

**STATEMENT OF
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EDUCATION DIVISION
NATIONAL VETERANS EMPLOYMENT AND EDUCATION DIVISION
THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
REMOVING BARRIERS TO VETERAN HOMEOWNERSHIP**

December 8, 2021

Chairman Levin, Ranking Member Moore, and distinguished members of the House Committee on Veterans Affairs Subcommittee on Economic Opportunity, on behalf of National Commander Paul E. Dillard and our nearly two-million dues-paying members, we thank you for the opportunity to discuss the VA's Home Loan Program. The history of Department of Veterans Affairs (VA)-backed home loans traces directly back to the American Legion's advocacy when Past National Commander Harry W. Colmery hand wrote the initial draft of the *Servicemen's Readjustment Act of 1944* from his suite at the Mayflower Hotel. Since then, The American Legion has continued to advocate for servicemembers, veterans, and their families to maximize their earned benefits, as well as lower the entry barriers to successful program utilization in a difficult housing market.

Challenges to Program Utilization

The VA Home Loan Program originated as a cornerstone of the *Servicemen's Readjusted Act of 1944*, and is widely regarded as ushering in a new era of homeownership for middle-class Americans. While there have been numerous modifications to the program over 77 years, the core component of the program has remained the same: the VA insures a veteran's family home mortgage to protect the lender against potential homeowner default. Since its inception, VA has guaranteed more than 26 million home loans for veterans.¹²

VA loan homebuyers have struggled to compete with conventional loan homebuyers because of biases, restrictions, and inflexibilities. In 2020, the housing market experienced an unprecedented surge of prospective homebuyers that overwhelmed stocks of existing homes and developers. Housing prices increased by approximately 20%, marking the largest growth yet in the 21st century.³ The increase in prices and limited supply of housing prevented many potential homebuyers using the VA Home Loan from buying a house. Homebuyers with cash offers were considered first, followed by conventional loan buyers. VA home buyers were often considered

¹ VA guarantees more than 1 million home loans in record year(2021). Department of Veterans Affairs. <https://www.va.gov/opa/pressrel/pressrelease.cfm?id=5554>. Accessed December 1, 2021

² FY 2021 Lender Loan Volume. Department of Veterans Affairs. https://www.benefits.va.gov/HOMELOANS/Lender_Statistics.asp. Accessed December 1, 2021

³ S&P/Case-Shiller U.S. National Home Price Index. <https://fred.stlouisfed.org/series/CSUSHPISA>. Accessed December 1, 2021

last or not at all due to preconceived notions and biases. A representative from real estate listing company Redfin shared that, *"in these hot markets, we're seeing all-cash buyers and people with significant amounts of money down. The more money a buyer puts down, the more wiggle room they have to escalate the price in a bidding war and all of this is contributing to a really tough environment to use a VA loan."*⁴

Another factor contributing to home seller apprehension towards VA Home loans is its rigid appraisal requirements. The VA Home Loan Program is by design the most conservative federal home loan program, with appraisal assessments designed to ensure veterans are purchasing structurally sound property. This requirement goes beyond traditional assessments by incorporating the VA's Minimum Property Requirements (MPRs), which include adequate roofing, sufficient size for basic living necessities, and proper ventilation. Consequently, VA Home appraisers may require the seller to make home improvements to pass the MPR and receive approval. A representative from Realtor Jack Conway & Co shared that "when [sellers] see that VA loan, it's a deterrent. Sellers are getting offers with no contingencies, waiving home inspections and waiving appraisals."⁵

Contrary to conventional loans, VA home loans also require zero down payment. Many VA homebuyers either lack the resources or expectation to put money down on a house. When the asking price is tens of thousands of dollars above the VA appraised value of the home, servicemembers and veterans must cover the remaining value upfront which negates one of the primary benefits of utilizing their VA home loan benefit.

The low number of appraisers has been a longstanding issue that further aggravated the difficult housing market for VA homebuyers. Lack of appraisers has increased the timeline for buying homes. Only VA-approved appraisers can assess the value of homes for VA home loans. Unfortunately, the number of appraisers is inadequate for the scope of potential VA home buyers. According to a 2017 survey from the National Association of Realtors of licensed home appraisers, 47.1 percent of the survey respondents chose not to perform VA appraisals.⁶ As a result of VA appraisal shortages, the home buying process is delayed, which dissuades sellers and their realtors from accepting VA Home loans.

The confluence of rigid assessments, no money down offers, and appraiser shortages in the wake of a hyper-competitive housing market has manifested into an increased bias towards VA Home Loan buyers. A 2021 survey from the National Association of Realtors found 89 percent of sellers likely to accept an offer from a buyer with a conventional loan, with only 30 percent likely to

⁴ Clabaugh, Jeff. (2018, May 29). *VA loans cut both ways: Vets increasingly squeezed out of DC's housing market*. WTOP News. <https://wtop.com/business-finance/2018/05/va-loans-cut-both-ways-vets-increasingly-squeezed-out-of-dcs-housing-market>. Accessed December 1, 2021

⁵ *Competitive Housing Market Presents Challenges for Buyers Using VA Mortgages* (2021). Three Creeks Media. <https://www.military.com/money/va-loans/competitive-housing-market-presents-challenges-buyers-using-v-a-mortgages.html>. Accessed December 1, 2021

⁶ *Loan Type Survey* (2021). National Association of REALTORS® Research Group. <https://www.nar.realtor/sites/default/files/documents/2021-loan-type-survey-06-08-2021.pdf>. Accessed December 1, 2021

accept an offer from a buyer using a VA loan.⁷ Of the realtors whose clients used a VA home loan, only 26% stated they had no issues with the contracts, 52% stated that some contracts were accepted, and 17% stated the contracts were not accepted because of the market conditions, and 5% stated the contracts were not accepted regardless of the market conditions. Further, 59% of sellers' realtors stated stricter home inspection requirements reduced the attractiveness of buyers using the VA Home Loan. 36% of those surveyed were concerned about homes not appraising and 38% about VA home loans taking longer to close.

This relative bias against the VA Home loan is reflected in recent market data. According to a report released by the Urban Institute in June 2021, the VA share of home loans fell from 11.5% to 10.3%, reflecting a 1.2 percentage point decrease in VA home loans despite a growing housing market.⁸ This figure represents a 10.5% decrease in VA Home Loans beginning in June 2020. Barriers for VA home buyers affect servicemembers, veterans, and their family members also exacerbate societal inequity issues. According to the same report, home buyers using VA loans are more likely than those using conventional loans to be underrepresented minorities. The report states, "13.1 percent of VA borrowers were Black, compared with only 4.9 percent of conventional borrowers."

Solutions

VA home buyers' problems in a competitive market are complex and multifaceted. However, these problems can be alleviated by certain actions of Congress and the Department of Veterans Affairs. The American Legion, through Resolution No. 329: *Support Home Loan Guaranty Program*, supports "any administrative and/or legislative efforts that will improve and strengthen the Loan Guaranty Service's ability to serve America's veterans."⁹ In keeping with this resolution, The American Legion offers the following recommendations to help resolve the issues servicemembers, veterans, and their families face when looking for a home.

Misconceptions about VA home loan buyers must be aggressively countered through education, training, and oversight. VA, veteran support organizations, and real estate associations all have a role to play in addressing home seller concerns such as low appraisal values and lengthy closing timelines. Misconceptions that, "*the VA Home Loan process takes way longer than conventional loans*" are simply not true. In the first three months of 2021, it took an average of only 6 to 7 days longer to close a VA purchase loan (57 to 58 days) than a conventional purchase loan (51 days).¹⁰

Congress and VA should consider adding flexibilities into the VA home loan for extremely competitive markets. The VA home loan must be safe, but it should also be flexible when

⁷ *Loan Type Survey* (2021). National Association of REALTORS® Research Group. <https://www.nar.realtor/sites/default/files/documents/2021-loan-type-survey-06-08-2021.pdf>. Accessed December 1, 2021

⁸ Goodman, Laurie (2021). *The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps*. Urban Institute. <https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps>. Accessed December 1, 2021

⁹ The American Legion Resolution No. 329 (2016): *Support Home Loan Guaranty Program* <https://archive.legion.org/bitstream/handle/20.500.12203/5646/2016N329.pdf?sequence=1&isAllowed=y>

¹⁰ *Origination Insight Report* (2021). ICE Mortgage Technology. https://static.elliemae.com/pdf/origination-insight-reports/ICE_OIR_MAR2021.pdf. Accessed December 1, 2021

servicemembers, veterans, and their families seek homeownership. Lender staff appraisal reviewers should have the flexibility to issue Notices of Value waivers up to 5% above or below the fee appraiser's value estimate, provided the adjustment is warranted by the real estate market and adequate professional appraisal standards. This will prevent veterans from having to pay the difference upfront when the appraisal is not in keeping with the market realities.

The appeals process for VA appraisals to provide comparable home sales should be reformed. The VA's Tidewater Initiative provides borrowers the means to appeal low valuations before a final Notice of Value is issued. From the time the contract is agreed to, appraisers are looking at comparable home sales from up to six months prior and are not allowed to look at properties after the initial appraisal. By allowing appraisers to examine point-in-time property values, VA Home loan applicants will be better equipped to compete with conventional loan borrowers.

VA must increase support for VA-approved appraisers and equip them with accessible information and education. The American Legion is encouraged that VA has increased appraisal fees and extended timeliness requirements in markets facing a high demand for appraisal services due to increased demand. However, these changes are not permanent, and the specific high-demand counties VA has identified are not easily accessible. By standardizing the fees and expectations for appraisal fee schedules, VA can build confidence in VA appraisal assignments.

The VA Home Loan is a valued benefit in the veteran community, but it must continually evolve to ensure that it meets the needs of today's veterans and is competitive in today's housing market. Congress must continue to investigate the VA home loan process to ensure servicemembers and veterans can buy homes through a fair and discrimination-free process.

Conclusion

Chairman Levin, Ranking Member Moore, and distinguished members of the Subcommittee; The American Legion thanks you for your leadership and for allowing us the opportunity to explain the positions of our nearly two million members on the importance of these pieces of proposed legislation. Questions concerning this testimony can be directed to Mr. John Kamin, Legislative Associate in The American Legion's Legislative Division at (202) 263-5748 or jkamin@legion.org.