

STATEMENT OF

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BEFORE THE

UNITED STATES HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

WITH RESPECT TO THE VA HOME LOAN GUARANTY
"REMOVING BARRIERS TO VETERAN HOMEOWNERSHIP"

DECEMBER 8, 2021

Good morning Chairman Levin, Ranking Member Moore and other Members of the Committee. Thank you for inviting us here today to discuss the various persistent and emerging issues Veterans face when utilizing their hard-earned VA loan benefit.

My name is Brock Cooper, and I have served as general counsel for Veterans United Home Loans since 2008. Before working for Veterans United, I served in the Missouri Army National Guard from 2000 to 2006, achieving a rank of sergeant. During my service in the National Guard, I was called to active duty for an 18-month period from 2003 to 2005 for stateside military police law enforcement duty at Fort Bragg, North Carolina. Additionally, I was activated for Hurricane Katrina relief in 2005.

Veterans United Home Loans has been the nation's largest VA purchase lender since 2016, and as such we stand ready to serve as a resource to this Committee on all aspects of the VA loan. We appreciate this Committee's continued efforts to protect and improve Veterans' hard-earned benefits, including the VA loan program.

To begin, I want to applaud the tireless efforts of the dedicated leadership and staff of the VA Loan Guaranty Program, including Acting Executive Director John Bell. Their ongoing leadership, highlighted by their efforts over the past 19 months to ensure flexibility in the face of the COVID-19 pandemic, enabled more than one million Veterans and service members to utilize their VA loan to purchase their dream homes and to refinance into historically-low interest rates to their great financial benefit. Additionally, the various post-forbearance modification options implemented by the VA, including the refund modification, VA partial claims, and the resulting new waterfall, will provide much-needed relief for Veterans and service members who suffered hardship from the pandemic and utilized the forbearance relief provided by Congress in the CARES Act. Our Veteran customers have been and continue to be well-served by the VA.

As you know, the VA loan was established as part of the original G.I. Bill in 1944 as a way to level the playing field for returning World War II Veterans seeking their piece of the American Dream. Since then, more than 25 million Veterans and service members have used this benefit to purchase or refinance their homes, helping to establish the modern middle class. To call the VA loan a resounding success would be an understatement, even when compared to other VA benefits. In fact, the most recent Iraq and Afghanistan Veterans of America (IAVA) Member Survey showed that 91% of its members were either extremely or somewhat satisfied with their VA loan benefit, scoring better than all other VA benefits rated by the members by a significant margin.¹

Veterans United is proud to be part of this incredible program, and we are privileged to serve tens of thousands of our nation's heroes every year – more than 500,000 since 2002. We are grateful for the opportunity to offer our views on how the current atmosphere in the housing market has impacted -- and continues to impact -- service members and Veterans who are in the midst of their homebuying journeys. We hope that this testimony is helpful to the Committee, and we would be happy to provide additional information upon request.

Misconceptions about the VA Loan

While misconceptions about the VA loan have existed for decades, some issues have been exacerbated by the exceptionally low inventory and increased prices of the highly-competitive purchase market we have seen over the past two years. We have heard from our Veteran borrowers time and again that other participants in the process are discouraging them from utilizing their benefit.

Our own director of communications, an Afghanistan Veteran and current major in the Missouri National Guard with 12 years of service, was recently told by his own Realtor that he should make a conventional loan offer rather than a VA loan offer, and then utilize the VA loan if the VA Appraisal came in high enough. Internally, we have seen a marked increase in our own Veteran customers applying for and closing on conventional loans after initially trying to utilize the VA loan. Another Veteran we worked with made offers on 12 different homes with his VA loan benefit and lost on every single one, no doubt because of misconceptions about the benefit he was trying to utilize.

Our loan officers hear these stories from our Veteran customers every single day. It happens far too often and for no good reason.

Some of the common misconceptions include VA loans are more expensive, have higher interest rates or fees, or are riskier because they do not require a down payment or private mortgage insurance. Others say that VA loan requirements are too onerous or they take too long to close.

¹ <https://iava.org/survey2020/IAVA-2020-Member-Survey.pdf>

None of these misconceptions are true. In fact:

- VA loans actually averaged the lowest origination charges compared to Federal Housing Administration (FHA) and Rural Housing Service (RHS) loans each by dollar amount and basis points.²
- VA loans have had some of the lowest interest rates for 30-year fixed mortgages for the last seven years.³
- VA loans have had a higher closing success rate than other mortgage products.⁴
- VA loans have had the lowest foreclosure rate on the market for most of the last 15 years.⁵
- Average closing times for VA loans and conventional loans are just days apart, which dispels the myth that VA loans take too long to close.⁶

While we make every effort to educate Veterans, agents, buyers and sellers on the power of the VA loan, we believe that significantly more can be done both inside and outside the industry to dispel any lingering myths surrounding this benefit. We would be happy to assist in any educational efforts to ensure that neither Veterans nor civilians are confused about the VA loan by uninformed or misleading commentary.

Valuation in a Sellers' Market

While most of the concerns surrounding the VA loan stem from misunderstandings about the program that were rectified years ago, some market conditions can create additional issues for Veteran homebuyers. A recent survey by the National Association of Realtors showed agents most often cited inspection and appraisal requirements as reasons why federally-backed loans were “less attractive” than conventional financing.⁷ Our own internal data indicates that significantly more Veterans are being denied due to collateral (i.e. valuation) since March of 2020.

With home prices rising rapidly, the VA appraisal process is one aspect of the program that can create issues for Veteran homebuyers. The average VA purchase loan in Fiscal Year 2021 was \$344,274, up 13% from Fiscal Year 2020. While the appraisal process is designed to protect Veteran homebuyers with many of its minimum property requirements, the prospect of an appraisal coming in below the sales price in a quickly changing market is very real. When this

² <https://polygonresearch.com/blog/va-lending-costs-and-rankings>

³ <https://www.icemortgagetechnology.com/mortgage-data/origination-insight-reports>

⁴ <https://www.icemortgagetechnology.com/mortgage-data/origination-insight-reports>

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<https://www.mba.org/news-research-and-resources/research-and-economics/single-family-research/national-delinquency-survey>

⁶ <https://www.icemortgagetechnology.com/mortgage-data/origination-insight-reports>

⁷ <https://cdn.nar.realtor/sites/default/files/documents/2021-loan-type-survey-06-08-2021.pdf>

happens, the Veteran is required to pay the difference out of pocket, which many are unable to do, forcing them start looking for another property. In other words, the market is taking away the benefit the Veteran earned through military service.

Fortunately, there are two processes to assist the Veteran in obtaining a better valuation -- the Tidewater Initiative and Reconsideration of Value. While the existing processes can help make Veterans more competitive in the market, some additional flexibilities would put them on a more even footing with conventional buyers. While none of these represents a perfect solution, we do believe they could help more Veterans succeed in purchasing their homes.

The Tidewater Initiative

The Tidewater Initiative is a process invoked by a VA Appraiser if the initial appraised value will fall below the contract price. When the appraiser invokes Tidewater, they are effectively asking the lender, agent, Veteran buyer, and other parties to the purchase to provide additional information (typically in the form of additional comparable properties, or “comps,”) for the appraiser to consider. Once invoked, the lender, buyer, and real estate agent have 48 hours to submit the additional comps. The appraiser can then move forward with the initial appraised value or submit a new one, after which a Notice of Value (NOV) is issued.

Given the exceptionally high volume facing the industry, adding some flexibility to the Tidewater process would greatly enhance Veterans’ ability to compete in a highly competitive market. Some potential flexibilities include extending the timeline to submit comparable real estate transactions and allowing participants to see the comps already being considered.

Reconsideration of Value

Once the NOV is issued, there is another more formalized process to request a change to the value estimate from the VA. The Reconsideration of Value (ROV) may be requested by the Veteran, the lender, or any other party to the process. The ROV request can result in a change to the NOV when clearly warranted and supported by data. The ROV request can be based on additional comparable sales or a disagreement with the appraisal analysis itself (square footage, adjustments, etc.). Once the ROV request is submitted, the VA staff will review the additional information and determine whether a new NOV should be issued within five days. If a field review is required, it may take up to 20 days to determine whether a new NOV is warranted.

As with Tidewater, some flexibilities in the ROV process could help Veteran homebuyers keep up with rapidly changing market conditions. Some potential flexibilities include allowing the use of pending sales, comparable sales completed after the appraisal itself and allowing the use of a second, non-VA appraisal specifically for ROV purposes. Listings and pending sales can already be used alongside closed sales to justify valuations in the conventional space.

The VA Loan Funding Fee

Beyond appraisal-specific opportunities, it is worth mentioning another aspect of the program that can create issues for Veteran and active duty homebuyers: the VA loan funding fee itself. The funding fee, currently 2.30% for first use and 3.60% for subsequent use of the purchase price for no-down payment purchase loans, represents a significant cost to homebuyers. While the funding fee is most often rolled into the balance of the loan, it does reduce the purchasing power of each homebuyer by that percentage of the sales price.

While the funding fee was established to pay for the 25% guaranty provided by the program, it is currently artificially inflated relative to the risk of the program itself, due to the fee being increased in several legislative items over the past few decades as a pay-for for increases in other VA benefits. VA loans have had the lowest foreclosure rate on the market for most of the last 12 years. Statutorily allowing the funding fee to return to the level prior to non-risk-related adjustments is one change that would improve Veterans' ability to compete in a highly competitive market by increasing their purchasing power.

Again, we appreciate the opportunity to provide information and perspective on this Committee's efforts to improve the prospects of Veteran and currently serving homebuyers' in what is clearly a crisis of housing inventory, exacerbated by several unanticipated market factors. While these suggestions are not an exhaustive list of things that could address the problem, we believe that the extension of some flexibilities and the implementation of some new ones could greatly improve outcomes for Veteran homebuyers. Additionally, we would encourage a concerted effort to fully educate homebuyers, sellers, agents, lenders and all other participants on the true benefits of the VA loan, with a specific focus on eliminating old misconceptions about the program.

We would urge Congress and the administration to be creative and flexible in your efforts to help Veterans utilize this benefit. We are certain that many others would stand alongside us to assist in this effort to help our nation's Veterans achieve the American Dream that they have pledged to defend with their lives.

Brock Cooper, General Counsel
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