MORTGAGE BANKERS ASSOCIATION

Testimony of

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Hearing on

"A Review of VA's Loan Guaranty and Specially Adaptive Housing Grant Programs"

Chairman Wenstrup, Ranking Member Takano, 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 and Specially Adaptive Housing Grant Programs. 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 23 years and have worked with the VA Home Loan Guaranty Program since 1993. Approximately 70 percent of the loans my company makes 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) 2015, 14,353 VA purchase loans were originated in our state, up 12.9 percent from FY 2014. 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, I served my country and my first home was financed with a VA loan. For many reasons, I am a strong advocate of this guaranty program.

In 1944, Congress established the VA Home Loan Guaranty Program, under which an eligible veteran could obtain a low-interest, up to 100 percent loan-to-value (LTV) mortgage loan to buy a house. 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 service members 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-downpayment 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.

I. Background

Based on VA and MBA data, VA guaranteed 629,087 loans totaling $154.1 billion in calendar year (CY) 2015, to purchase or construct a home, or refinance an existing home loan. This number is up from CY 2014, when VA guaranteed 483,229 mortgages totaling $111.7 billion. Though VA lending is still a relatively small percentage of the overall housing market, constituting 10 percent of the overall originations for CY 2015, VA home loans have gained market share, increasing from 9 percent in CY 2014 and 7 percent in CY 2013. More remarkably, according to 2014 Census and the National Association of Realtors (NAR) data, as of January 7, 2016, homeownership among the veteran population is 76 percent, compared to

[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 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mba.org.

62.5 percent for the general population. The borrowers who use the VA program for their homeownership financing are as varied as the U.S. population. According to VA's 2015 Annual Benefits report, African Americans comprised 10.6 percent of VA loans, American Indian and Alaskan Natives comprised 8.3 percent, Hispanics comprised 7.8 percent, and Asian and Pacific Islanders comprised 2.6 percent.

VA guaranteed loans are underwritten 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. Lenders will generally loan up to four times a veteran's available entitlement without a downpayment provided the veteran is income and credit qualified and the property appraises for the asking price. If the loan is approved, and the veteran is eligible, VA will guaranty a portion of the loan to the lender. Although the VA does not have a maximum loan amount, there are effective "loan limits" for high-cost counties. The basic or primary VA guaranty is $36,000, however, for loans that exceed $144,000, a guaranty of up to 25 percent of the loan amount is possible, and for loans that exceed $417,000, a guaranty of the lesser of 25 percent of the VA county loan limit or 25 percent of the loan amount is available. This guaranty allows a veteran to obtain favorable financing terms while protecting the lender against losses up to the amount guaranteed.

II. VA Loan Performance

Despite most of these borrowers not having "skin in the game," VA loans have continued to outperform their counterparts (see chart below, based on MBA data). This demonstrates that the VA portfolio has been able to sustain successful production and weather the turbulent market, largely due to its historically conservative underwriting standards, which include a residual income test. VA mortgages have always been fully documented and fully underwritten loans on owner-occupied properties.

	Seriously Delinquent 3rd Quarter 2015, %	Foreclosure Starts, %
		3rd Quarter 2015
VA	2.85	0.38
FHA	5.39	0.61
Conventional	3.23	0.34
U.S. Total	3.57	0.38

Source: Mortgage Bankers Association

Although VA requires no downpayment and has no monthly mortgage insurance, VA requires a mandatory funding fee that can be financed into the loan. This fee must be paid at closing unless a borrower receives service-connected disability payments each month that serve as an exemption from the fee. 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 varies depending on the type of loan, the borrowers' type of military service (regular, Reserves, or National Guard), whether the borrower is a first-time or subsequent loan user, and whether the borrower makes a downpayment. First-time users' fees are less than subsequent users. For borrowers refinancing to lower the rate, the fee is 0.5 percent. This fee is a critical part of the VA Loan Guaranty Program and allows the program to maintain funding for future generations of military families.

III. Recommendations

MBA appreciates VA's continued support of veterans through its policies and guidelines. MBA supports VA's primary objective of increasing access to credit for deserving veterans and their families through flexible underwriting criteria that gives lenders the ability to qualify more veterans for homeownership. This objective is reflected in VA's willingness to help veterans and lenders to achieve sustained homeownership with the inclusion of a waiting period after a foreclosure or bankruptcy, 100 percent financing options, and no minimum credit score requirements. Additionally, it is critical to acknowledge VA's responsiveness to lenders' concerns throughout the loan process in efforts to avoid significant delays and ensure that loans are processed in a timely manner. To this end, MBA recognizes VA's efforts to work effectively with lenders on a one-on-one basis, valuing the need to establish strong relationships with participating lenders. These efforts help keep the program relevant and encourage continued lender participation.

Although the VA program has had an excellent track record of providing benefits to veterans and active duty military personnel, MBA has recommendations to further improve this important program. To this end, MBA supports the creation of a lender advisory panel to better align VA's standard policies with other industry programs to ensure VA programming remains current, competitive, and adaptive to the changing needs of its borrowers.

1. Originating VA Loans

MBA offers the following origination recommendations to keep the loan program effective and relevant in the marketplace today. Enhancing this important program will encourage more lenders to participate in the VA program and ensure direct benefits for military families.

a. VA Guidelines:

MBA recommends that VA issue a final QM rule that establishes clear, bright lines in response to questions lenders have raised following the release of the interim final rule on May 9, 2014. When this final rule is issued, MBA urges VA to allow for an appropriate implementation period so that lenders can change processes and procedures and to obtain any necessary clarifications from the VA. When guidance is promulgated and effective immediately, many lenders are not afforded the sufficient time necessary to test their systems to ensure that they are in compliance with VA guidelines.

MBA commends VA for making a number of clarifications in its recently released Circular 26-16-03, specifically clarifying that the "allowable fees" included in the Interest Rate Reduction Refinance Loan (IRRRL) recoupment calculation are not intended to include prepaid items such as real estate taxes and homeowners insurance. In the interim final rule, for an IRRRL to be accorded QM safe harbor status, all allowable fees and charges financed as part of the loan or paid at closing had to be recouped within 36 months through regular mortgage payments, which caused certain IRRRL originations to fall outside of QM safe harbor status in one month, and inside it in the next, based on proximity to tax season.

This Circular, however, also changed VA policy by clarifying that for an IRRRL to be QM safe harbor, the loan being refinanced must have been originated at least six months before the new loan's closing and at least six payments have been made on the original loan. In VA's interim final rule, a lender needed to only wait six months from closing. The inclusion of a six month payment requirement adds an additional 45-60 day period after closing. This policy change will have implications on the way in which lenders are processing IRRRLs and will result in lender confusion without further clarification or a delayed effective date for this policy change.

MBA urges VA to repeat these clarifications in its final QM rule. Providing clarity to IRRRL guidelines through a source as authoritative as a final rulemaking will create a sense of certainty for lenders and a consistent application of the rules throughout the industry. Without such authoritative guidance, some lenders may still be hesitant to take on the risks associated with loans that are not formally deemed safe harbor loans.

b. *Certificate of Eligibility Process:*

Once an active duty service member or veteran establishes their eligibility for a VA guaranteed loan, eligibility to obtain VA home loan benefits must be confirmed by obtaining a Certificate of Eligibility (COE). A COE is an official document, issued upon proof of military service, to verify to the lender a borrower is eligible for a VA-backed loan. Without a COE, lenders are unable to complete the processing of a VA guaranteed loan. The COE can be obtained by the prospective VA borrower themselves, online, by mail, or by visiting a nearby Regional Loan Center, or the document may be obtained by a VA approved lender through VA's Automated Certificate of Eligibility (ACE) system. The ACE system was designed to automatically generate a COE, which is intended to make it easier for the veteran and lender to obtain eligibility verification. Though ACE automatic certifications have been significantly improved for veteran borrowers over the past year, some lenders still struggle with the additional verification needed for COEs generated and housed in the ACE system. In order to protect lender guarantees, lenders must be able to verify the original date a COE was issued due to individual lender requirements. Additionally, there is no mechanism for lenders to verify whether a COE has already been used by another lender. Though ACE has created a centralized database to hold all veteran COEs, without the ability to obtain additional verification information on these issuances, lenders will still be unable to accept these certifications, which ultimately will delay the VA loan process for a deserving veteran who is eligible for a loan.

MBA appreciates the strides VA has made in significantly improving the COE process for veterans. In order to make this system even more user-friendly, MBA encourages VA to continue to improve the COE process and create a business to government communication system that assigns a case number to each COE request. By streamlining the processing system, similar to other loan program systems, lenders will have easier access to COE information.

c. Appraisals:

Accurate and timely appraisals are critical to a successful origination process. MBA recommends VA work with the industry to refine its appraisal process. Currently, VA operates a "closed" panel of appraisers who must be approved by VA to be a part of the panel. VA approved appraisers must be licensed, and have at least five years of experience. To maintain the independence of the appraisal process, VA completely controls the valuation process by setting fees, turn times, and assigning appraisers to assignments on a rotating and randomized basis. VA may also remove an appraiser from the panel based on failure to follow VA guidelines.

Although this process works well for many, some have voiced concerns regarding appraiser availability and the length of appraisal processing times. Due to the limited number of VA-approved appraisers, some lenders are concerned about sufficient appraiser availability to cover the demand for VA appraisals. Additionally, some lenders have reported the overall VA appraisal process can result in extended processing times that have the potential to delay the VA loan process.

With these concerns in mind, MBA welcomes the opportunity to work with VA on improving the appraisal process within the bounds of VA's statutory framework. MBA encourages VA to re-evaluate its appraisal process and we look forward to working with VA staff on developing enhancements that will improve appraiser efficiency while maintaining the independence and integrity of the current process.

d. *Technology Support:*

Given increasing developments in technological capabilities and a fast-changing market, VA requires additional support for technology developments in order to increase program competitiveness and support increased efficiencies within its loan processes. MBA supports the allocation of increased funding and resources for VA to work with its participating lenders to improve its technology interface, including its appraisal software and lender portal, to meet the needs of both lenders and VA and increase technological integration with the industry. This will also enable VA to improve current systems and databases to make processes more user-friendly for both lenders and veterans. Additionally, MBA requests resources to support VA efforts to educate veterans on its homeownership program by better understanding the decision-making process of veterans when financing a home and to monitor and measure individual VA appraiser performance to help streamline the appraisal process. These initiatives are critical to the further improvement and expansion of the VA loan program.

2. Servicing VA Loans

MBA appreciates VA's continued support of veterans through its servicing guidance and believes that VA's efforts towards efficient communication benefits the program by providing transparency within key processes. MBA recognizes many useful communication tools VA uses to help lenders access contact information for specific groups such as Regional Loan Centers and the Construction and Valuation Section (C&V) to make the loan process more efficient. Additionally, the functionality of the VALERI Helpdesk serves as a great resource for loan-level answers. MBA also values VA's open guidelines that give servicers the opportunity to do what is in the best interest of the veteran borrower. Though guidelines state a required end result, no specific actions are required to achieve it. This flexibility allows servicers to work with a borrower to make decisions that best benefit their particular circumstances. This program flexibility benefits lenders, borrowers, and the VA in adjusting to a borrower's specific needs.

Though there are many positive VA servicing guidelines, there are some changes VA could make to allow its servicing partners to better serve veteran borrowers and address the challenges unique to servicing VA loans. MBA offers the following servicing recommendations to simplify and create more cost-effective processes that will further improve the program.

a. *Reauthorization of the Extended Foreclosure Protections in the Servicemember Civil Relief Act (SCRA).*

MBA calls on Congress to reauthorize the extended foreclosure protections afforded to active-duty military provided by the SCRA. During the financial crisis, Congress extended the SCRA's foreclosure moratorium for active-duty military from three months to one year. This extension has been continuously renewed until Congress failed to extend this provision at the end of 2015. MBA urges the House to reauthorize SCRA as the Senate did late last year and to ultimately enact a permanent extension of this important protection for active duty military.

b. *Assumptions:*

With many in the industry anticipating a rise in interest rates over the next few years, a growing opportunity for veterans seeking homeownership will be the assumption of an existing VA loan that was previously originated at lower than market rate. Today, many VA loans are assumable at the discretion of the servicer of the original loan. However, VA rules cap the maximum amount a lender is allowed to charge to process an assumption at either $250 or $300, plus the credit report, depending on whether the lender has automatic authority to underwrite the file on behalf of VA. This fee cap was set many years ago, and has not been increased or indexed for inflation. In practice, the actual cost of processing a loan assumption for a new borrower is several times this amount. Additionally, many servicing platforms are not properly equipped to process the required elements of an assumption, such as a creditworthiness review of the assuming party.

In order to make processing VA assumptions viable for servicers, MBA encourages VA to ensure that those processing VA assumptions are able to cover their processing expenses. This can be achieved by increasing the maximum assumption fee servicers are allowed to charge. MBA offers to assist VA with this initiative to offer veterans the opportunity to utilize assumptions to further expand homeownership opportunities at below market rates. The availability of assumptions will also increase home values for veterans looking to sell their homes by making below market rate loans available to any buyer, ultimately expanding access to credit for all American consumers.

c. *Improve the Issuance Process for Disability Benefits:*

MBA commends VA on its ability to work with VA's loan technicians to push for disability benefits to get veterans to workout options. In fact, MBA urges VA to reduce turnaround times so servicers can help more veteran borrowers. In some instances veteran borrowers are unable to make their payments because their disability benefits have not been processed. As a result, these veterans may be flagged as being in danger of losing their home. The delay in processing disability benefits not only hurts veterans by putting them in danger of losing their homes, despite their ability to make their loan payments if benefits were paid on time, delays also have the potential to raise VA costs because in cases of defaulted loans, VA will have to pay the cost of the guaranty.

MBA recommends that VA establish a formalized process to issue disability benefits owed to deserving veterans. Through this process, VA would be able to coordinate the payment of disability benefits in tandem with housing loan payment due dates. A formalized process will grant veterans the benefits they are owed, keep deserving veterans in their homes, and decrease VA costs by improving VA program coordination.

d. *Train Regional Loan Center team members for specific states:*

While centralizing the Regional Loan Center staff has organizational and communication benefits, the process has resulted in the loss of some expertise in state specific rules or requirements. MBA encourages VA to retain the benefits of centralization by training some Regional Loan Center staff to cover specific state laws and requirements.

e. *Expand Loss Mitigation Options:*

There is a balance in loss mitigation between doing everything possible to keep a borrower in their home while protecting the taxpayer investment in the program. While VA loss mitigation options do afford some flexibility to servicers, the available program options could and should be expanded to allow servicers more leeway to meet the needs of the borrower. To this end, MBA suggests working with Ginnie Mae to develop programs that would facilitate pooling of longer term-extension modifications and other similar programmatic solutions that may help increase the tools a servicer can deploy in loss mitigation.

3. Specially Adaptive Housing Grant Programs

VA provides two types of grants to service members and veterans with permanent and total service-connected disabilities to help purchase or construct an adapted home or to modify an existing home to accommodate a disability. These programs are the Specially Adapted Housing (SAH) grant and the Special Housing Adaptation (SHA) grant. Specifically, the SAH grant program helps veterans with certain service-connected disabilities to live independently in a barrier-free environment by providing funds to construct a specially adapted home on land to be acquired, build a home on land already owned if it is suitable for specially adapted housing, remodel an existing home if it can be made suitable for specially adapted housing, or to apply against the unpaid principal mortgage balance of an adapted home already acquired without the assistance of a VA grant. These grants are critical to allowing disabled veterans to live independently after they return home from their dedicated service. According to VA data, in FY 2014, VA approved more than 1,154 SAH grants totaling over $61 million in home modifications for disabled service members.

MBA urges Congress and the VA to ensure that this program is fully funded and fully staffed to provide disabled veterans with access to the valuable resources and benefits afforded by SAH grants. These benefits can be used for, but are not limited to, the building of wider doorways and hallways to accommodate wheelchairs, ramps or platform lifts, and wheelchair accessible bathrooms. Adding these housing features can be time consuming and expensive, but these grant programs are designed to reduce burdens and costs for deserving veterans. The robust continuation of this grant program is critical to the care and rehabilitation of our wounded veterans and a necessary benefit that will help our veterans regain their independence.

IV. Conclusion

MBA welcomes the opportunity to work with the VA and Congress to enhance the already-existing benefits of the VA Loan Guaranty Program. MBA and its members are willing and eager to work with this subcommittee and the VA staff in an effort to develop and implement our recommendations in order to increase the attractiveness of the VA program and, ultimately, the number of available homeownership opportunities for the many deserving eligible veterans and their families.

We thank this subcommittee for giving MBA the opportunity to voice our appreciation for and dedication to the VA Home Loan Guaranty Program. This program is invaluable to the brave men and women who have sacrificed for our country. MBA is confident the enhancements suggested today will help make the program even more beneficial to veterans and their families. We look forward to working with you and the administration to help sustain the VA Home Loan Guaranty Program for many generations of veterans to come.