versus gross, you are still going to compare the outlay that comes out of it. So if you do, like, the Treasury's affordable modification program, you are taking gross income to get a percentage of affordable payment. If you get someone's net income you take it by a factor to get their gross income. I think that the change has never been discussed.

Ms. HERSETH SANDLIN. Okay. I understand the VA has not updated its residual income table since 1997 because the VA Home Loan Guaranty Program requires that the veteran meet residual income. Is there any plan to update this?

Mr. FRUEH. That gets continuous discussion within VA, updating the tables. And one of the thoughts around it are if we update the tables it is likely that we are going to require more income because of inflation in the last 13 years for someone to qualify for a loan. You know, our results have been very, very good. And we always point to the ability to get a lot of veterans in who can afford the payments based on our qualifications. And our foreclosure results show that we pick good people. We have criteria that allows them to be successful in their mortgage. If we were to update it one of our concerns is it may become more restrictive. It may become larger, and you have to have more income left over at the end of every month, and that may preclude some people from coming.

Ms. HERSETH SANDLIN. Okay. I appreciate that response. If it remains a topic of continuous discussion, we may want to revisit with you and have our Committee staff followup in a little bit more detail, you know, as it relates to your evaluation about the potential restrictions that that might bring to bear.

[The VA subsequently provided the following information:]

VA uses a debt-to-income ratio and a balance available for family support (aka "residual income") approach to evaluate borrowers. Residual income is defined as the amount remaining after deducting debts, obligations and monthly shelter expenses from the borrower's gross monthly income. This amount then reflects the amount remaining to cover family living expenses such as food, transportation, health care, clothing, and other living expenses. The numbers shown in the VA Lender's Handbook and VA regulations are derived from data on consumer expenditures supplied in the Bureau of Labor Statistics (BLS) Consumer Expenditures Survey (CES). VA's residual income figures are organized according to loan size, family size and mirror the CES designations for 'region' of the country.

VA continually evaluates its residual income tables in light of events in the financial markets and overall economy, and the impacts they continue to have on borrower financial health, consumer spending, and on consumer debt. At this time, however, VA does not intend to increase residual income requirements. Current residual income levels allow qualified veterans to obtain VA-guaranteed home loans. These VA loans continue to out-perform even prime loan products in terms of delinquency and foreclosure rates.

Then a final question for either of you. Based on General Bockel's testimony, are either of you aware of any historical justification for requiring a 25 basis points higher for calculation of fees for National Guard and Reservists?

Mr. PAMPERIN. I will defer to Mike as to any historical justification. I would merely point out that his statement was correct. The law has it scheduled to revert to a much lower level next year, but I suspect that that will not be, that will be changed. While I also have active duty, I am in fact a retired Reservist, I find it troublesome that Reservists would have to pay more.

Mr. FRUEH. And although there may be a historical reason for it, I am not aware of why they are different.

Ms. HERSETH SANDLIN. Well again, and again counsel and I were discussing it. You know, because of the combat tempo, a lot of our National Guard and Reservists now can, without that additional basis points, access the program. We also know that we have a number of folks who either have not yet been or will not be activated. I think it would be important to evaluate a change that appears to me to be one that we could reasonably make.

Mr. PAMPERIN. We can go back and look at when that was introduced and what the basis of that was.

Ms. HERSETH SANDLIN. I would appreciate the additional information. Well, we thank you both—Mr. Boozman, any final questions? For your testimony. We appreciate your work with VBA, your dedication to our Nation's veterans. We value your expertise on today's topic.

[The VA subsequently provided the following information:]

Public Law 102–547 established home loan requirements for members of the Reserves and National Guard. VA researched our historical documents, as well as Congressional committee notes related to the passage of the law, and did not find any information on the rationale behind the disparate funding fee rates.

Since the funding fee rates are codified in the law, VA can only provide a theory as to why Congress included a higher rate for Reservists and National Guard members. In 1992, when the law was passed, there may have been some resistance to provide equal rates because Reservists and National Guard members were typically required to participate in only one weekend drill a month and serve two weeks of active duty each year, unlike active duty servicemembers who serve daily. This difference in service has been negated by the wars in Iraq and Afghanistan and it should be noted that Reservists and National Guard members who are mobilized to active duty under Title 10, USC, and who serve at least 90 days, are generally eligible for the lower funding fee (2.15 percent versus 2.4 percent for first time users).

Ms. HERSETH SANDLIN. Before I conclude, I would like to make a few comments in recognition of Memorial Day, coming up May 31st. While this extended break is a welcome opportunity to reunite with loved ones, we must never forget the meaning of Memorial Day, which is to honor our fallen men and women who have made the ultimate sacrifice for our country. This includes the 22 fallen heroes from my State of South Dakota, who served honorably in Iraq and Afghanistan over the past decade since the operations began, and over 5,400 servicemembers from across the country. So please rest assured that Members of the Subcommittee stand united in honoring the memory of our fallen servicemembers and committed to ensuring that veterans and their families are provided adequate opportunities to live the American dream, including owning their own home after their military service.

Thank you again. The hearing stands adjourned.

[Whereupon, at 3:46 p.m., the Subcommittee was adjourned.]

A P P E N D I X

Prepared Statement of Hon. Stephanie Herseth Sandlin, Chairwoman, Subcommittee on Economic Opportunity

In the 110th Congress, this Subcommittee held a series of hearings focused on the VA's home loan program, including the specially adapted housing programs. Since then, we have been able to work in a bipartisan manner to: increase the maximum home loan guaranty amount, expand expiring adjustable rate mortgage programs, provide foreclosure prevention remedies for servicemembers and veterans, enhance specially adapted housing benefits, and require the VA to update the guidance it provides to veterans on the design and construction of specially adapted housing.

In keeping with our commitment to meet the current needs of veterans, today's hearing seeks to review housing benefits that were first provided when President Franklin Delano Roosevelt signed the Servicemember's Readjustment Act of 1944. For over 65 years, VA's home loan program has been an important benefit that has allowed thousands of veterans the opportunity to own a home.

While the overall VA-backed home loan program has proven to be successful, today we have the opportunity to address several issues of concern. Some of these concerns, such as increasing the maximum loan guarantee or expanding the adjustable rate mortgage program, were addressed in the 110th Congress and we hope to determine today if additional changes are warranted.

Also, we will hear about veterans who were attracted by non-VA backed home loans who have joined the thousands of Americans struggling to make housing payments during difficult economic times. Fortunately, a growing number of veterans continue to take full advantage of the flexible program to refinance into a VA loan, allowing them to access the unique protections available through the VA to help ensure they remain home owners. I look forward to hearing from all our panelists as we continue to improve the VA's home loan benefits.

Prepared Statement of Hon. John Boozman, Ranking Republican Member, Subcommittee on Economic Opportunity

Good afternoon.

Madam Chair, it appears that in general, the loan guaranty program is working well and I congratulate VA for its management of the program. But today I would like to address a broader issue that I will illustrate with an issue related to the loan guaranty program.

That issue is senior VA management's attempt to muzzle VA staff. At a recent staff meeting, VBA staff were told they are not allowed to speak to Congressional staff without working through the Office of Congressional and Legislative Affairs. Rightly or wrongly, VA staff informed our staffs that they could not speak directly to them and to submit even routine questions through OCLA. That policy is being interpreted as applying even to the most routine questions like how many people have signed up for the GI Bill.

This new policy, which I can only describe as short-sighted and harmful to veterans, prevents our staffs from conducting even routine day-to-day business with not only VA, but also with our constituents. Previous administrations on both sides of the aisle have tried this to some extent and it always fails because Congress and VA both need open two-way communications. Continuing that long-standing cooperative way of doing business, even when it is less than comfortable for VA, fosters a level of mutual trust that in the long run, is good for veterans' programs.

In my opinion, questions from staff that ask things like details on administrative procedure or participation or average times, etc. are a legitimate oversight function and VA employees should not be ordered not to respond directly to such requests. On the other hand for example, my staff has asked VA both directly and through

OCLA for VA's position on a "risk retention" provision in the Senate financial services. That is a request that requires the Department to make a statement of policy and OCLA should be involved. By the way, we have not gotten a reply on that matter and I hope VA explains its position today because we have been informed that such a provision may negatively impact VA-guaranteed loans in terms of higher fees or interest rates.

Finally, I ask unanimous consent to enter comments provided by Mr. Adam Sachs on the risk retention provision in S 3217 and the Merkley amendment to that bill in the record. Mr. Sachs is a former member of the VA Committee Democratic staff and is now in private practice and raises several issues with the provision and amendment.

Madame Chair, it is imperative that our staffs be able to speak directly to VA employees who run these very important programs and I look forward to a reversal of the policy. I yield back.

Adam P. Sachs
Partner, Husch Blackwell Sanders
Kansas City, MO 64112

Here is a response to your request for assistance with respect to aspects of the amendment to the Senate Bill offered by Mr. Merkley and others (that were forwarded to us last Friday afternoon). First, it describes the amendment's "ability to repay" language and its apparent impact, as drafted, on VA guaranteed IRRRL (and more generally on other VA guaranteed loans similarly "priced"). Second, it provides draft amendment language expressly to exempt VA IRRRL (and other VA guaranteed loans) from this amendment.

The Merkley amendment, in Section 1075 (Minimum Standards for Residential Mortgage Loans), in Section (b)(1) thereof, generally imposes upon creditors originating residential mortgage loans a requirement that they determine, "based on verified and documented information," that the consumer has the "reasonable ability to repay the loan." Section b(3) specifies the detailed underwriting requirements the creditor must follow in making this determination.

Section (b)(5) creates a helpful "Presumption of Ability to Repay" for certain underwritten loans, but then Section (b)(6) (Exceptions to Presumption) takes away that helpful Presumption if, among other things, the total points and fees related to the underwritten loan (calculated as described under TILA) exceeds "3 percent of the total loan amount." (More details about the effect the Merkley amendment points and fees "test" are provided, below.) Section b(7) then permits the Board further to revise the Presumption, and the Exceptions to Presumption, and establishes certain additional statutory exemptions from this ability to repayment determination requirement for certain types of loans.

So, the Merkley amendment, at its core, requires the creditor to underwrite the ability of the consumer to repay the loan. Presumptions as to that ability to repay may "come or go" depending upon certain factors described in the amendment and to be described to by the Board, but the underwriting requirement is a "constant."

Contrast that with the VA guaranteed Interest Rate Reduction Refinancing Loan (VA IRRRL), to which the Merkley amendment ability to repay language would be fully applicable as it is currently drafted.

VA IRRRL are made for the purpose of refinancing an existing Department of Veterans Affairs) (VA) loan, at a lower interest rate and always to the benefit of the veteran. A VA IRRRL does not permit cash out to the veteran; it is the refinanced loan, itself, that must and does provide the benefit, in the manner described in the statute authorizing the IRRRL program (38 U.S.C. 3710(a)(8)) and the regulations and other requirements of the VA (38 CFR 36.4807; VA Lender's Handbook, Chapter 6, Section 4-a).

The most important aspect of a VA IRRRL, however, for purposes of the "ability to repay" language of the Merkley amendment, is that, in a VA IRRRL, under VA requirements, generally "no underwriting is required." See VA Lender's Handbook. That is generally because the VA IRRRL may only be made if the veteran will benefit from it.

Accordingly, the premise of the Merkley amendment ability to repay determination requirement—that an underwritten loan may or may not enjoy a Presumption as to the ability to repay it—has no applicability to a VA IRRRL that is not and need not be underwritten in the first place. Thus, an entitlement provided by Congress through the Veteran's Committee will be eliminated through the Merkley amendment.

For that reason, it is appropriate that the exceptions in the Merkley amendment that already exists for certain types of loans (bridge loans and reverse mortgages) be expanded to include VA IRRRL as well, as follows:

Insert in Section 1075(b)(7) (Exemption) a new subsection (D) that reads:

(D) VA GUARANTEED INTEREST RATE REDUCTION LOANS.—This subsection does not apply to an interest rate reduction refinancing loan guaranteed by Department of Veterans Affairs.

With respect to the points and fees test of the Merkley amendment, that provision does not "fix" this anomaly. Even if a loan had under 3 percent total points and fees (and thus could enjoy the benefits of the Presumption), such a loan still would have to be underwritten under the Merkley amendment.

Moreover, VA IRRRL would not, as currently offered, meet the 3 percent total points and fees test, and nor may certain other VA guaranteed loans. That is because veterans obtaining VA guaranteed loans generally may be charged VA-approved reasonable and customary itemized fees and charges, plus a VA-approved 1 percent origination fee, plus reasonable discount points, plus a 0.5 percent VA funding (mortgage guaranty) fee. As a result, for a VA guaranteed loan, 1.5 percent (the sum of the VA-permitted 1 percent origination fee and the 0.5 percent VA funding fee) of the 3 percent total points and fees test of the Merkley amendment are "used up" or "consumed" before VA-permitted itemized fees and discount points are even considered.

And, with respect to VA IRRRL, in particular, as the VA expressly permits up to 2 percent in discount points to be financed or included in the VA IRRRL loan amount, the total of such VA-permitted points and fees (again even before any VA-permitted itemized fees are even considered) will almost always be above the Merkley amendment 3 percent total points and fees test, since that total would equal 3.5 percent (1 percent origination fee + 0.5 percent VA funding + 2 percent permitted financeable discount points).

In short, then, the Merkley amendment ability to repay language should have no applicability to VA IRRRL, which VA guaranteed loans already must be for the benefit of the veteran as required by the VA and which are not and need not be underwritten. Language to make VA IRRRL exempt from the ability to repay determination language of the Merkley amendment is provided above. Indeed, if the Merkley amendment, as drafted, if not changed to so exempt VA IRRRL, it would not appear that VA IRRRL would or could be offered at all.

In addition, any VA guaranteed loan with at least 1.5 percent in VA-permitted discount points also would meet the 3 percent total points and fees test of the Merkley amendment (given the 1.5 percent in origination fees and 0.5 percent in funding fees associated with such loans), even before considering VA-permitted itemized fees. Accordingly, an overall exemption in Section 1075(b)(7), for all mortgage loans guaranteed by the Secretary of Veterans Affairs (and not just for VA IRRRL), from the ability to repay determination language of the Merkley amendment, also would appear to be appropriate.

Prepared Statement of James B. Barber, Chairman and Chief Executive Officer, Acacia Federal Savings Bank, Falls Church, VA, on behalf of American Bankers Association

Chairwoman Sandlin, Ranking Member Boozman, and Members of the Subcommittee, my name is James Barber. I am Chairman and CEO of Acacia Federal Savings Bank, Falls Church, VA. Acacia Federal is a federally chartered savings bank with approximately $1.3 billion in assets. I am pleased to be here today on behalf of the American Bankers Association (ABA). The American Bankers Association represents banks of all sizes and charters and is the voice for the Nation's $13 trillion banking industry and its two million employees.

The subject of today's hearing is an important one for the millions of veterans who have taken advantage of this opportunity for homeownership. The Veterans Administration (VA) Loan Guaranty Program is unique in the mortgage lending industry, in that it allows a veteran to obtain a mortgage with no downpayment and no requirement to obtain private mortgage insurance (PMI). Maintaining the strength of this program will ensure that millions more of our servicemembers can access this valuable program.

There are two points we would like to make today:

- The VA Loan Guaranty Program is a valuable program that should be continued.
- Updates to the program may help in some situations.

I. The VA Loan Guaranty Program is Valuable and Should be Continued

There is no better demonstration of the value of a program than its use, and the VA loan guaranty program is being used. One ABA member reported ***an increase in applications through the VA program*** at the same time applications in other areas were going down. This should not be surprising, given that it is the only program on the market today that can offer 100 percent financing. There are simply no comparable conventional or FHA insured options that can offer this kind of support and opportunity.

While zero downpayment loan programs have come under increased and deserved scrutiny, anecdotal evidence shows that the VA program is working well, in large part because of particular features and circumstances that make it unique. One ABA member reported that, while increased unemployment has caused an increase in delinquency rates in its loan portfolio generally, the delinquency and foreclosure rates for its VA guaranty loans have remained lower than private market loans. Where there have been issues, the VA is uniquely prepared to address them. The VA monitors the delinquent loan servicing process through the VA loan electronic reporting interface. Although the VA only directly handles delinquent loan cases that are exceptions and require special analysis, it will perform oversight of the process to help veterans avoid foreclosure on delinquent loans and reduce losses to the government.

One might be tempted to wonder how such a program could possibly work in the current economic environment. The answer is threefold:

1. The Veterans Administration (VA)—and the banks that work with them—have clung to strict underwriting standards.
2. The VA is supportive of the program and has worked to constantly improve in support of its lenders and its borrowers.
3. The men and women who access this program have a strong commitment to meeting their financial obligations, despite economic difficulties they may encounter.

The VA Loan Guaranty Program has underwriting standards that have not varied over the years. The required documentation has never been streamlined nor have there been any stated income or stated assets options. Currently, non-VA backed product guidelines have changed and become more stringent than in times past. Ironically, they are now more in line with VA-backed products. Though a few minor changes could be made, which I will mention a little later, the current reliance on strict underwriting has certainly contributed to the success of the VA Loan Guaranty Program.

Even with the stringent underwriting requirements, from the perspective of banks in today's market, a VA loan is the easiest form of mortgage to originate, process and close. In a time when many government programs are still working to streamline and simplify, the ease of use of the VA loan guaranty is high praise. The VA is constantly working to support the Loan Guaranty Program and the lenders who participate. Just last year, a number of regional lenders participated in a conference with the VA to discuss ways the program could be enhanced. These efforts on the part of the VA are what make the program very usable.

Acacia Federal is fortunate to work with many servicemen and women in addition to veterans, because of our location near Washington, DC. We have placed these customers in many loan products, including mortgages backed by the VA guaranty. We find that the people associated with the armed forces have a strong commitment when they enter into a contract. Although these borrowers are not immune to the economic difficulties our country is facing, they are more likely to contact the bank to let us know they may be having difficulty making payments. This enables us to work with them to find solutions for their particular situation.

II. Improvements Can be Made That Will Reach More Veterans More Efficiently

Although the program is working well, there are some improvements that will help it to work better for lenders and for borrowers. Before I address these improvements, I want to encourage Congress to avoid putting global requirements on lending that would severely hamper the good work of this program. Recent legislative proposals have contemplated requiring some downpayment for any mortgage. This would be a mistake that would take away one of the main benefits of this program for our veterans—the ability to access homeownership even though the downpayment may be difficult to obtain. The risks in this program are mitigated by the strict underwriting, the good management by the VA, and the quality of the borrowers themselves. To require some downpayment for all customers is to cut off this avenue to home ownership for an otherwise qualified segment of our society that deserves an extra chance.

The VA has made an effort to improve and upgrade the program over the years. Notably, in recent years VA has modified its guides for high cost areas, a move that has had lasting implications. Our bank is located in such a region, and many qualified borrowers have been able to purchase homes because of this change. Despite these improvements, there is still more that can be done. A few ideas follow.

- *Nationwide Consistency.* The VA Loan Guaranty Program is organized by regions. Unfortunately, all regional offices do not have the same requirements, which make it difficult and more time-consuming to underwrite, especially for national lenders. One good example is the appraisal process. Certain regional offices require specific verbiage regarding septic systems. If we do not conform to the regional office requirement, a deficiency letter will be issued on that appraisal. One way to improve this situation would be to allow nationwide originators to have a single point of contact, a sort of account representative. That would ensure that an individual lender received consistent advice on the details of the program.
- *Communication Issues.* The VA has made a commitment to have information available to lenders. For example, the 1–800 customer service line actually works. Representatives that are knowledgeable and helpful are always available, and they will go out of their way to offer options and solutions. The VA also makes good information available via the Internet, although it is often difficult to find. Each region has its own Web portal, and these differ from one another. In addition, the Web sites suffer from frequent outages. Perhaps the Web sites could be centralized and the system upgraded. Also, the addition of a nationwide database that would allow both regional offices and the national office to be aware of information even down to the level of a single application.
- *Automation.* The VA has made improvements in the automation of many processes in the past few years. We encourage the VA to continue this work. One area that might benefit from automation is the assignment of a Builder ID. Many builders either are unaware of or find it difficult to obtain. When this happens, the process is so time-consuming that often customers are unable to obtain the home through that builder. Perhaps more important for banks is to automate the process for signatures. The elimination of original signatures on certain documentation—with the exception of legal closing documents—would significantly speed up the process.
- *Underwriting.* As I mentioned previously, the underwriting of VA loans has been consistent, and VA loans have experienced fewer delinquencies. However, there are some updates that could be made. One example is that the expiration date of documents on new construction VA properties is still at 180 days, while most lenders have a 30-day expiration period. These time frames should be standardized and reconciled. Another, perhaps more serious issue is that there is no formal process for managing Loan to Value (LTV) in areas where the market is declining. This is particularly dangerous for active-duty personnel who will experience permanent change of station (PCS) within 2–3 years.
- *Interest Rate Reduction Refinancing Loan.* A change has been made to Interest Rate Reduction Refinancing Loan (IRRRL) guidelines that now exclude veterans from qualifying for a refinance under this program if they have had a single late payment in the last 12 months. This is a change from previous requirements that the veteran only had to be current at the time of the refinance. This impacts many veterans that may have suffered during the recent recession but managed to get current on their payments. These veterans now cannot benefit by lowering their interest or payments under this program. Another related issue is the VA process of "no-bid" or buy-down actions. Because of a lender's risk in the "no-bid" and buy-down process, this can result in some lenders accepting IRRR (Interest Rate Reduction Refinance) applications only from their own portfolio. This can limit availability for a veteran to obtain IRRR financing.
- *Certificates of Eligibility.* Borrowers are required to obtain a certificate of eligibility to show whether and to what extent they are eligible for a VA Loan Guaranty. The entitlement requirements on Certificates of Eligibility are confusing for both veterans and lenders in certain situations. It would be beneficial for the VA to have an intuitive online calculator to determine what would be acceptable according to each veteran's profile and the county that the property

they are purchasing is located. This would eliminate concerns and confusion for both the veteran and the lender and speed up the process for veterans.

- *Condominium Loans.* The approval process for a condominium complex is a long, manual and time-consuming process for the veteran, the lender and the VA. Perhaps this could be automated through the VA's Web site to speed up the process of approval and focus on key areas of concern. Alternatively, the process could make use of a questionnaire similar to the one that Fannie Mae requires.

III. Conclusion

The banking industry appreciates the work that has been done over the years to make the VA Loan Guaranty Program a useful one for military personnel. We hope that the program will continue to offer unique opportunities to our servicemen and women. We hope to work together with Congress and the VA to make improvements so that the program can serve its customers better.

Prepared Statement of James H. Danis II, CMB, AMP, President, Residential Mortgage Corporation, Fayetteville, NC, on behalf of the Mortgage Bankers Association

Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA)[1] on the status of the U.S. Department of Veterans Affairs (VA) loan guaranty program. I am James H. Danis II, and President of Residential Mortgage in Fayetteville, North Carolina, a Certified Mortgage Banker, and MBA member.

I have been in the mortgage business for 17 years and have worked with the VA Home Loan Guaranty Program since 1993. Approximately 70 percent of the loans my company closes are VA loans. In North Carolina, loans guaranteed by VA are an important part of our market and their use is increasing. During fiscal year (FY) 2008, 13,152 VA loans were originated in our state and in fiscal year 2009, 20,548 loans were closed. On a personal note, I am a beneficiary of the VA Home Loan Guaranty Program. The homes my parents purchased to raise me and my siblings were bought with VA loans. In keeping with our family tradition, my first home was financed with a VA loan. For many reasons, I am a strong advocate of this guaranty program.

Congress established the VA Home Loan Guaranty Program, under which an eligible veteran could obtain a low-interest, 100 percent loan-to-value (LTV) mortgage loan to buy a house, in 1944. The program was one of the major innovations and an important part of the original Servicemen's Readjustment Act of 1944, commonly known as the "GI Bill." Since its inception, the objective of the program has been to assist eligible veterans and active duty servicemembers in becoming homeowners. The VA program is designed to benefit men and women because of their service to the United States, and is not intended to fulfill general economic or social objectives.

MBA has always been a staunch supporter of the VA Loan Guaranty Program and we believe it remains an important and viable program for veterans and active duty military personnel. As credit markets have tightened and loan underwriting has become stricter, finding zero-down payment mortgages has become increasingly difficult. Providing 100 percent LTV loans is a tremendous benefit to our veterans who have dedicated their lives to serving our country, and is crucial in military communities.

Through FY 2009, VA has guaranteed more than 18.7 million mortgages, totaling over $1 trillion, to purchase or construct a home, or refinance an existing home loan. Constituting 4.2 percent of all originations in 2008 (the most recent data available), VA lending is still a relatively small percentage of the overall housing market, al-

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the Nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: *www.mortgagebankers.org.*

though the number of eligible borrowers who take advantage of the benefit is steadily increasing. In FY 2008, VA loans totaled 179,648, but in 2009, that number nearly doubled to 325,673 home loans. The borrowers who use the VA program for their homeownership financing are as varied as the U.S. population. According to VA's Annual Benefits Report FY 2009, African Americans comprised 13.5 percent of VA loans, Hispanics comprised 8.2 percent, and Asians comprised 1.9 percent. The homeownership rate among veterans is astounding; according to Census data published in 2009, the veteran homeownership rate was 82 percent, compared to 67 percent for the general population.

VA guaranteed loans are made by private lenders to eligible veterans for the purchase of owner-occupied homes. These loans are comprised of both fixed- and adjustable-rate mortgages and can be used for purchase or refinance. If the loan is approved, and the veteran is eligible, VA will guaranty a portion of the loan to the lender. The basic guaranty is $36,000, although for loans that exceed $144,000, a guaranty of 25 percent of the particular county loan limit is possible. The VA loan limits are 125 percent of the area median price for a single family residence. This guaranty protects the lender against losses up to the amount guaranteed and allows a veteran to obtain favorable financing terms.

I. *VA Loan Performance*

Despite most of these borrowers not having "skin in the game," VA loans have outperformed their counterparts throughout the recent housing crisis (see chart below, based on MBA data). Although serious delinquencies have risen from 2.88 percent in the first quarter of 2008 to 5.42 percent in the fourth quarter of 2009, the VA portfolio has been able to weather the turbulent market, largely due to its historically conservative underwriting standards. VA mortgages have always been fully documented and fully underwritten loans on owner-occupied properties.

	Seriously Delinquent 4th Quarter 2009	**Foreclosure Starts 4th Quarter 2009**
VA	5.42	0.81
FHA	9.42	1.28
Subprime	30.56	3.66
Prime	7.01	0.86
U.S. Total	*9.67*	*1.20*

Although VA does not require private mortgage insurance, there is a funding fee that most borrowers finance into the loan. The fee ranges from 2.15 to 3.3 percent of the loan amount on purchases and 0.5 to 3.3 percent of the loan amount on refinances. The fee depends on the borrowers' type of military service (regular versus Reserves or National Guard) and if the borrower makes a down payment. If a borrower is refinancing to lower the rate, the fee is 0.5 percent. First time users' fees are less than subsequent users. If a borrower receives service-connected disability payments each month, then he or she is exempt from the fee. This fee is a critical part of the VA loan guaranty program; it helps the program have a negative credit subsidy and allows it to maintain funding for future generations of military families.

II. *Concerns*

Although the VA Guaranty Loan Program has had an excellent track record of providing benefits to veterans and active duty military personnel, MBA would like to recommend four ways to further improve this important program:

1. Congress should avoid mandating new risk retention requirements, which could cripple the VA loan program and harm our economic recovery.
2. VA's higher loan limits need to be extended until the housing crisis has subsided.
3. The VA loan program should be reviewed and updated to be better aligned with prudent, industry standards. VA management should have the flexibility to make programmatic changes that keep the program competitive, current, and relevant for future generations.
4. The VA loan program needs servicing enhancements to keep it effective and relevant in the marketplace today. Servicers encounter programmatic challenges unique to servicing VA loans. Changes that would simplify processes

and be cost-effective would encourage more lenders to participate in the VA program, which would directly benefit military families.

1. *Risk Retention*

One of the most harmful proposals pending in Congress is the requirement that mortgagees and securitizers retain a 5 percent (or other percentage) interest in any mortgage they originate, sell or securitize. Both the House and Senate financial regulatory reform bills would apply such a risk retention requirement to VA (and FHA) loans, despite their underlying government guaranty. In the Senate, Senators Mary Landrieu and Johnny Isakson successfully offered an amendment to S. 3217, the Restoring American Financial Stability Act, that would exempt a class of prudently underwritten (or "qualified") mortgages from these requirements. The House, meanwhile, passed an amendment offered by Representatives Walter Minnick and Gary Miller that would give federal regulators greater discretion to reduce or eliminate such risk retention requirements. While both amendments were significant improvements over the more onerous provisions in the underlying bills, MBA continues to believe that all loans insured or guaranteed by the government or sold to a government-sponsored enterprise (GSE) should be specifically exempt from the bill's risk retention mandate.

Congress should retain the Landrieu/Isakson amendment that provides an exemption for risk retention requirement for prudently underwritten mortgages with low-risk characteristics. The exemption should be expanded to include government loan programs, including VA. Such an exemption is critical to ensure the continued availability and flow of VA's program to veterans. Failure to exclude the VA and other safe and properly underwritten loans will negatively affect the housing recovery and veterans' opportunities to secure affordable home mortgages.

2. *Loan Limits*

The VA program does not impose a specific maximum limit on VA loans. Rather, these "limits" are established as a result of the maximum guaranty the VA will provide for a VA home loan in a particular location. Generally, a qualified borrower with full entitlement may borrow up to the loan limit with no downpayment. The word "limit" denotes the maximum loan amount on a zero-down VA loan.

The Veterans Benefits Improvement Act of 2008 provided, among other things, a temporary increase in the maximum guaranty for loans closed through December 31, 2011. Without this bill, borrowers living in relatively high-cost areas would have had to make a large downpayment for higher priced loans. This bill also allows borrowers to refinance 100 percent of the value of their home. Prior to this legislation, refinances were generally limited to 90 percent of the established value. MBA supports these changes and we thank this Subcommittee and Congress for supporting the extension of these loan limits, so that veterans who reside in high-cost areas can enjoy their much deserved housing benefits. We would ask that Congress consider extending these limits until the housing crisis has subsided.

3. *Alignment with Industry Origination Standards and Programmatic Flexibility*

MBA urges Congress and the VA to consider the following recommendations to ensure the competitiveness and continued success of the guaranty home loan program.

VA's standard policies are inconsistent with other industry programs in ways that add complexity and cost to the origination of VA products. These differences deter some lenders from participating in the program, thus limiting veterans' access to mortgage financing. MBA urges Congress and the VA to consider changes that would allow VA to align its policies and procedures to industry standards, thus making the program friendlier to both lenders and consumers. MBA and its members are willing and eager to work with VA staff to develop recommendations and implement changes that would increase the attractiveness of the VA program.

Closing Costs

VA should review all of its fees and charges and align them with FHA and conventional products. The closing fee policy, in particular, is complex and inconsistent with what is customary in today's mortgage industry. VA needs to simplify its policy to allow borrowers to pay reasonable and customary fees in order to make VA loans more competitive in the marketplace. Currently, VA limits the amount veterans can be charged for closing costs. Anecdotally, a common rejection of VA financing *by a veteran* is because VA will not allow certain closing costs to be paid by the veteran, when the seller is not willing to pay these costs. Although the intent is to protect the veteran, this structure ultimately puts the veteran at a disadvantage in the homebuying process and may cause these borrowers to lose bids when a seller is unwilling to pay the additional fees. Moreover, the fee itemization that VA requires is not aligned with new RESPA standards. VA should review all of its fee policies to ensure that they are current and in sync with current regulations and expectations of the market.

Appraisals

An example where greater alignment would be helpful is how appraisers are assigned to VA loans. VA does not allow mortgage companies to assign appraisers to VA cases. Appraisers are randomly assigned through The Appraisal System (TAS), which is a VA computer-generated program that randomly assigns appraisers to loan cases. This method was developed to discourage collusion among appraisers, realtor estate brokers, mortgage companies, and/or borrowers, and was quite ahead of its time. New appraisal standards (specifically dictated by the Home Valuation Code of Conduct), however, have "raised the bar" for the entire industry and now mandate procedures that limit undue influence of the appraiser and greatly minimizes the risk that the VA was trying to prevent. Standard industry practices in place today, for all loan products, control more for the highest risk transactions (high LTVs); thus, it may be unnecessary for VA to so tightly manage its appraisal process. The current VA process negatively impacts lender efficiencies and can negatively impact borrowers by increasing their costs. VA should consider reevaluating its appraisal process.

Programmatic Updating

VA qualifies veterans based on net income and not gross income, as is the case with FHA and conventional loans. VA requires that the veteran meet residual income guidelines *and* acceptable ratios; FHA and conventional loan programs do not impose residual income requirements. Residual income is the amount of net income remaining—after the deduction of debts, obligations and monthly shelter expenses—to cover other family living expenses, such as food, health care, clothing and gasoline. VA's residual income guidelines vary according to loan size, family size and geography. The VA program is the only loan program that requires the calculation of residual income.

The tables that guide lenders on acceptable residual income amounts have not been updated since 1997 and are outdated. VA should update its tables to reflect new economic realities. Some of those figures need to be adjusted up or down depending on family size.

Programmatic Flexibility

The laws and regulations governing the VA program are very prescriptive. Many changes that make the VA loan program competitive and current must be congressionally approved. For example, it was only with the enactment of the Veterans Benefits Improvement Act of 2008 that veterans were able to take advantage of the "extra" entitlement available for loans in excess of $144,000. Prior to that, refinance loans were limited to a $36,000 guaranty which meant that refinance loans in excess of $144,000 would not have the 25 percent backing typically required in the secondary market. That same law also removed the 90 percent limit on refinances, by authorizing VA to guaranty the loans up to 100 percent of the value. These changes make it easier for veterans to combine a first and second mortgage and pay off the loan. When rates came down, a veteran with a loan amount above $144,000 was not able to take advantage of the lower rates and refinance. Until the law was changed, VA was unable to permit its borrowers from reaping the benefits that the typical, non-VA borrower could enjoy.

Similarly, VA has temporary authority for adjustable rate and hybrid ARMs through 2012. MBA encourages Congress to authorize VA adjustable-rate products permanently. ARMs are especially useful loans for active duty military, since these families move often. The VA does not allow lenders to charge borrowers a prepayment penalty, and so the risk is low for the veterans if they move or choose to refinance. Programmatic flexibility within its product offerings is crucial for helping VA maintain its relevancy.

Lastly, VA introduced a very large regulation change in 2008 when it created the VA Loan Electronic Reporting Interface (VALERI) system. This reporting system was a significant improvement in VA reporting system and continues to be extremely valuable to lenders originating VA loans. VA, however, was unable to make these systems changes in a more timely and flexible manner because so much of the reporting was codified in regulation. We recommend that VA managers be given the flexibility to modify their loan programs and reporting guidelines without the need for new laws or regulation changes. This flexibility is crucial in helping VA to be relevant and competitive in a fast-changing market.

4. *Servicing VA Loans*

MBA appreciates VA's continued support of veterans through its servicing guidance. VA maintains a close relationship with veteran borrowers and serves as an effective advocate for them. The following are several features of the VA loan program that are positive for both servicers and borrowers.

Streamlined processes: Our members find, as a general rule, VA has more streamlined processes for servicing, loss mitigation and property conveyance than other loan programs. This benefits the program by creating efficiencies within key processes.

Refunding authority: The VA has the unique authority to purchase a loan from the lender in an effort to assist a borrower who is severely delinquent. When a purchase occurs, the VA takes over full service of the loan and the remaining mortgage payments. This option is not often used in part due to the servicer's preference for utilizing existing workout options, where appropriate, and retaining servicing rights, but also because of reluctance on the part of VA to purchase seriously delinquent loans from servicers. Our recommendation for partial refunding are discussed below.

MBA offers the following servicing recommendations needed to keep the loan program effective and relevant in the market place today.

- *Modernize the VA Loan Guaranty Program to Provide a Full Guaranty to Ensure the Availability and Affordability of the VA Loan Program for our Nation's Veterans*

Despite VA's lower delinquency rate, the VA's loan guaranty program is the most expensive program for lenders to administer, especially during periods of declining real estate prices. This is because a VA loan carries the highest level of credit risk exposure of any government-related loan program. The VA partial guaranty exposes servicers who administer the loans to principal losses that can range up to 50 percent or more. Conversely, the FHA program provides insurance for 100 percent of the outstanding principal amount. Under Fannie Mae and Freddie Mac programs, the GSEs purchase the loans and retain 100 percent of the principal risk associated with such ownership.

To illustrate the impact of the VA partial guaranty, when a VA loan goes through the default process, and the servicer transfers custody of the property to the VA after foreclosure sale, VA pays the servicer an amount that reflects VA's current appraised value plus the guaranty amount—which in many cases is significantly less than the amount of the veteran's indebtedness. VA requires any remaining indebtedness above the claim payment to be written off and for the servicer to waive the right to seek a deficiency judgment. This write-off results in a principal loss for the servicer that averages between $25,000 and $40,000 per instance and in many cases exceeds 50 percent of the loan amount. Our members indicate that 35 to 40 percent of all recent foreclosures on VA guaranteed loans result in a principal loss.

We believe the risk of principal loss is a major reason why the VA program is far less vibrant than other government and private programs. Not all lenders are capable of originating and servicing VA products because it is almost impossible to guard against credit losses during large cyclical economic downturns. The implications of VA principal losses discourage lender participation and result in increased costs and/or reduced availability of affordable home financing to veterans. Changes to underwriting and program requirements cannot fully compensate for the risk of default and certainly cannot do so without extremely limiting access of this important veteran benefit or destroying the very essence of the program, namely the zero percent down payment feature that our veterans have earned.

Absent modernization of the VA Loan Guaranty, lenders will be forced to react to the increased risk of principal losses and the growing cost of the program through price adjustments. While VA pricing varies, historically VA loans have priced approximately 25 basis points higher than FHA-insured loans in part to offset the risk of principal loss. In addition, purchases of Ginnie Mae servicing that include material levels of VA loans in the pools price far worse than pools with less VA servicing. Clearly, such pricing is imprecise and based on historical losses, which fail to recognize the current magnitude of the decline in home values across the country. As lenders and servicers continue to accumulate losses in this program, we believe pricing will be adversely affected and some originators and servicers will be forced to limit or discontinue VA loan production and servicing altogether. Realistic pricing adjustments and further tightening of the credit market for VA products will result in higher interest rates or costs and reduce the availability and affordability of home financing options for many veterans.

Now, more than ever, it is critical to modernize the VA Loan Guaranty program to ensure that the VA loan remains a financially relevant option and a true benefit for active duty and veteran families. The loan guaranty should be revised to eliminate the risk of principal loss to lenders so that the VA Loan Guaranty program will provide the same high-quality government backing as other government-sponsored loan programs. Such changes can be made with no disruption of VA's operations, systems, or employment base. With these recommended changes to VA's Loan Guaranty Program, the VA loan will be transformed from the least attractive loan product to the most attractive. Lenders will be encouraged to utilize the program and veterans will derive a true benefit from the VA loan program and be assured lasting access to affordable, low down payment home financing.

- *Increased Guaranty Ensures Improved Loan Modification Sustainability*

Increasing the VA guaranty will also facilitate and promote increased modification options for veterans experiencing financial hardship. VA currently allows servicers to modify loans to help delinquent borrowers retain their homes. MBA and our members support such modifications, especially given the entitlement to our veterans. Most, if not all, modifications involve some level of "capitalization" of arrearages,[2] which allows the loan to be brought current. Capitalization increases the principal balance of the loan and, unfortunately, the risk of principal loss to the servicer. We appreciate VA's current policy to increase the guaranty to reflect the increased principal amount. Such capitalizations nonetheless increase the risk of loss to the servicer by 75 percent of the arrearage (assuming a 25 percent guaranty) should the borrower re-default. In the current housing climate, these types of losses make the modification more risky to servicers. Congress should authorize higher guaranty amounts as recommended to promote and facilitate increased loan modifications for veterans.

- *Grant the VA "Partial Refunding" Authority*

MBA believes that the VA should expand its loss mitigation options to be consistent with other government programs. Specifically, the VA should be granted authority to make "partial refundings" similar to FHA's partial claim authority. A partial refunding would allow the VA to use its refunding authority without having to purchase the entire loan. The process could work similarly to FHA's partial claim in that a servicer would advance funds on behalf of a borrower in an amount necessary to reinstate a delinquent loan. The borrower, upon acceptance of the advance, would execute a promissory note and subordinate mortgage payable to the VA. Identical to the FHA program, the promissory note could carry no interest and not be due and payable until the borrower pays off the first mortgage or no longer owns the property.

A partial claim or refunding option is an attractive loss mitigation option for veterans and ensures robust usage. The borrower's delinquency is cured without the servicer having to purchase the loan out of a Ginnie Mae pool, which is often prohibitive for servicers that must bear the interest rate risk, have secondary market authority and capacity to redeliver to Ginnie Mae, and have the capital or warehouse capacity to fund the repurchases.

For the partial refunding to be successful, it is critical that VA's guaranty not be reduced by the amount of the refunded amount; otherwise the servicer suffers significant financial detriment for helping a veteran who later redefaults. A partial refunding option would eliminate a gap in VA's loss mitigation program and ensure that veteran borrowers have the same loss mitigation assistance that is available in other loan programs.

- *Enhancements to VA's Loss Mitigation Programs*

Forbearances: The VA should consider eliminating the requirement that borrowers must be 61 days delinquent in order to qualify for a special forbearance.[3] The VA should consider adopting an imminent default standard similar to FHA's. FHA defines imminent default as a "borrower that is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent him or her from making the next required

[2] Capitalization of arrearages allows the borrower to add the delinquent amount to the balance of the loan to bring it immediately current. Under current VA rules, the new principal balance is reamortized over the remaining term of the loan or the maturity date can be extended to the earliest of: (1) 360 months from the due date of the first installment required under the modification or (2) 120 months after the original maturity date. 38 CFR § 36.4815. Capitalization and reamortization benefits the borrower, who would otherwise have to cure the delinquency through a lump sum reinstatement or repay the arrearage over a shorter period of time.

[3] 38 CFR § 36.4801 (2009).

payment on the mortgage during the month that it is due."[4] The elimination of the 61-day wait time would especially assist veterans who become unemployed, have wages cut, or have other hardships such as illness or death in the family.

Modification of the Maturity Date: VA regulations currently provide that the maturity date of a modified loan cannot be extended to exceed 360 months from the due date of the first installment required under the modification or 120 months past the original maturity date, whichever comes earliest.[5] In some cases, therefore, the term cannot be extended to 30 years to improve affordability. MBA recommends that the VA remove the 120-month restriction and allow servicers to reset the maturity date to 360 months from the first modified installment. This change is consistent with current FHA policies.[6]

Capitalization of Foreclosure Fees: VA should allow foreclosure fees incurred by the borrower to be capitalized as part of a modification[7] as is permitted by FHA. Today, such foreclosure fees must be paid by the veteran prior to modification, which can create an unnecessary hardship for the veteran. FHA currently permits legal fees and related foreclosure costs related to a canceled foreclosure action to be capitalized into the loan modification or partial claim.[8]

Relocation Assistance: The VA should consider developing a "cash for keys" program that provides the borrower with funds to cover relocation expenses in connection with a compromise sale (short sale) or deed in lieu. Such programs provide the veteran borrower a graceful and organized exit from the home if he or she is unable to retain it. FHA provides such incentives for pre-foreclosure sales (short sales) and deeds-in-lieu of foreclosure.[9]

III. *Conclusion*

We thank this Subcommittee for giving MBA the opportunity to voice our appreciation and dedication to the VA Home Loan Guaranty Program. This program is invaluable to the brave men and women who have sacrificed so much for this country, and the enhancements suggested here would make it even more attractive and beneficial to veterans and their families. We look forward to working with you and the VA to help sustain the VA Home Loan Guaranty Program for many generations of veterans to come.

Prepared Statement of Moe Veissi, Broker/Owner, Veissi & Associates Inc., Miami, FL, and First Vice President, National Association of REALTORS®

Executive Summary

The National Association of REALTORS® strongly believes the Veterans Affairs home loan guarantee program, created under the GI bill, is a vital homeownership tool that provides veterans with a centralized, affordable, and accessible method of purchasing homes as a benefit for their service to our Nation. This program encourages private lenders to offer favorable home loan terms to qualified veterans. As a result, today the VA has guaranteed nearly 19 million loans to American veterans, with a total loan volume of just over one trillion dollars.

VA's strong yet flexible underwriting allows veterans the ability to purchase a home of their own without depleting their savings. More than 90 percent of veterans utilize the zero-downpayment option provided by VA. Yet, despite this, VA's 2009 fourth quarter delinquency rate is low. According to the recent delinquency survey published by the Mortgage Bankers Association, VA's delinquency rate was 7.41 percent, and the foreclosure rate was 2.46 percent. In contrast, sub-prime delinquency rates for the same period were a staggering 25.26 percent, and foreclosure rates were 15.58 percent. Even prime loans had higher rates than VA at 6.73 percent for delinquencies and 3.31 for foreclosures.[1] NAR believes that despite talk about "skin in the game" being critical to successful homeownership, this program demonstrates

[4] FHA Mortgagee Letter 2010–04 "Loss Mitigation for Imminent Default" (Jan 22, 2010).
[5] 38 CFR § 36.4815(d) (2009).
[6] FHA Mortgagee Letter 2009–35 "Loan Modifications: FHA Loss Mitigation Incentives—Update" (Sept. 23, 2009).
[7] 38 CFR § 36.4815(f) (2009).
[8] FHA Mortgagee Letter 2008–21 "FHA Loss Mitigation Program Updates" (Aug. 14, 2008).
[9] FHA Mortgagee Letter 2008–43 "Pre-Foreclosure Sale (PFS) Program—Utilizing the PFS Loss Mitigation Option to Assist Families Facing Foreclosure" (Dec. 24, 2008); FHA Mortgagee Letter 2000–05 "Loss Mitigation Program—Comprehensive Clarification of Policy and Notice of Procedural Changes" (Jan. 19, 2000).
[1] National Delinquency Survey, Mortgage Bankers Association, Q409 (March 2010).

that strong yet flexible underwriting is the key to a viable low or no downpayment loan program.

While the VA program has been successful in addressing veterans' housing needs, a number of enhancements are needed to better serve today's veterans. As a result, the NAR recommends the following enhancements to the VA Home Loan Guarantee Program:

- **Make the Current Loan Limits Permanent**
    - Sixty (60) percent of veterans live in urban areas, which are generally higher cost housing markets. We urge Congress to make the current higher VA loan limits permanent, to ensure that veterans are not penalized for geographic differences in housing market costs.
- **Permanently Authorize ARM programs**
    - ARMs can be a reasonable choice for military families who move frequently, and can anticipate promotion and salary increases. We urge Congress to permanently authorize these programs.
- **Provide Veterans With Flexibility in the Purchase Transaction**
    - VA currently limits the fees that can be paid by veterans in a home purchase transaction. This can place veterans at a disadvantage when sellers refuse—or are unable—to pay fees customarily paid by buyers. In addition, veterans are virtually excluded from purchasing distressed properties and investor owned, when there is no "seller" to pay the required fees. In today's marketplace, these distressed properties make up a significant proportion of many areas most affordable housing. We urge VA to provide additional flexibility that would allow veteran borrowers to pay a portion of fees traditionally paid by buyers when it would be in their financial interest to do so. Veterans should not be precluded from buying the most affordable home that best suits their family's needs simply because rules intended to protect them in fact penalize them.

Madam Chairwoman, Ranking Member Boozman, and Members of the Subcommittee, My name is Moe Veissi. I have been a REALTOR® for 40 years, and am broker/owner of Veissi & Associates Inc., in Miami, Florida. I have been active within the National Association of REALTOR® (NAR), holding significant positions at both the state and national levels. Since 2002, I have been the President of the Florida Association, an NAR Regional Vice President, and a member of the NAR Board of Directors. Most recently, I was elected NAR First Vice President for 2010. I am here representing 1.1 million REALTORS® working in all aspects of the real estate transaction.

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of housing opportunities for veterans. We commend the Subcommittee for its attention to issues impacting American veterans. The homeownership rate for veterans is significantly higher than the national average—as high as 80 percent. The Department of Veterans Affairs (VA) Home Loan Guarantee program deserves much of the credit.

I am also here representing American families who are making the sacrifice for our freedom. My son is on active duty with the Army in Iraq. And when he comes home, the VA will be there for him, making good on the promises our Nation made when he joined the military.

The VA Home Loan Guarantee Program

The VA home loan guarantee program, created under the GI bill, encourages private lenders to offer favorable home loan terms to qualified veterans. The VA home loan guarantee program made its first loan for a home in Washington, DC in 1944. Today, the VA has guaranteed nearly 19 million loans to American veterans, with a total loan volume of just over one trillion dollars. We believe this program is a vital homeownership tool that provides veterans with a centralized, affordable, and accessible method of purchasing homes as a benefit for their service to our Nation.

The VA home loan guarantee program is designed to provide veterans who are unable to qualify for a conventional loan with favorable loan terms. In fact, a study conducted in 2004 found the program did just that. The percentage of VA borrowers who could not qualify for a conventional loan was 82 percent for first-time homebuyers, and 78 percent for repeat borrowers. In addition, the typical VA borrower could also not qualify for an FHA loan. Sixty-one percent (61%) of VA first-time borrowers could not meet either the downpayment and/or maximum debt-to-income ratios required to obtain an FHA loan.[2] The VA program, therefore, offers unique and important benefits for helping our military families achieve the dream of homeownership—even with no downpayment.

VA's strong yet flexible underwriting allows veterans the ability to purchase a home of their own without depleting their savings. More than 90 percent of veterans utilize the zero-downpayment option provided by VA. Yet, despite this, VA's 2009 fourth quarter delinquency rate is low. According to the recent delinquency survey published by the Mortgage Bankers Association, VA's delinquency rate was 7.41 percent, and the foreclosure rate was 2.46 percent. In contrast, sub-prime delinquency rates for the same period were a staggering 25.26 percent, and foreclosure rates were 15.58 percent. Even prime loans had higher rates than VA at 6.73 percent for delinquencies and 3.31 for foreclosures.[3]

How does VA have such a successful program with zero down? VA requires participating lenders to ensure that the loan payments are appropriate for the veteran's present and anticipated income and expenses. They have solid underwriting using debt-to-income ratios and credit history. However, VA also requires the use of manual underwriting for those veterans who marginally qualify. Then, lenders must look at non-traditional factors and give veterans the benefit of the doubt when making a decision.

This program shows that accurate and proper underwriting is the key to successful low-downpayment lending programs. Despite all the talk about "skin in the game", loans with appropriate underwriting and zero down can successfully balance risk and provide sustainable homeownership.

In addition, the VA home loan program offers protections for veteran borrowers when unexpected financial difficulties occur by offering a variety of supplemental loan servicing programs to help military families avoid foreclosure. VA offers financial counseling and can serve as a conduit between the veterans and the private lender holding the loan. VA will try and negotiate repayment terms for borrowers in financial difficulty. Under some specific conditions, VA may also purchase the loan and allow the borrower to make payments directly to the VA at a reduced interest rate.

These interventions not only help the veteran retain their home, but save the VA money by avoiding the payment of a guarantee claim. Since 2000, VA has been able to help more than 144,000 veterans, active-duty members, and survivors keep their homes, at a savings to the Government of over $3.1 billion

We want to thank the Subcommittee for their help to veterans who may have been victim to the subprime loan crisis. The Veterans' Benefits Improvement Act of 2008 made changes to VA's home loan refinancing program. VA has never guaranteed subprime loans. However, as a result of the work of this Subcommittee, veterans have been able to refinance in a safe, affordable VA loan if their non-VA loan is in distress. Previously, veterans who wished to refinance their subprime or conventional mortgage were limited to 90 percent of the value. Increasing the loan-to-value ratio and raising the maximum loan amount allows more qualified veterans to refinance through VA, allowing for savings on interest costs or even potentially avoiding foreclosure. We thank the Subcommittee for their work in this area.

VA Home Loan Guarantee Outreach

The combination of mortgage market conditions and the changes provided in the Veterans' Benefits Improvement Act of 2008, have made the VA home loan guarantee program more important than ever. As a result, NAR has stepped up its efforts to educate our members about this valuable program.

Just last fall the National Association of REALTORS® partnered with the Department of Veterans Affairs to produce "Unlocking the Future", a VA Toolkit for REALTORS® and homeowners. This comprehensive informational DVD and brochure complete with videos and Frequently Asked Questions, provides REALTORS® with all the information they need to successfully guide a veterans through the home loan process. It includes information about veteran eligibility, qualifications, and all the different VA home loan programs including the 30-year fixed mortgage, Adjustable Rate Mortgages (ARMs), refinancing and foreclosure help, and even the Specially-adapted Housing Program for disabled veterans. This toolkit is available free for our members on our Web site, and has been used by thousands of REALTORS® to work with veterans in their communities.

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[2] Evaluation of VA's Home Loan Guarantee Program, Final Report. Economic Systems Inc.; ORC Macro; The Hay Group; Department of Veterans Affairs, July 2004.

[3] National Delinquency Survey, Mortgage Bankers Association, Q409 (March 2010).

Changes to the VA Home Loan Guarantee Program

As we have discussed, this Subcommittee was instrumental in making a number of changes to the VA home loan guarantee, making this program even more useful for veterans. One of these changes was an increase in the VA loan limits to help veterans wherever they live be able to purchase a home under this program.

Approximately 60 percent of veterans live in urban areas. States with the largest veteran population are California, Florida, Texas, Pennsylvania, New York and Ohio, respectively. These six states account for about 36 percent of the total veteran population. Of these, California, Florida, Pennsylvania and New York all include areas where the median prices of homes are well above the national average. The current loan limits, which provide loans up to 125 percent of local area median price, expire in 2011. We urge the Subcommittee to take action to make these limits permanent. Veterans in high costs areas should not be penalized for geographic differences in the housing market.

The law also extended authority for adjustable rate and hybrid ARMs through 2012. ARMs are especially useful loan products for active duty military. Since military families tend to move often, an ARM or hybrid ARM can be a very reasonable choice. These soldiers can purchase a home with a low interest ARM, and will likely get orders to relocate prior to the first rate adjustment. In addition, many military families can anticipate promotions and salary increases, making payments on the adjusted interest on an ARM possible. The VA does not allow lenders to charge borrowers a prepayment penalty, and so the risk is low for the veterans if they move or choose to refinance. We encourage Congress to authorize these products permanently.

VA Fee Requirements

To ensure the veterans do not have to pay excessive fees in the home purchase transaction, VA rules limit the amount veterans can be charged for closing costs and even fees like termite and other inspections. While we fully support VA's efforts to limit fees paid by veterans, our members report that veterans using the VA Home Loan Guaranty program have found themselves at a disadvantage when purchasing a home because of these rules. Some sellers have refused to accept offers from VA borrowers, due to the inability of VA buyers to pay certain customary buyer-paid fees. NAR believes that VA borrowers should be allowed to negotiate fees with sellers as a normal part of home purchase transactions.

In some purchase transactions, special certifications and inspections stemming from VA policy guidance are required by lenders. Today, these certifications and inspections involve fees that must be paid by the seller, as VA limits the fees veterans can pay in a home purchase transaction. If the seller refuses, the veteran is denied the opportunity to purchase the home of his or her choice. And, in instances where there are multiple bids, this certainly puts veterans at a disadvantage to the non-veteran purchaser.

This issue is exacerbated by the current proliferation of distressed properties on the market. On a national level, foreclosed homes and short sales make up 35 percent of all home sales today, and a number of communities have rates that are significantly higher. Veterans are virtually cut out of this market, because there is no "seller" on the other side to pay the necessary fees. These homes are often the most affordable option in many housing markets; however, because VA policy restricts the fees that veterans can pay, the veteran home loan purchaser is clearly disadvantaged from utilizing his certificate of eligibility for a VA loan to purchase a home.

We urge VA to provide veterans with the flexibility to negotiate fees, so they aren't disadvantaged when trying to buy a home.

Conclusion

I thank the Subcommittee for this opportunity to share the views of NAR regarding veterans housing. The NATIONAL ASSOCIATION OF REALTORS strongly supports housing opportunities for our Nation's veterans and active duty military professionals. It is our hope that the Subcommittee will support our recommendations for enhancing and improving the VA home loan guarantee program, so it may be a real benefit to those who have so bravely served our country.

Prepared Statement of Joseph C. Sharpe, Jr., Director, National Economic Commission, American Legion

Chair Herseth Sandlin, Ranking Member Boozman and Members of the Subcommittee.

Thank you for the opportunity to present The American Legion's views on the Status of the Loan Guaranty Program.

VA HOME LOANS

VA's Home Loan Guaranty Program has been in effect since 1944 and has afforded over 18 million veterans the opportunity to purchase a home. The home loan programs offer veterans a centralized, affordable and accessible method of purchasing homes in return for their service to this Nation. In the last five fiscal years (2005–2009), VA has assisted more than 947,000 veterans in obtaining home loan financing totaling almost $180 billion. In FY 2009, VA guaranteed 325,690 loans with the average loan being at $209,404.

The American Legion has been very pleased to watch the performance of VA loans during the unprecedented downturn in the mortgage marketplace over the last two and a half years. Historically, the Mortgage Bankers Association has tracked the performance of Prime, Subprime, Federal Housing Administration and VA loans using its National Delinquency Survey. The most recent available survey is for the 4th quarter of 2009 and it shows the serious delinquency rate for these loan types is as follows:

- Prime 7.01%
- Subprime 30.56%
- FHA 9.42%
- VA 5.42%

This data clearly shows that VA loans are performing better than all other mortgage loan types in the marketplace. This favorable performance during a difficult economic period can likely be attributed to several factors: (1) VA has continued to maintain its prudently crafted credit underwriting standards, while other players in the mortgage industry compromised their standards to generate more business; (2) VA selects the appraiser that will be used for a VA loan from its list of approved appraisers and does not allow lenders to make the selection as is typical in the rest of the mortgage industry; (3) VA has always maintained a comprehensive and aggressively administered program of assisting veterans who encounter trouble making their loan payments; and, (4) the fact that veterans and servicemembers are generally more responsible borrowers as a result of the maturity and discipline they develop while serving their country.

VA has a longstanding program of assisting veterans who encounter financial difficulty and have trouble making their mortgage payments. This program involves a partnership with the servicers of VA loans under which VA aggressively monitors the efforts of these servicers in assisting veterans with repayment plans, loan modifications and the granting of forbearance. VA often intervenes directly with the veteran to assure that he/she has the opportunity to take advantage of one of these options. When it is not possible to affect one of these options, servicers are required to consider alternatives to foreclosure, such as a deed in lieu of foreclosure or a short sale. Also, in 2008, VA finished the development of a leading edge information technology system known as the VA Loan Electronic Reporting Interface (VALERI) as well as a comprehensive change to the business processes and regulations involved in the servicing of VA loans. This has given VA an even greater opportunity to assure that veterans are given every reasonable chance to keep their homes during times of financial difficulty.

The VA loan program remains relevant and flexible in today's marketplace as it nears its 66th year of providing no down payment loans to veterans. Until the mid-1990s this program was virtually alone in the mortgage industry in offering a no down payment product. Gradually, during the 1990s and up until the mortgage crises that began around 2007–2008, many players in the industry aggressively marketed highly risky products such as payment option ARMS, interest only loans, as well as many versions of subprime loans. Some even ventured into the no down payment mortgage arena. The aggressive marketing of these products caused the VA Home Loan Program to experience a fall-off in loan origination volume as some veterans were lured away from using their VA benefit by the aggressive marketing of these products. When the "subprime crisis" was well underway in 2008, most lenders ceased offering these highly risky products. Since that time there has been a significant increase in VA loan volume as, once again, the VA program assumed the posture of being virtually the only source of no down payment loans. This resurgence is dramatically illustrated by looking at VA's diminished loan volume in Fiscal Year 2007 when it guaranteed only 133,297 loans, but followed in 2008 with 179,648 and 325,673 in 2009. It looks like VA is on track to match last year's high volume during Fiscal Year 2010.

VA presently has the statutory authority to offer a wide variety of mortgage products to veterans for the purpose of buying or refinancing a home, to include: fixed rate mortgages; adjustable rate mortgages or ARMS (both traditional and hybrid ARMS); growing equity mortgages; graduated payment mortgages; direct loans to Native American veterans; and, energy efficient mortgages. These products enable veterans to buy homes (new and existing), condominiums, manufactured homes and cooperative housing units. The American Legion believes that limiting VA to only those products for which specific statutory authority has been provided by Congress has generally been an effective process. While there have been instances over time when providing VA with authority to guarantee a new product was not accomplished in a timely manner, e.g. traditional and hybrid adjustable rate mortgages, on balance the process has worked well. As a test, Congress might wish to consider providing limited authority to the Secretary of Veterans Affairs to engage in geographically and time limited pilot programs as a means of testing a new product. This authority could include a requirement that VA report to Congress on the results. Congress could then decide whether to provide statutory authority for an ongoing program.

VA has always believed that veterans should be given every opportunity to use their earned home loan benefit. Consequently, they employ a multi-faceted approach to credit underwriting that includes the following: (1) VA uses the residual approach to underwriting in which all of the veteran's obligations (consumer credit obligations, proposed housing expense, tax obligations, etc.) are subtracted from his/her gross income to determine the net effective income available to support the veteran's family. The net effective income is compared with guidelines obtained from the Bureau of Labor Statistics on what is required to support a family of varying sizes in different parts of the country; (2) debt-to-income ratios; and, (3) credit history obtained from credit reports. VA's credit underwriting guidelines require lenders to consider all aspects of a veteran's financial situation when making the decision to approve or disapprove a loan application. At the same time, lenders are directed to not consider the guidelines to be "hard and fast" rules. Consequently, if a veteran does not meet one aspect of these guidelines, VA encourages lenders to look at the veteran's whole financial make-up to determine if there are any positive offsetting factors that would justify approving the loan.

Furthermore, VA has approved several automated underwriting systems (AUS) for use in processing veterans' loan applications. For example, VA allows lenders to use Fannie Mae's Desktop Underwriter System and Freddie Mac's Loan Prospector System. AUS's are only approved after companies incorporate VA's underwriting standards into the algorithms contained in the software and VA subsequently tests the systems to assure that the decisions rendered are consistent with VA standards. These systems have significantly decreased the time frame for obtaining a VA loan while maintaining the integrity of the underwriting process. The American Legion believes that use of these automated underwriting systems has resulted is greater willingness of lenders to participate in the VA Home Loan Program.

Currently, VA loans appear to be readily available in both high and low cost areas of the country. However, this has not always been the case. Prior to enactment of Public Law (P.L.) 108–454 in December of 2004, VA loans were sometimes difficult to obtain in high cost areas of the country because the statutory maximum guaranty was insufficient to permit all veterans in these areas to purchase the home of their choice. With the enactment of this law, Congress indexed the guaranty amount to 25 percent of the conventional conforming loan limit. Since this amount automatically adjusts every year based on the increased cost of housing, the maximum VA guaranty should always be high enough to allow veterans in high cost areas to purchase the home of their choice.

In 1982, P.L. 97–253 was enacted and imposed a ½ percent funding fee (½ percent of the loan amount) on all veterans using the loan program, with the exception of those veterans in receipt of compensation for a service connected disability. This was considered to be a temporary measure to help reduce the national debt. Unfortunately, this fee has become a fixture of the home loan program and, even more unfortunately, it has been raised numerous times by Congress since 1982. Presently, veterans using the program for the first time pay 2.15 percent of the loan amount and those using it for a second or subsequent time pay 3.3 percent. Although veterans are permitted to include the fee in the loan amount, it constitutes an added financial burden. For example, a veteran using the program for the first time obtaining a $200,000 loan will pay $4,300. For a second time user, the fee on this loan amount would be $6,600. While this is substantial in and of itself, it is even more significant when you consider the amount of interest the veteran will pay on these amounts as a 30 year mortgage is amortized. The American Legion strongly urges Congress to consider either eliminating this fee or significantly reducing it. Veterans should not have to make such a significant financial sacrifice in order to use a benefit that they have earned as a result of their service to America.

In addition, The American Legion supports that all spouses of deceased veterans gain eligibility for the VA Home Loan program. The current eligibility for a home loan for spouses is: an unremarried spouse of a veteran who died while in service or from a service-connected disability; or, are a spouse of a servicemember missing in action or a prisoner of war. It is unfair for a veteran's spouse only to become eligible for the home loan if the veteran dies of a service-connected disability. Moreover, veterans are more likely than not to be the primary income provider for the household and contribute the majority of payments to mortgages for the family. Upon death of a veteran, the mortgage payments must continue to be paid and the burden falls on the widow/widower. Many times the spouse elects to relocate to a smaller, more economical establishment that is within their means. By allowing spouses to gain eligibility, many elderly widows/widowers will be able to enter the VA Loan Program.

Finally, as the mortgage crisis continues to unfold, the VA needs to do more to promote their excellent home loan program, and to encourage veterans facing housing problems to contact a VA financial counseling center.

I would like to thank the Chair, Ranking Member and the rest of the Subcommittee for giving The American Legion the opportunity to speak on this important issue.

Prepared Statement of Major General David R. Bockel, USA (Ret.), Executive Director, Reserve Officers Association of the United States, and also on behalf of Reserve Enlisted Association

Executive Summary—recommended changes

The Reserve Officers Association and the Reserve Enlisted Association make the following recommendations:

- Make permanent Reserve Component VA Home Loan Guarantees expiring in Oct. 2012.
- Eliminate the .25 percent fee differential between Active Component and Reserve Component programs on VA Home Loan.
- Reduce the VA funding fee to a lower percentage for subsequent financing and for down payments higher than 10 percent.
- Lower the higher VA Funding Fee for repeat use by a veteran of VA Home Loan program.
- Allow occupancy by any other immediate family relatives (parents, siblings) as a substitute for personal occupancy by the veteran.
- Make it easier for serving Active and Reserve Component members to rent their homes, if they are unable to sell the property following a change of permanent duty station assignment.
- Raise the guaranty dollar levels permitting veterans to afford more home in a potentially rising real estate market; if not nationally, an audit needs to be done to enable adjustment of county guaranty levels.

Introduction

ROA and REA believe that the VA Home Loan Guaranty Program is more financially relevant in today's market place as conventional loan qualifications standards have tightened since the real estate bubble collapsed over 2 years ago. In 2009, there were about 1.3 million active home loans that used the VA's Home Loan Guaranty Program. The VA Loan Guaranty Program is one of the few remaining programs that require zero down payment with more than 90 percent of VA-guaranteed loans are made without a down payment, VA reports. It allows easier qualification for the veteran who is a first time buyer, and is assumable by the new buyer at the time of resale.

Key to any economic environment is the fact that this program provides veterans a backup plan should other options fall through. As some 57 million American's are eligible for the program, if anything, it demonstrates that it is under-utilized, likely because most of these veterans are unaware of this program. Veterans Affairs is dependent upon the Real Estate and mortgage industry to help get the word out. Certainly, there are means, other than having veterans go to the VA's Web site, to help put the word out.

The ROA and REA feel it is important to authorize this program beyond 2012, and we are appreciative that this committee is holding a hearing on this early in the legislative cycle to take a look at the program.

Advantages

The VA loan guaranty program is one of the few remaining programs that require zero down payment. Prime conventional loans may require up to a 20 percent down payment.

For Real Estate agents, having an eligible veteran for the VA Loan Guaranty Program provides more versatility to the agent, when it comes to buying a home by having an option of a conventional loan and a VA loan, which makes negotiations easier. It also provides leverage to the veterans during a period of dynamic interest change.

With a VA Loan, the veteran can have the seller pay as much as 6 percent of the borrower's closing costs, while most conventional loans will only permit the seller to pay up to 3 percent of the loan.

VA Home Loan Guarantee program has competitive interest rates.

For a first time, younger buyer, the VA loan program makes it easier to purchase a house. The VA loan program can finance up to 100 percent without requiring mortgage insurance which positively changes the calculus for loan qualification to favor the veteran. It is also easier to qualify as the VA doesn't base approvals solely on credit like many conventional lenders.

Veterans receiving VA disability benefits are exempt from the VA Funding Fee.

It helps in the selling of houses, as a VA loan is transferable to a non-veteran. The only risk to doing this is the veteran loses access to the guarantee while the mortgage remains to be paid.

The veteran has the right to prepay without penalty.

Disadvantages

Reservists pay a ¼ of a percent higher VA Funding Fee than serving members or veterans from Active Duty. (Guard or Reserve members with a DD–214 confirming active service qualify for the active rate.)

VA Funding Fees are higher if a veteran wishes to subsequently reuse the VA loan program paying a 1.15 percent higher funding fee.

In conventional loans, the higher the down payment the smaller the closing costs are, yet the VA Funding Fee remains 3.3 percent for a down payment of 10 percent or more.

For the buyer, the VA Loan program is more stringent when it comes to appraisal and building inspection requirements, so for the individual selling the house to a veteran, the requirement to make repairs make the transaction more expensive, and a VA loan takes longer to close, putting a veteran at a disadvantage in having a bid initially being accepted. These standards also create duplicate paperwork; VA documents in addition to conventional documents.

VA Loan program has stricter underwriting guidelines in terms of debt to income ratios and residual income (qualify by using net income versus gross income), yet the loan program has a very low delinquency rate, and the lowest foreclosure rate.

Lenders can only charge certain fees to veterans (lender must absorb the unallowable costs or in a purchase transaction, the seller can pay).

Mortgage brokers will try to qualify veterans in conventional loans before utilizing the VA program.

The VA offers Adjustable Rate Mortgages (ARM). While this allows for easier qualification upfront, as rates rise (1 percent per year up to 5 percent higher) veterans risk an inability to make payment. At a minimum the VA needs to provide financial counseling for those veterans selecting ARMs.

Losing access to the guaranty is also a problem for active duty members who purchase a home using the VA loan program, because upon transfer to a new station many are unable to sell the first house. They lose their eligibility for a new VA loan until the first property is sold.

Condominiums are subject to great deal of regulation/red tape, making it hard to finance condos through VA Home Loan Program.

VA Loan ceilings are determined by counties within the state with most locations being limited to $417,000. The down payment is required to close the gap. While there are exceptions, the veterans still has to qualify for the higher amount, and in many locations the program hasn't kept up with the real estate market.

The law requires that you certify that you intend to occupy the property as your home when you are applying for the loan. If an active duty member is deployed, a spouse can occupy, but the law makes no provision for occupancy by any other relatives as a substitute for personal occupancy by the veteran.

While there are no restrictions on renting out a primary residence after living in it, the VA can prove to be a little difficult when one lives in the home a very short time and then tries to rent it out. Many Active (and in some cases Reserve) members are transferred after a short duration. With some mortgage companies, one may have to submit a letter requesting permission to rent out a VA loan house.

Delinquency rates

	First Qtr 2009	Third Qtr 2009
Prime Loans	6.41 percent	6.73 percent
Subprime Loans	25.35 percent	25.26 percent
FHA loans	14.42 percent	13.57 percent
VA loans	8.06 percent	7.41 percent

Source: Mortgage Bankers Association.

Foreclosures decreased by nearly half between 2001 and 2008.

VA says its percentage of loans in foreclosure is the lowest of all measured loan types—lower even than prime loans. When a VA-guaranteed home loan becomes delinquent, VA provides supplemental servicing assistance to help cure the default. Veteran borrowers may be able to request relief pursuant to the Servicemembers Civil Relief Act (SCRA). Court permission is usually necessary to foreclose a loan that falls under the provisions of the Act.

VA's loan specialists can intervene on a veteran's behalf to help pursue home-retention options such as repayment plans, loan modifications and forbearance. Additionally, under certain circumstances, VA can refund a loan, which involves purchasing the loan from the mortgage company and modifying the terms to make a new mortgage plan more affordable.

Suggested Improvements

- In the past, some Veterans Service Organizations have recommended a repeal of the VA Funding Fee. This fee is not out of line with the mortgage market, which often includes "points" up to 3 percent of the loan amount, if not more. The VA Funding Fee also eliminates private mortgage insurance (PMI) which is required on conventional loans with less than 20 percent down. Changes that ROA and REA recommend include:
  - Parity between Active and Reserve VA Funding Fees.
  - Reduction of the VA Funding Fee secured by a down payment greater than 10 percent.
  - Reduction of the higher VA Funding Fee for subsequent use by a veteran of the VA Home Loan Guaranty program.
- VA counseling should warn about the possible risks of the Adjustable Rate Mortgage options.
- Allow occupancy by any other immediate family relatives (parents, siblings) as a substitute for personal occupancy by the veteran should members deploy.
- As eligibility is limited prior to a mortgage being paid off, make it easier for serving Active and Reserve Component members to rent their homes, if they are unable to sell the property.
- Raise the guaranty dollar levels permitting veterans to afford more home in a potentially rising real estate market; if not nationally, an audit needs to be done to enable adjustment of county guaranty levels.

Conclusion

The VA Home Loan Guaranty program has a very low delinquency rate, and the lowest foreclosure rate when compared to FHA, prime and subprime conventional loans. In addition, the program has the assurance that serving Active or Reserve members who default on any home type of mortgage will put their security clearances at risk, which can terminate careers.

Because of the success of this program, it should be continued beyond 2012, and many of the fees, underwriting standards and guarantees should be reexamined and reduced to encourage both serving members and veterans to utilize this program for both initial and subsequent home purchases.

Both ROA and REA again thank the Committee for this opportunity to testify.

FAQ

What is the VA Home Loan Guaranty Program?

VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home which must be for their own personal occupancy. The guaranty means the lender is protected against loss if you fail to repay the loan. The guaranty replaces the protection the lender normally receives by requiring a down payment allowing you to obtain favorable financing terms.

Who qualifies?

More than 57 million Americans currently qualify for a VA Home Loan. Veterans with DD–214, and serving Active, Guard and Reserve members are eligible. Reservists w/o active duty time must serve 6 years to qualify. These loans are also available for the widows or widowers who have not remarried and the spouses of the veterans and active military personnel.

How does one qualify?

It requires a VA Certificate of Eligibility. One needs to complete a VA Form 26–1880, *Request for a Certificate of Eligibility.* The process to obtain a VA Certificate of Eligibility used to take weeks through the VA to have it delivered, delaying the house buying process, but most lenders have access to the Web LGY system, allowing eligibility to be established in minutes.

What is the VA Funding Fee?

The VA funding fee is required by law and is what the VA charges to guarantee the loan. This fee is simply added to a base loan amount and is paid over the life of the loan, replacing more expensive mortgage insurance.

The active duty veteran will have to pay a 2.15 percent funding fee of the loan amount if it is a first time loan.

Type of Veteran	Down Payment	1st Time Use	Subsequent Use for Loans From 1/1/04 to 9/30/2011
Regular Military	None	2.15%	3.3%*
	5% or more (up to 10%)	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard	None	2.4%	3.3%*
	5% or more (up to 10%)	1.75%	1.75%
	10% or more	1.5%	1.5%

* If the first loan is paid off, the VA loan program can be used again, but the fee increases to 3.3 percent the next time.

Prepared Statement of Tim S. Embree, Legislative Associate, Iraq and Afghanistan Veterans of America

Madam Chairwoman, Ranking Member, and Members of the Subcommittee, on behalf of Iraq and Afghanistan Veterans of America's one hundred and eighty thousand members and supporters, I would like to thank you for inviting IAVA to testify today. My name is Tim Embree. I am from St. Louis, MO and I served two tours in Iraq with the United States Marine Corps Reserves.

Veterans housing and home ownership is a critical issue facing many Iraq and Afghanistan veterans and the "Loan Guaranty Program" is a valuable benefit that helps many veterans and their families. IAVA welcomes the opportunity to discuss this program with you.

Due to the current housing crisis, we are beginning to see some of the shortfalls of the VA Loan Guaranty Program. This popular benefit is well administered, and since 1944, the VA has made 18 million homes affordable for troops and veterans by acting as a guarantor of their mortgage loans. But the number of new VA loans has declined every year between 2004 and 2007, and "in 2006, at the peak of U.S.

subprime lending, the number of VA loans fell to barely a third of the level 2 years earlier."[i]

In 2007, over 1.3 million American homes were in foreclosure, up almost 80 percent from the year before. For military families, the foreclosure crisis is even more dire. In early 2008, foreclosure rates in military towns were increasing at four times the national average. One cause of this is lenders selling subprime mortgages had targeted military families.

Tragically, the marketing of subprime mortgages seems to have drawn troops and veterans away from the VA Home Loan Program.

Furthermore, during the height of the housing bubble, technical limitations on VA home loans made the program less beneficial to many homebuyers in expensive areas due to soaring housing prices. Until the cap was raised in mid-2008, veterans could not receive a zero or no down payment loan over the limit of $417,000. The cap was above the 2008 median home sale price, but it failed veterans looking to buy homes in the more expensive regions of the country. For instance, in San Francisco, California, the median home sale price during November 2008 was $648,000. A veteran looking to buy a home in the city by the bay could not receive a no down payment loan from the VA and would have to pay a down payment out of pocket.

Many vets were also deterred from applying for a VA loan by the funding fee, ranging from 0.5 percent for an Interest Rate Reduction Refinancing Loan to 3.3 percent for a general VA home loan.[ii]

The net effect of the widespread, targeted advertising of subprime loans and the deterrence of the limits and fees of VA loans is that veterans who may have qualified for VA-backed mortgages are now struggling with a subprime mortgage at high risk of foreclosure. This is especially unfortunate given that VA-backed home loans protect the veteran-borrower from many of the risks associated with the mortgages offered to subprime borrowers.

As the mortgage crisis has expanded, the popularity of the VA home loan program has increased. After guaranteeing only 130,000 loans in 2007, the VA guaranteed about 180,000 loans in 2008, totaling $36 million.[iii] The renewed interest in VA loans is good news; veterans are better served by VA loans and we have earned the benefits. But there is much more to be done to help servicemembers and veterans get the full benefit of the VA loan program. Congress has already taken some action to improve the resources available to troops and veterans facing mortgage problems. The Housing and Economic Recovery Act of 2008 raised the loan ceiling for VA home loans to $729,750 in some areas and gave servicemembers 9 months of protection from foreclosure after returning from a deployment.[iv] In addition, VA authority to refinance a loan has been expanded.[v] But there remain serious concerns about the structural limitations of the VA refinancing program and the lack of outreach to veterans regarding VA financial counseling.

The VA Loan Guaranty Program helps thousands of our Nation's veterans realize the dream of home ownership each year, but we must keep this program secure and ensure that it continues to meet the future needs of servicemembers, veterans and their families.

IAVA recommends the following steps to ensure that veterans have every opportunity to continue turning dreams of home ownership into a reality:

- Allow for the consideration of VA benefits (such as the GI Bill) as income for VA home loan eligibility determination;
- Develop home purchasing workshops at local Vet Centers;
- Aggressively market the VA Loan Guaranty Program to more lending institutions; and
- Reinstate the $8,000 first time homebuyer tax credit for veterans and current servicemembers.

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[i] Howley, "Foreclosures in Military Towns Surge at Four Times U.S. Rate." With the collapse of the subprime mortgage market, and the decline in house values, VA loans are again gaining popularity. Tom Philpott, "Help for Vets in Mortgage Mess," Military.com, June 5, 2008.

[ii] For more information, visit "VA Home Loans—A Quick Guide for Homebuyers and Real Estate Professionals," *www.homeloans.va.gov/vap26-91-1.htm*.

[iii] Bob Tedeschi, "VA–Backed Loans on the Rise," *New York Times,* June 29, 2008. Department of Veterans Affairs, "Enhanced VA Mortgage Options Now Available for Veterans," October 24, 2008.

[iv] Department of Veterans Affairs, "VA Raising Home Loan Ceilings in Many Areas." See also: Summary of the "Housing and Economic Recovery Act of 2008," Senate Banking Committee, *banking.senate.gov/public/_files/HousingandEconomicRecoveryActSummary.pdf*.

[v] Department of Veterans Affairs, "Enhanced VA Mortgage Options Now Available for Veterans."

VA benefits are income that we have earned

Veterans have earned their GI Bill benefits and are using this benefit to increase their value to the civilian workforce. Many veterans use the old and new GI Bills to go to school and, unlike many younger non-veteran students, veterans are ready to put down permanent roots in a community. Veterans want to begin the next chapter of their lives with a place to call home, but currently the money they receive from their VA benefits is not taken into consideration when they apply for a VA home loan. Without the benefit income on their application, veterans can look like an inferior loan candidate. Student veterans should not have to choose between taking advantage of their new GI Bill benefit and buying a home.

Buying a home is likely the most complex purchase a person will ever make

Purchasing your first home is not like buying a television. There are many steps and hidden costs that can catch the potential homebuyer unaware. If we have learned anything from the recent housing crisis, it is the importance of being a well-informed homebuyer. The VA Loan Guaranty Program is one of the best deals out there, but it is still a complicated process. The VA should implement local home purchasing workshops to prepare veterans for the complicated process of purchasing a home as well as to promote the benefits of the VA Loan Guaranty Program. These workshops should be held at the local Vet Center. These are welcoming facilities where veterans and their families can learn about the many different programs available to them, as well as meet fellow veterans in similar situations.

Great program, too few lenders

Due to the current financial crisis, interest rates across the board have remained low. As of submitting this testimony, the current fixed mortgage rate is 4.625 percent, while the VA 30-year fixed rate is 4.875 percent. The limited number of VA approved lenders makes it nearly impossible for a veteran to shop around for better interest rates for a VA loan. This noncompetitive environment puts veterans at a great disadvantage. If they want the benefits of a VA loan they need to accept a bloated interest rate. While interest rates are artificially low, we must encourage more lending institutions to take part in this program. Many lenders are leery of the process to become an approved VA lender due to ignorance of the program and ignorance of the ease of the process to become an approved VA lender.

The VA must aggressively market this program to more lenders across the country. Although 90 percent of current VA-backed home loans were given without a down payment, the VA has seen relatively few foreclosures, compared with other lenders nationwide. In the fourth quarter of 2007, the share of VA mortgages in foreclosure was only slightly higher than the share for prime borrowers; those with the highest credit scores. Even in the midst of the housing crisis, VA foreclosures in 2008 were down more than 50 percent from the same months in 2003, according to the VA. As lenders are becoming more risk adverse, the VA must preach to mortgage lenders the inviolability of the VA Loan Guaranty Program.

Veterans are leaders in their communities

Veterans of past wars have been a positive addition to our communities and our newest veterans are no different. We are the next "Greatest Generation." We are leaders and we care deeply about our neighborhoods and our neighbors. As we pass the 2 million mark of servicemembers having served in Operations Enduring and Iraqi Freedom, we have more and more veterans looking for new neighborhoods in which to begin the next chapter of their lives. Our veterans have earned the VA home loan benefit and thousands of these veterans are ready to purchase their first home. We must update and streamline this phenomenal benefit to ensure today's and tomorrow's veterans will be able to purchase their own home.

Thank you for your time and attention.

Prepared Statement of Thomas J. Pamperin, Associate Deputy Under Secretary for Policy and Program Management, Veterans Benefits Administration, U.S. Department of Veterans Affairs

Madam Chairwoman, Ranking Member Boozman, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the Department of Veterans Affairs (VA) Home Loan Guaranty Program. Accompanying me today is Mike Frueh, Assistant Director for Loan Management in VA's Loan Guaranty Service.

The VA Home Loan Guaranty Program provides an important benefit to our Veterans and eligible Servicemembers. Since the crisis in the subprime mortgage markets became evident in the summer of 2008, the VA Home Loan Guaranty Program has been a model of stability, helping Veterans to continue to realize the dream of homeownership, despite the decreasing number of opportunities in the current marketplace.

VA offers the country's largest mortgage program with a zero-downpayment option. The no-downpayment feature is a cornerstone of the VA home loan guaranty program and is critical to ensuring that Veterans and Servicemembers can secure a mortgage. Ninety percent of VA loans in fiscal year (FY) 2009 were no-downpayment mortgages. While most no- or low-downpayment mortgage options have become scarce in the market, federally guaranteed VA loans have become more attractive to banks and mortgage investors.

VA's Home Loan Guaranty Program has maintained stability for several reasons. VA's adherence to sound credit and underwriting principles prohibited the program from engaging in risky or subprime lending practices. Our strong lender oversight ensured that VA's mortgage-industry partners complied with these policies. Additionally, VA's panel of fee appraisers, who are assigned on a rotational basis and monitored by VA, ensures that home values are reasonable in light of market conditions. VA also attributes the strength of the program to the strong sense of commitment that Veterans and Servicemembers demonstrate with regard to their financial obligations. Finally, VA has a robust default-servicing program to oversee loan-servicing efforts by private mortgage servicers and, when appropriate, directly assists Veterans and Servicemembers in avoiding foreclosure. The servicing program ensures that every effort is made to keep Veterans and Servicemembers in their homes, while limiting adverse impacts when home retention is not possible.

Program Activity Since the Financial Market Crisis

The number of home loans issued with a VA guaranty has increased dramatically since the start of the subprime crisis for three main reasons: Other forms of mortgage financing are more difficult to obtain; interest rates are at historic lows; and changes to the VA home loan program enacted in 2008 increased the maximum guaranty amount available to individuals purchasing homes in high-cost areas.

Overall, in FY 2009, VA guaranteed 325,671 loans nationwide, valued at over $68 billion. That represents an 82 percent increase over FY 2008, in which VA guaranteed 179,649 mortgages valued at over $36 billion. In fiscal year 2010, the program is on track to match the volume and value of loans guaranteed in FY 2009. VA has nearly surpassed the FY 2008 loan volume already this fiscal year, guaranteeing 175,446 loans totaling approximately $36 billion through the end of April.

Increases in both purchase loans and refinance loans have driven this growth since 2008. An increase in refinancing loans primarily caused the increase in VA's overall loan volume. In FY 2008, purchase loans made up 79 percent of VA-guaranteed loans. As refinancing became more popular, purchase loans decreased to 55 percent of VA-guaranteed loans in FY 2009. Refinancing loans increased from 21 percent of all VA loans in FY 2008 to 45 percent of all VA loans in FY 2009. For the current fiscal year through May 4, 2010, 40 percent of the program's loans are refinancing loans. Historically, interest-rate-reduction refinance loans have constituted roughly 80 percent of the refinance loans, and historically low interest rates since the start of the financial crisis sparked increased activity for these loans.

Delinquency and Foreclosure Rates

Veterans and Servicemembers, like all other Americans, face serious economic difficulties. Rising unemployment and under-employment have led to lost wages and rapid depreciation of home values, making it difficult for homeowners to relocate for work or sell a home they can no longer afford. VA and its partners in the mortgage industry employ a number of servicing options to help struggling Veterans and Servicemembers. These efforts have been very successful in keeping Veterans' and Servicemembers' home loans from going into foreclosure, as demonstrated by industry data.

The Mortgage Bankers' Association (MBA) conducts a quarterly survey of approximately 44 million home loans of all types, including VA-guaranteed, Federal Housing Administration (FHA) insured, conventional market prime rate, and conventional market subprime rate mortgages. VA believes the MBA data show that the servicing efforts by VA and its private-sector partners have been extremely effective in preventing foreclosure for Veterans and Servicemembers, despite the state of the economy and a turbulent market. Table 1 included with this statement summarizes this information.

Table 1: Delinquency and Foreclosure Information (Source: Mortgage Bankers Association)

Total Delinquencies					Serious Delinquencies					Foreclosure Inventory				
	Prime	**Subprime**	**FHA**	**VA**		**Prime**	**Subprime**	**FHA**	**VA**		**Prime**	**Subprime**	**FHA**	**VA**
4Q 2008	5.06%	21.88%	13.73%	7.52%	4Q 2008	3.74%	23.11%	6.98%	4.12%	4Q 2008	1.88%	13.71%	2.43%	1.66%
1Q 2009	6.06%	24.95%	13.84%	8.21%	1Q 2009	4.70%	24.88%	7.37%	4.42%	1Q 2009	2.49%	14.34%	2.76%	1.93%
2Q 2009	6.41%	25.35%	14.42%	8.06%	2Q 2009	5.44%	26.52%	7.78%	4.69%	2Q 2009	3.00%	15.05%	2.98%	2.07%
3Q 2009	6.84%	26.42%	14.36%	8.08%	3Q 2009	6.26%	28.68%	8.67%	5.06%	3Q 2009	3.20%	15.35%	3.32%	2.29%
4Q 2009	6.73%	25.26%	13.57%	7.41%	4Q 2009	7.01%	30.56%	9.42%	5.42%	4Q 2009	3.31%	15.58%	3.57%	2.46%

According to the MBA data, in the fourth quarter of FY 2009, the percentage of outstanding VA loans that were in the foreclosure process was 2.46 percent. This was the lowest in the industry. In comparison, for the entire population, the foreclosure inventory was 3.31 percent for prime mortgages and 15.58 percent for the sub-prime mortgages.

VA's rate of serious delinquency (those loans 90 or more days delinquent, or in the process of foreclosure) was also lower than any other type of loan according to the MBA data. VA's serious delinquency rate was 5.42 percent in the fourth quarter of 2009, while serious delinquency rates were 7.01 percent for prime mortgages and 30.56 percent for sub-prime mortgages.

Although our total default rate (those loans 30 or more days delinquent, excluding those in the process of foreclosure) has actually been slightly higher than the prime rate, VA leads the field with the lowest numbers of seriously delinquent loans and foreclosures. This illustrates that despite greater payment difficulties, VA borrowers are more likely to reach a positive outcome due to VA's robust servicing policy. VA is proud that our policies with respect to mortgage servicing, loss mitigation options, and alternatives to foreclosures have been very successful in helping Veterans and Servicemembers emerge from default, even though they face the same financial difficulties as all Americans.

Effects of the Slower Economy

Although VA's Home Loan Guaranty Program continues to provide an important benefit to Veterans and Servicemembers, the slower economy has had its effects on the program. As previously described, the VA-guaranteed loan volume has risen over the past 2 years because of more stringent credit standards and the constrained state of credit in the mortgage market, which make other types of financing more difficult to obtain. Since the financial crisis began, the VA home loan program has enabled lenders to finance loans for Veteran borrowers who may not otherwise have been able to purchase a home due to these market conditions.

Veterans and Servicemembers have had fewer opportunities for homeownership due to overall market conditions. Potential home-buyers have faced stricter requirements for obtaining loans as more mortgage investors hedge against losses by establishing minimum credit scores for borrowers and requiring larger downpayments.

VA has received anecdotal evidence and reports from industry partners that stricter requirements are being imposed on their VA loans as well. For example, although VA does not require that borrowers have a minimum credit score to qualify for a VA-guaranteed home loan, many lenders have instituted such a requirement as part of their own underwriting policies. Some lenders have also considered requiring a downpayment on VA loans to help protect them from loan losses beyond the VA guaranty. VA does not have the authority to prohibit lenders from imposing this extra layer of requirements, but additional lender requirements may make it more difficult for Veterans to obtain homes.

Like many other Americans, Veterans and Servicemembers who already own homes have been affected by financial problems. Although VA loans continue to outperform all other types of mortgages in avoiding serious delinquency and foreclosure, trouble in the broader economy has led to a slight rise in these numbers. Serious delinquencies have risen steadily from 4.12 percent in the fourth quarter of FY 2008 to 5.42 percent in the fourth quarter of FY 2009. The inventory of loans in foreclosure has risen as well, from 1.66 percent in the fourth quarter of FY 2008 to 2.46 percent in the fourth quarter of FY 2009.

Private-sector VA home loan partners, including banks and mortgage servicing companies, are the first source of assistance for a borrower in trouble, and under VA loan program guidelines, these partners are required to pursue all realistic alternatives to foreclosure. These alternatives include extended payment plans, forbearance, loan modifications, short sales, and deeds in lieu of foreclosure. VA instituted an incentives program to ensure that servicers explore these options before considering foreclosure. VA also reviews each loan that is referred for foreclosure and attempts to contact the borrower directly to provide financial counseling and assistance in developing repayment plans with the private servicers if needed. These efforts protect the American taxpayer by avoiding claim payments on loans that can avoid foreclosure. In FY 2009, VA helped nearly 72 percent of those who defaulted on their VA mortgages, or over 38,000 families, avoid foreclosure.

VA adopted measures to provide greater assistance to struggling homeowners in the midst of the financial crisis. VA's Home Affordable Modification Program (VA HAMP) went into effect in February 2010. VA HAMP is part of the President's Home Affordable Modification Program (HAMP) to make home ownership affordable, or when that is not possible, to mitigate losses. Under HAMP, the servicer may offer the borrower a modification of the mortgage terms to make the payments manageable. If the servicer is not willing to offer the borrower a HAMP modification that could make the loan affordable, VA will consider whether it is in the Government's best interest to purchase the loan from the bank or mortgage servicer and offer terms that are more favorable to the homeowner. VA HAMP has seen very little activity in the past few months as servicers continue to ramp up their special review processes to address loans that cannot be helped through traditional loss-mitigation options.

Although foreclosures of VA loans increased as a result of the poor economy, VA and its private-industry partners have worked hard to ensure foreclosure is truly the last resort.

Conclusion

We look forward to working with Congress to improve our service. The VA Home Loan Guaranty Program provides a valuable benefit to Veterans and Servicemembers who want to obtain, retain, or adapt a home. VA plans to continue to provide world-class service by focusing on prevention of foreclosures. We aim to bolster our relationships with our private-sector partners that help fulfill our mission through training and outreach to lenders.

Madam Chairwoman, this concludes my testimony. I appreciate the opportunity to be here today, and I look forward to answering the Subcommittee's questions.

MATERIAL SUBMITTED FOR THE RECORD

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 24, 2010

Mr. James B. Barber
Chairman and Chief Executive Officer
Acacia Federal Savings Bank, Falls Church, VA
American Bankers Association
1120 Connecticut Ave., NW
Washington, DC 20036

Dear Mr. Barber:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *The Status of the Loan Guaranty Program* on May 20, 2010. Please answer the enclosed hearing questions by no later than Tuesday, July 6, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all Full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

House Committee on Veterans Affairs, Hearing in the Subcommittee on Economic Opportunity, "The Status of the Loan Guaranty Program", May 20, 2010, Responses to Questions for James Barber, Chairman and CEO, Acacia Federal Savings Bank, On Behalf of the American Bankers Association

Question 1: What is your view of the Senate Banking Committee seeking to require a mortgage securitizer "to retain 5 percent of the credit risk for any asset that is transferred, sold, or conveyed through the issuance of an asset-backed security by the securitizer?" (Note: House provided a specific exemption for VA loans to the credit risk requirement.)

Response: Our principle concern with regard to this type of requirement is that it not hamper the good work of this program. Legislation that would make a global requirement for down payments would be a mistake that would take away one of the main benefits for our veterans—the ability to access homeownership even though the down payment may be difficult to obtain.

Because our military servicemembers are required to relocate every couple of years, they lose the opportunity to build equity in their property. VA loans are designed to allow servicemembers to own a home even absent significant equity accumulation. The lack of a down payment and a requirement to obtain private mortgage insurance is a big benefit. A 5 percent mortgage secuitizer for VA loans would take away the main benefit of the program and would make it difficult for servicemembers to own their home.

Question 2: Can you provide this Subcommittee a list of items that lack nationwide consistency and the rationale for needing uniformity?

Response: The appraisal process is one important item. Certain regional offices require specific verbiage regarding septic systems. If we do not conform to the regional office requirement, a deficiency letter will be issued on that appraisal. Another item is appraisal deficiencies. Regional offices have different viewpoints. For example, one regional VA loan center sent a deficiency letter because the appraiser did not attach the sales contract to the appraisal. When asked about the source of the deficiency, the VA regional office sent a copy of a policy announcement that was a newsletter to the appraiser but not sent to lenders.

Question 3: Can you elaborate on your point of having a nationwide database and the benefits of such a database?

Response: The addition of a nationwide database would allow both regional offices and the national office to be aware of information even down to the level of a single application. This would help to eliminate inconsistencies between regional offices.

Question 4: What would be the ramifications if VA were to eliminate the original signatures on certain loan documentation?

Response: It would be a process improvement to eliminate the requirement for a wet signature on sales contracts and documents that the lender signs. There are very few risks to eliminating the requirement for a wet signature on these types of documents.

Question 5: On average how much of a cost does a private mortgage insurance premium add to a loan?

Response: Private mortgage insurance typically costs between 0.78 percent to 0.98 percent for the monthly MI premium. The fee range is given for high LTV's over 90 percent with satisfactory to excellent credit scores.

Question 6: How much time would be saved by the elimination of signatures on certain loan documents?

Response: Most lenders today use some form of paperless process. When a wet signature is required, the user has to key the document for print, go to the printer, sign the document and fax it back to the paperless server, so this process would be significantly streamlined.

Question 7: You state that in the VA process of "no bid" or buy down actions, that due to the lender's risk, a lender may seek to accept applications from their own portfolio. Can you give us an example of a "no bid" or buy down action, the risk for the lender and the rational why a lender may focus on their own portfolio?

Response: It becomes a pricing issue. Bankers are more apt to do Interest Rate Reduction Refinance to retain loans from our own portfolio. Banks don't want to lose loans to another institution because of rate.

Question 8: Can you submit to the Subcommittee your ideas on improving the condominium loan process?

Response: The current approval process to purchase a condominium is manual and time-consuming for the veteran, the lender and the VA. The main issue about the VA condo process is the legal review/attorney certification. VA's legal form is very long (16 pages). Although lenders have the option to submit without that form, that requires the VA to do their own review which does slow down the process. Our recommendation is to streamline the legal review as FNMA did. In addition the VA Condo/Builder Web site could be updated to include more details such as phases and to impose expiration dates on the approved condos.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 24, 2010

Mr. James H. Danis II, CMB, AMP
President, Residential Mortgage Corporation, Fayetteville, NC
Mortgage Bankers Association
1331 L Street, NW
Washington, DC 20005

Dear Mr. Danis:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *The Status of the Loan Guaranty Program* on May 20, 2010. Please answer the enclosed hearing questions by no later than Tuesday, July 6, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record from the House Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Hearing on *The Status of the Loan Guaranty Program*

Question 1: Can you provide examples of the way the VA Loan Guaranty Program should be reviewed and updated to be aligned with industry standards?

Response: As stated in MBA's written testimony, there are several examples of how the VA program could be updated and aligned with industry standards.

i. Closing costs: VA should review all of its fees and charges and align them with FHA and conventional products. The closing fee policy, in particular, is complex and inconsistent with what is customary in today's mortgage industry. VA needs to simplify its policy to allow borrowers to pay reasonable and customary fees in order to make VA loans more competitive in the marketplace.

ii. Residual tables: The tables that guide lenders on acceptable residual income amounts have not been updated since 1997 and are outdated. VA should update its tables to reflect new economic realities. Some of those figures need to be adjusted up or down depending on family size.

iii. Adjustable rate and hybrid ARMs: ARMs are especially useful loans for active duty military, since these families move often; however, VA only has temporary authority for adjustable rate and hybrid ARMs through 2012. MBA encourages Congress to authorize VA adjustable-rate products permanently.

iv. Full guaranty: The VA partial guaranty exposes servicers who administer the loans to principal losses that can range up to 50 percent or more. The FHA program provides insurance for 100 percent of the outstanding principal amount, while under the Fannie Mae and Freddie Mac programs the GSEs purchase the loans and retain 100 percent of the principal risk associated with such ownership. We believe the risk of principal loss is a major reason why the VA program is far less vibrant than other government and private programs.

v. Partial refundings: The VA should be granted authority to make "partial refundings" similar to FHA's partial claim authority. A partial refunding would allow the VA to use its refunding authority without having to purchase the entire loan. For the partial refunding to be successful, it is critical that VA's guaranty not be reduced by the amount of the refunded amount; otherwise the servicer suffers significant financial detriment for helping a veteran who later redefaults.

vi. Forbearance: The VA should consider eliminating the requirement that borrowers must be 61 days delinquent in order to qualify for a special forbearance.

vii. Modification of the maturity date: VA regulations currently provide that the maturity date of a modified loan cannot be extended to exceed 360 months from the due date of the first installment required under the modification or 120 months past the original maturity date, whichever comes earliest. MBA recommends that the VA remove the 120-month restriction and allow servicers to reset the maturity date to 360 months from the first modified installment, which would make its policy consistent with current FHA policies.

viii. Capitalization of foreclosure fees: VA should allow foreclosure fees incurred by the borrower to be capitalized as part of a modification as is permitted by FHA. FHA currently permits legal fees and related foreclosure costs related to a canceled foreclosure action to be capitalized into the loan modification or partial claim.

Question 2: In your opinion, should there be anything done to help veterans who are underwater to refinance?

Response: The current VA Interest Rate Reduction Refinancing Loan (IRRL) does not require an appraisal to refinance. The borrower is allowed to refinance the payoff of the home and roll in all closing cost and include up to two discount points to buy the rate down. As long as the borrower is current, being underwater does not affect the borrowers' ability to refinance. Veterans are not able to take full advantage of this program, however, because many investors require appraisals, thus making it difficult for lenders to originate these loans.

Question 3: Your fourth recommendation is that the VA loan program needs servicing enhancements. How can the loan process be better simplified?

Response: Our suggestions for making servicing enhancements are outlined above in our response to question number one.

Question 4: In your testimony you ask that the VA loan be modified to eliminate risk of principal loss to lenders. How does the VA loan currently compare to other loans regarding the risk of principal to lenders?

Response: As stated in our testimony, VA provides only a partial guaranty. Below is a chart showing the amount of the guaranty.

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to $45,000	50% of the loan amount.	Minimum guaranty of 25% on IRRRLs.
$45,001 to $56,250	$22,500	Minimum guaranty of 25% on IRRRLs.
$56,251 to $144,000	40% of the loan amount, with a maximum of $36,000	Minimum guaranty of 25% on IRRRLs.
$144,001 to $417,000	25% of the loan amount	Minimum guaranty of 25% on IRRRLs.
Greater than $417,000	The lesser of: 25% of the VA county loan limit, or • 25% of the loan amount	Minimum guaranty of 25% on IRRRLs

However, most VA loans originated today carry a guaranty of 25 percent of the loan balance. This means that if a $150,000 loan goes into default, the guaranty is $37,500. A foreclosure loss of more than $37,500 is borne by the servicer.

On the other hand, if an FHA loan with the same balance experiences a loss greater than $37,500, the servicer does not bear any principal loss. This is because FHA provides 100 percent insurance for the principal balance.

Likewise, with Fannie Mae and Freddie Mac, the servicer does not absorb any principal losses. This is due to the GSEs' loan purchase and securitization structure, whereby the GSEs or their securitization trusts own the underlying assets and bear the risk (of loss) of such ownership. The GSE's however protect themselves against principal loss by purchasing private mortgage insurance. The servicer, however, does not bear this principal loss risk.

Question 5: If VA were to review and consider changes to the process on how appraisers are selected, what changes should the VA consider?

Response: VA should consider reevaluating its appraisal process and allow lenders to manage the appraisal process, similar to how they manage the process for conventional or FHA loans. Currently, VA does not allow mortgage companies to assign appraisers to VA cases. Appraisers are randomly assigned through The Appraisal System (TAS), which is a VA computer-generated program that randomly assigns appraisers to loan cases. This method was developed to discourage collusion among appraisers, realtor estate brokers, mortgage companies, and/or borrowers, and was quite ahead of its time. New appraisal standards (specifically dictated by the Home Valuation Code of Conduct), however, have "raised the bar" for the entire industry and now mandate procedures that limit undue influence of the appraiser and greatly minimizes the risk that the VA was trying to prevent. Standard industry practices in place today, for all loan products, control more for the highest risk transactions (high LTVs); thus, it may be unnecessary for VA to so tightly manage its appraisal process.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 24, 2010

Mr. Maurice Veissi
Broker/Owner, Veissi & Associates Inc., Miami, FL
First Vice President
National Association of REALTORS®
500 New Jersey Avenue, NW
Washington, DC 20001

Dear Mr. Veissi:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *The Status of the Loan Guaranty Program* on May 20, 2010. Please answer the enclosed hearing questions by no later than Tuesday, July 6, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Response of the National Association of REALTORS® on Questions for the Record from the House Committee on Veterans' Affairs Subcommittee on Economic Opportunity

Question 1: Do you have any concern that if a veteran buys a property in a "as is" condition they will have no recourse if it is worse than originally perceived and be stuck with no home and a big bill?

Response: The National Association of REALTORS® believes in sustainable homeownership. We are not suggesting that veterans should not elect to have a home inspection or any other inspections that they so chose. However, we believe veterans should have the same choices as purchasers using conventional or FHA financing. Currently VA mandates a number of inspections and certifications that are not required in conventional financing or with an FHA loan. VA rules require the seller to pay for this inspection, and in many cases, the seller will refuse. This leaves the veteran with no alternative but to walk away from that home.

Similar to FHA, VA Appraisers are trained to look for health and safety issues, and can require certain repairs to be completed prior to a loan closing. We have no objection to this, and feel this insures homes meet minimum standards. However, REALTORS® also encourage all buyers to get a home inspection. We believe veterans should be on a level playing field with other buyers and provided the ability to choose which inspections they want when buying a home. Similarly, those repairs that are above and beyond conventional requirements should be negotiated between the buyer and seller, as is done with all other types of transactions.

Question 2: Should any of the VA loan guaranty program requirements or qualifications for veterans be changed?

Response: We believe the program is working well, and do not propose any changes to qualifications. However, we believe the rules dictating fees should be changed to provide veterans with flexibility in the home purchase transaction. Veterans using the VA Home Loan Guaranty program have found themselves at a disadvantage when purchasing a home. In some purchase transactions, lenders require special certifications and inspections stemming from VA policy guidance. These certifications and inspections involve fees that must be paid by the seller, as VA limits the fees veterans can pay in a home purchase transaction. Some sellers have refused to accept offers from VA borrowers, due to the inability of VA buyers to pay these fees. While we fully support VA's efforts to limit fees paid by veterans, VA borrowers should be allowed to negotiate these fees with the seller as a normal part of the home purchase transaction. Veterans should not be precluded from buying the most affordable home that best suits their family's needs simply because rules intended to protect them, in fact, penalize them.

Question 3: How many veterans have lost homes because they were unable to negotiate fees with sellers?

Response: We do not have any data on how many veterans have lost homes due to the rules. We are seeing a rise of home sale listings that include the words "no VA offers." Sellers are unable or unwilling to pay the fees required of a VA loan, and so they may deny offers from these borrowers. As a result, veterans aren't able to even consider these homes if they plan to utilize their VA home loan entitlement.

Question 4: Are distressed properties a good bargain, keeping in mind that they require work and in some cases a lot of work?

Response: Distressed homes can be a good bargain-depending upon the purchaser. Some purchasers have the capabilities and/or finances to complete the necessary repairs on a home. Others may not, so a distressed home may not be the right choice for them. However, veterans are not being provided the opportunity to make that decision for themselves.

On a national level, foreclosed homes and short sales make up 35 percent of all home sales today, and a number of communities have rates that are significantly higher. Veterans are virtually cut out of this market, because there is no "seller" on the other side to pay the necessary fees. These homes are often the most affordable option in many housing markets; however, because VA policy restricts the fees that veterans can pay, the veteran home loan purchaser is clearly disadvantaged from utilizing his certificate of eligibility for a VA loan to purchase a home.

Again, we believe veteran borrowers should be on a level playing field with other home purchasers, and not be denied opportunities that may be best for their families.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 24, 2010

Mr. Tim S. Embree
Legislative Associate
Iraq and Afghanistan Veterans of America
308 Massachusetts Avenue, NE
Washington, DC 2002

Dear Mr. Embree:

I would like to request your response to the enclosed deliverable I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *The Status of the Loan Guaranty Program* on May 20, 2010. Please answer the enclosed hearing deliverable by no later than Tuesday, July 6, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all full committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Iraq and Afghanistan Veterans of America

TO: House Committee on Veterans' Affairs Subcommittee on Economic Opportunity
RE: Follow-Up questions from IAVA's testimony on May 20, 2010
PREPARED BY: Tim Embree, Legislative Associate

Question 1: Should veterans and servicemembers negotiate their own fees with the sellers instead of the VA requiring certain fees to be paid?

Response: IAVA does not recommend veterans and servicemembers be allowed to negotiate their own fees with the seller. We believe veterans and servicemembers should abide by the current VA required fees.

Purchasing your first home is not like buying a television. There are many steps, complexities, and hidden costs that can catch the potential homebuyer unaware. If we have learned anything from the recent housing crisis, it is the importance of being a well-informed homebuyer. IAVA is concerned that potential sellers would look to prey upon veterans and servicemembers with hidden financing costs if they are able to negotiate their own fees.

The VA Loan Guaranty Program does offer pre-purchasing counseling to assist the veteran through the home buying process. This counseling assists the potential homebuyer by walking them through the process from finding a VA approved lender to negotiating an interest rate. However, this pre-purchasing counseling is not mandatory and this potential homebuyer can opt out of this counseling program despite not having a complete understanding of the home loan process.

The VA Loan Guaranty Program is one of the best deals out there, but it is still a complicated process and there should be provisions to protect veterans and servicemembers.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 24, 2010

Mr. Thomas J. Pamperin
Associate Deputy Under Secretary for Policy and Program Management
Veterans Benefits Administration
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Mr. Pamperin:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *The Status of the Loan Guaranty Program* on May 20, 2010. Please answer the enclosed hearing questions by no later than Tuesday, July 6, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all full committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record, House Committee on Veterans' Affairs, Subcommittee on Economic Opportunity, Chairwoman Stephanie Herseth Sandlin, Hearing on "The Status of the Loan Guaranty Program", May 20, 2010

Question 1: Under the VA's Home Affordable Modification Program, how does the VA determine whether it is in the government's best interest to purchase a home loan from the bank or mortgage servicer?

Response: VA requires mortgage servicers to exert all reasonable efforts to assist Veteran borrowers in retaining ownership of their homes. This includes reviewing all defaulted loans for traditional loss mitigation, such as repayment plans, forbearance, and loan modification. If financial information indicates insufficient income to support a traditional loss mitigation option, servicers must evaluate the loan for a possible Home Affordable Modification Program (HAMP)-style modification.

Loans that servicers determine are eligible for HAMP-style modifications, but the servicer cannot retain, must be referred to VA for refund consideration. VA mimics the Department of the Treasury guidance of using a net present value model to determine the outcome. When the model results in an equal or smaller claim payable to acquire the loan and modify it under HAMP, as opposed to the claim payable if the loan went to foreclosure, VA will refund the loan and implement a HAMP-style modification.

Question 2: Does the VA need a national central database to better track each application? [HVAC staff further clarified the question to mean: "each home loan application that lenders receive from Veterans."]

Response: VA does not believe the Department needs a central database to track each home loan application that lenders receive from Veterans. The Home Mortgage Disclosure Act (HMDA) requires lenders to annually submit a variety of data on each home loan application they receive. The Federal Financial Institutions Examination Council (maintains this information, which is available for public use. Since

VA-guaranteed loans can be extracted from the HMDA raw data, VA is able to use it to assess many facets of VA loan applications, namely reasons the lender cited as basis for denial of the application.

Question 3: Some of the changes being proposed are to make the VA loan more similar to the FHA loan. Do you think that the VA loan needs to be similar to the FHA loan?

Response: VA does not believe the VA Home Loan Program needs to be similar to the FHA program. Although both are Government programs, the mission and targeted beneficiary are different. Furthermore, the continued good performance of the VA Home Loan Program in the mortgage marketplace does not warrant a change from currently established standards.

The VA Home Loan Program has historically fulfilled its mission through its distinct features, which beneficially serve both Veterans and taxpayers alike. For example, VA loans use residual income guidelines, in addition to debt-to-income ratio. These factors have been shown to more accurately represent the true financial abilities of borrowers to handle monthly mortgage obligations. Additionally, VA credit guidelines, in general, are prudent and require full documentation of income and assets. Finally, properties that secure VA-guaranteed loans are appraised using a rotational assignment of appraisers, rather than the lender-select method. We consider this rotational appraiser assignment, established by statute, to be the gold standard in ensuring independent and unbiased determinations of property values.

Question 4: Should Veterans be permitted to purchase distressed properties with the VA home loan? What concerns does the VA have on this issue?

Response: The term "distressed property" can refer to a property that is offered at a distressed price, and/or one that is in distressed condition. The VA Home Loan Program does not place restriction on Veteran borrowers seeking to purchase homes offered at "distressed prices." While there is no guaranty of price appreciation, properties that are being sold at a distressed price can potentially be good investments for Veteran borrowers. VA believes that borrowers should be permitted to purchase a home of their choosing, so long as it meets its established minimum property requirements (MPRs). VA would not support restricting borrowers' choice with regard to "distressed properties."

For those properties being sold in "distressed condition," VA requires that the home be in conformity to basic MPRs in order for the property to qualify as security for a VA guaranteed loan. MPRs exist to ensure the home is safe, sound and in an acceptable sanitary condition. Where repairs are required to bring a property into compliance with MPRs, the seller of a distressed property is often not in a financial position to be able to pay for such repairs. The issue becomes whether or not the Veteran purchaser is permitted, or has the ability, to pay for such repairs.

Under the acquisition and rehabilitation provisions of the VA Home Loan Program, VA permits Veterans to pay for said repairs as long as they are able to provide plans and specifications and cost estimates for required repairs prior to loan closing, and so long as the appraised value of the property supports the proposed loan amount. In a transaction of this type, the property is appraised bearing in mind the proposed repairs and the impact those repairs would have on its value. However, it is often the case that a one-for-one relationship does not exist between repair dollars spent and dollars realized in the appraised value. For example, in a scenario where the proposed loan amount of $160,000 included $40,000 allotted for repairs, the property may only appraise for $140,000, even after factoring in the proposed repairs. This would mean that VA could only guarantee a loan for $140,000, and if the Veteran borrower desired to purchase the home, he or she would need to come up with an additional $20,000.

Question 5: Should the VA modify its requirement that borrowers must be 61 days delinquent in order to qualify for special forbearance to allow the VA to detect homeowners who may need help early in this stage?

Response: VA has a longstanding policy of encouraging servicers to extend forbearance to Veteran borrowers in order to help them retain ownership of their homes. VA has never adopted or promulgated a minimum delinquency requirement after which servicers could enact loss mitigation, and by changing its reportable default date from more than 90 days delinquent to 61 days delinquent, we expressed our perspective that early intervention is far more beneficial than late intervention.

VA does require a loan to be delinquent for 61 days or more in order to pay a servicer an incentive for successfully curing such a default. This time frame was introduced because many delinquencies are cured within the first 2 months of default without the need for establishing a repayment plan, forbearance agreement, or modification agreement.

Question 6: Why is it that the VA does not have nationwide guidelines which make the program consistent rather than having varying guidelines for each region? [HVAC staff provided this further clarification: "It is our understanding that each regional office operates differently. Each region has different requirements that make it difficult and more time consuming to underwrite. An example is that certain regional offices require specific verbiage regarding septic systems. If the lender lacks the specific verbiage, in essence [they] fail to conform then the regional office will issue a deficiency letter. Hence we are asking why there are differences and why there is a lack of nationwide guidelines to make the program more consistent."

Response: VA does have nationwide guidelines for underwriting and for property requirements. All Regional Loan Centers (RLCs) operate using the same administrative guidance and the same Lenders' Handbook. Local variances are the exceptions, rather than the rule, and are granted to comply with State and local governmental building or property requirements. From a legal standpoint, these State or local governmental requirements control real estate transactions.

Question 7: A witness provided testimony that many builders find it difficult to obtain a Builder ID or are unaware of it. Have you heard any concerns on this issue?

Response: No, VA has not received any great number of complaints from builders, or identified a pattern of complaints regarding builder IDs. Information regarding Builder IDs is available to the public on our Web site: *www.homeloans.va.gov*.

Question 8: Does VA lack of a formal process for managing Loan to Value in a declining market?

Response: In light of the testimony given by the American Bankers Association (ABA), we believe this question relates to a concern expressed for active-duty Servicemembers who receive permanent change-of-station orders and must move quickly to another duty location. These Servicemembers may find it difficult to sell their homes, especially in a short period of time, when housing values in the area have declined.

VA has the ability to address declining market values and high loan to value by paying compromise claims for the difference between the proceeds of a private sale and the amount owing on a VA-guaranteed loan. VA's compromise sale process helps Veteran borrowers by providing an alternative to foreclosure, and also ensures that the Government receives adequate compensation for the property. In addition, we note that the American Recovery and Reinvestment Act of 2009 expanded the Department of Defense's Homeowner Assistance Program to compensate Servicemembers who sell their home at a loss or suffer foreclosure because they were forced to move after a base closure, reassignment, or combat wound which necessitated their relocation near a health facility. The program also covers surviving spouses of those killed in combat.

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