

Statement for the Record

National Consumer Law Center (on behalf of its low-income clients)
Center for Responsible Lending

House Committee on Veterans' Affairs
Subcommittee on Economic Opportunity

Legislative Hearing on Pending Legislation

June 12, 2024

On behalf of the low-income clients of the National Consumer Law Center, thank you to Chairman Van Orden and Ranking Member Levin for the opportunity to submit a statement for the record at the June 12 hearing on: "Pending Legislation." We write to share our response to H.R. 8647 VA Home Loan Program Reform Act (hereinafter, "H.R. 8647").

It is a bedrock principle of federal housing policy that borrowers who are facing financial hardship should have access to workout options to bring their loans current and avoid foreclosure. These home retention policies provide stability for homeowners by giving them a path to recovery after financial hardships and provide stability for neighborhoods that suffer when foreclosure hits.

We strongly believe that Veteran borrowers with VA-guaranteed loans should have access to foreclosure alternatives that are at least as favorable as the options available to other federally-backed borrowers. This should include giving Veteran borrowers who have overcome a temporary hardship access to a simple option that defers past due amounts to the end of the loan and allows them to resume making their original monthly payments.

Borrowers with Fannie Mae, Freddie Mac, FHA-insured, and USDA-guaranteed loans all have this type of option, and VA-guarantee borrowers should have access to one as well. The previous VA partial claim program established during the pandemic did provide such an option, but VA discontinued the program in October of 2022. The current deferral program that VA allows is generally not economically viable for mortgage servicers of VA-guaranteed loans and, thus, is unused and does not fill the gap. And traditional modifications, which are better suited to assist borrowers facing ongoing rather than temporary hardships, are not effective for most borrowers at the current mortgage rate.

We generally support legislative efforts to clarify that VA has the authority to establish a partial claim program, though we believe the VA already has this authority. However, VA has not reestablished a partial claim program, and we recognize that legislation would be an important impetus for getting it in place. We appreciate efforts from both parties to address this issue.

In assessing the various legislative efforts to address the partial claim, which includes H.R. 8647 and S. 3728, the Veterans Housing Stability Act of 2024 (hereinafter, "S. 3728"), we prefer S. 3728 for a few reasons. First, H.R. 8647 imposes an interest rate on partial claims when the borrower chooses not to make monthly payments on the partial claim. As stated above, VA borrowers should have at least equivalent loss mitigation options as other federally-backed borrowers, and those other programs do not charge interest. Moreover, the interest rate may push some borrowers into a monthly payment plan on their partial claim on top of their existing monthly payment, and we know that this type of total monthly payment increase also increases the likelihood that the borrower redefaults. Additionally, we do not think the interest rate imposed would provide substantial revenue for the program and, thus, it seems unnecessary.

Second, H.R. 8647 imposes a statutory cap of 20% of the loan balance on partial claims. We prefer the 30% cap imposed by S. 3728. We believe it is important for VA to have flexibility in its

operation of the program. In addition, the 30% cap aligns with the other federally-backed programs.

Finally, H.R. 8647 does not clarify some of the additional authorities VA should have to help borrowers who fall behind that S. 3728 bill does clarify, including authorities related to forbearance and moratorium. We believe the goal of the bill is to clarify VA's ability to take these actions and so it is critical to include the moratorium and forbearance authorities as S. 3728 does.

Under either bill, it is our understanding that there will be significant challenges in how to fund a partial claim program at the VA. We urge VA to work with Veterans, members of Congress from both parties, consumer advocates, and industry participants to discuss how to establish the partial claim while also protecting the long-term health of the VA Home Loan Guaranty. It is crucial to establish this program to help Veterans in need.

If you have any questions or would like to meet about this statement, please contact Steve Sharpe, Senior Attorney at the National Consumer Law Center, at ssharpe@nclc.org or Kanav Bhagat, consultant to the Center for Responsible Lending, at kbhagat@housingpra.com.