

**Testimony of
Alys Cohen
Director of Federal Housing Advocacy
National Consumer Law Center**

**Before the
House Committee on Veterans' Affairs
Subcommittee on Economic Opportunity**

**“Kitchen Table Issues: Lowering Costs for
Veteran Families Through the VA Home Loan Program”**

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Chairman Van Orden, Ranking Member Pappas, and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the low-income clients of the National Consumer Law Center (NCLC)¹ regarding the VA Home Loan Guaranty Program.

We support the goal of promoting affordability for Veteran homeowners, and we recognize the key role the VA Home Loan Program plays in providing housing stability for the Veterans who have earned their home loan benefit through service and sacrifice. Throughout the country, Veterans and their families are struggling to keep up with increasing housing costs both for owning or renting a home.

The most important step the VA can take to promote affordability for Veterans is to help them avoid unnecessary and devastating home loss when they face financial hardships, including those hardships related to their service. To accomplish this, the Department of Veterans Affairs (VA) should ensure that systems are in place to help Veterans retain their homes when feasible. These “home retention” programs keep kids in school, stabilize neighborhoods, prevent home equity loss, and allow Veterans to avoid an unforgiving rental market that in many parts of the country does not provide affordable alternatives to people who lose their homes. Research shows that helping borrowers facing financial hardship cure their delinquent payments and reduce monthly payments when necessary helps avoid defaulting again and saves the taxpayers tens of thousands of dollars in foreclosure-related claims.²

There is significant work for the VA in this area **because the mortgage relief options available for Veteran borrowers remain less favorable than the options available to other borrowers with federally-backed mortgages**. As a result, a higher share of VA seriously delinquent loans are moving to active foreclosure compared to Fannie Mae and Freddie Mac (GSE) and Federal Housing Administration (FHA) loans. As of the end of 2025, about 35% of seriously delinquent VA loans were in active foreclosure, compared to 30% for the GSEs and 25% for FHA.³

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 where possible. Home retention policies provide stability for homeowners by giving them a path to recovery after financial hardships. These policies do not guarantee that all borrowers who fall behind can avoid foreclosure, but they help prevent avoidable losses. They also help federal investors, like the VA, avoid losses from unnecessary foreclosures, which supports the health of the program and reduces the cost to taxpayers. According to a recent

¹ Since 1969, the nonprofit [National Consumer Law Center® \(NCLC®\)](#) has worked for consumer justice and economic security for low-income and other disadvantaged people in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training.

² See [Home Retention Programs Save the GSEs and FHA Billions by Avoiding the High Cost of Preventable Dispositions \(Housing Policy Council July 2025\)](#).

³ See [ICE Mortgage Monitor \(Dec. 2025\) at 6](#).

analysis, the average home disposition “results in a loss to the guarantor of about \$72,000,” and well-designed loss mitigation options significantly reduce those losses.⁴

Research on loan modification performance provides compelling evidence that catching up arrearages while keeping payments the same for borrowers who faced temporary hardship, and providing targeted payment relief for borrowers whose hardships were permanent, are the most cost-effective means for providing assistance that reduces redefault rates. Unsurprisingly, options that increase the monthly payment make loss mitigation less effective for both groups and lead to significantly more redefaults and foreclosures.⁵

Following the below discussion of needed changes to VA’s home retention program, we address the fact that VA has limited ability to affect the broader supply and affordability issues in the national housing market. VA borrowers operate within the broader national housing landscape and changes to the VA program would have limited impact. Moreover, VA’s origination rules have yielded better loan performance than FHA’s and changes should be considered with that in mind and with an eye toward continued fair lending compliance.

1. The new VA mortgage relief options should prioritize affordability.

The situation for delinquent VA borrowers should improve due to the passage of the VA Home Loan Program Reform Act (H.R. 1815), and we thank members of this Committee for your leadership on that legislation. However, the new “Partial Claim” program authorized in the legislation has not been implemented yet and VA’s draft handbook proposals do not fulfill the promise of the legislation, especially with respect to affordability.

According to the VA draft waterfall plan, after mortgage servicers consider repayment plans (which allow for relatively quick repayment of the delinquent amounts in addition to making the regular monthly payments), they must then move to an evaluation of permanent loan modification options.⁶ It is reasonable for VA to consider loan modifications early in the process because, in some situations, modifications may provide payment relief to borrowers while also avoiding the use of Partial Claim funds, which are limited under the statute.

Yet, in the list of permanent modification options, before a borrower can access a payment-stabilizing Partial Claim VA’s proposal requires a homeowner to accept up to a 15% increase in their monthly payment as part of a 30-year loan modification, despite the fact that they are very likely delinquent because they have experienced a financial hardship.⁷ Of the roughly 90,000

⁴ See [Home Retention Programs Save the GSEs and FHA Billions by Avoiding the High Cost of Preventable Dispositions \(Housing Policy Council July 2025\)](#).

⁵ See [Quantifying the Savings from FHA’s Home Retention Programs \(Housing Policy Council Sept. 2025\)](#).

⁶ See [Draft VA Manual M26-4 Chapter 5 Loss Mitigation at Steps 4-8 \(posted March 4, 2026\)](#).

⁷ See *id.* at Step 6. Before the 30-year Modification, the servicer will consider the Traditional Modification, and the borrower will only receive it if it reduces the payment and they are otherwise eligible. If it increases the payment, the servicer will move to the 30-year modification, which, unlike the Traditional Modification, is automatically offered as long as it doesn’t increase the borrower’s monthly payment by

VA borrowers who are seriously delinquent on their loan today, we estimate that over 30,000 will face a payment increase if the program proceeds as drafted.⁸ VA has other options that create more affordable payments – a 40-year modification and the payment-stabilizing Partial Claim – but these options are not offered until later in the draft waterfall. As a consequence, the draft proposal makes less-than-effective use of the Partial Claim, which keeps monthly payments at the pre-hardship level by placing the past due amount at the end of the loan term so the borrower can resume their regular monthly payments.

We sincerely appreciate the fact that VA placed its proposed waterfall on the drafting table for comment by stakeholders. We are hopeful that VA will make changes as a result of the consistent feedback it received to change the order of its waterfall to prioritize affordability by offering solutions that increase the borrower's monthly payment only as a last resort. However, if the waterfall proceeds without change, it would add a significant financial burden on Veteran borrowers who have already experienced financial hardships and are behind on their mortgage as a result. For example, the 30,000 seriously delinquent VA borrowers who would get a payment-increasing 30-year modification under VA's proposed program would see their monthly payment rise by an average of \$150 per month (9%), which is \$1,800 per year.⁹ Many if not most of these borrowers who are trying to regain their financial footing are unlikely to find the higher payment affordable.

The waterfall, if unchanged, also would unnecessarily raise costs for the taxpayer because payment-increasing modifications are much more likely to lead to foreclosure than payment-stabilizing or payment-decreasing modifications. The VA's proposed ordering of hardship assistance solutions, while understandably seeking to be sensitive to the effect of term extensions and total amounts due, is out of step with Fannie Mae, Freddie Mac, and FHA, which only consider payment increases as a last resort, if at all. To truly promote affordability, VA should ensure that Veteran borrowers have options that promote affordability first, which will save money for the VA Loan Guaranty Fund, Veteran borrowers, and mortgage servicers. In sum, a borrower's monthly payment is the most important aspect of maintaining an affordable mortgage, so loss mitigation should be designed to reduce or keep payments level when possible.

Thus, VA should direct servicers to implement modifications instead of Partial Claims early in the evaluation process or "waterfall" only where the modification results in an equal or lower payment. If the 30-year modification does not achieve this result, VA should direct the servicer to try the 40-year modification. If even this modification does not result in a level payment, then the servicer should evaluate the borrower for a Partial Claim, which restores the borrower's pre-

more than 15%. We proposed eliminating the Traditional Modification in our comments because it introduces complexity and is not necessary.

⁸ Estimates based on Ginnie Mae Loan Performance Data provided by Recursion and ICE McDash, and analyzed by Center for Responsible Lending. Note that such analysis is based on calculations from privately available data because VA does not publish loan performance data as FHA does.

⁹ Estimates based on Ginnie Mae Loan Performance Data provided by Recursion and analyzed by Center for Responsible Lending.

hardship payment by moving the arrears to the end of the loan without modifying its terms. Based on the research described above, a Partial Claim is significantly more likely to be successful than the payment-increase modification. Another reason to avoid modifications that result in a payment increase is the irreversibility of that action—once the loan’s payment is increased through a payment-increase modification, a subsequent Partial Claim will only maintain that higher payment and can not bring the homeowner back to their original payment.

2. VA should provide a current alternative to foreclosure for those who can make payments and are waiting for the new home retention options.

One change is urgently needed. We urge the VA to adopt measures to hold off foreclosures until the Partial Claim program becomes widely available. We have suggested **full pay forbearance** as one reasonable means of relief. Under a full pay forbearance plan, the servicer would agree to start accepting monthly payments again for Veterans who have financially recovered and can resume making their monthly payments. The servicer would then agree to hold off on foreclosure. This would work well for Veterans who would qualify for a Partial Claim once the program is released. It would prevent the past due amounts from growing, get the borrower back in the habit of making payments, and reduce the amount of Partial Claim VA would ultimately have to pay. In addition, servicers would no longer be required to fund advances of delinquent principal and interest to Ginnie Mae or tax and insurance payments. Both the VA Loan Guaranty Fund and mortgage servicers would be spared the cost of claims related to unnecessary losses.

3. VA should make additional changes to the loss mitigation program.

a. Make standard forbearance available.

Further, we suggest that VA follow industry standards (including for most other government-backed mortgage programs such as the GSEs and FHA) and offer borrowers the opportunity to request forbearance, which provides a temporary pause on payments when there is a hardship. Borrowers should be specifically permitted to request, during each default, a forbearance of monthly payments up to a maximum of 12 months of delinquency. VA’s draft waterfall, which does not allow for servicers to offer forbearance before evaluating for home disposition options, does not take into account that hardships may take time to resolve.¹⁰ Importantly, borrowers are encouraged to call their servicers early, but if they do so when they lose their job, they are going to be directed to home disposition options, even though the hardship may be temporary and the person may be eligible for loss mitigation in a few months, avoiding a loss to the VA program as well.

Research shows that reperformance rates are much better when borrowers contact their servicer early and stay in constant communication with their servicer rather than delaying

¹⁰ See [Draft VA Manual M26-4 Chapter 5 Loss Mitigation at Step 2\(b\) \(posted March 4, 2026\)](#).

contact and trying to deal with it themselves financially.¹¹ Without this addition of forbearance, VA borrowers will have substantially worse loss mitigation options compared to GSE and FHA borrowers.

b. Explicitly direct servicers to establish payment plans when the Partial Claim becomes due.

When the Partial Claim becomes due at the end of the borrower's loan, a balloon payment will be triggered. The VA should include in its handbook material addressing its expectations "when the guaranteed loan matures" and a balloon payment is required for borrowers who pay until maturity.¹² We recommend that VA add an expectation that servicers establish a reasonable payment plan for borrowers unable to repay the Partial Claim balloon payment in a lump sum on loan maturity. It would be tragic for borrowers to lose their homes due to an inability to repay the Partial Claim balloon payment all at once, when they faithfully repaid their VA-guaranteed mortgage for decades.

4. Finalize the positive aspects of the current proposal.

We appreciate that VA has taken steps to implement the Partial Claim program, and its use of the drafting table and its willingness to accept comments. VA's proposal included a number of positive developments that should be included in the final handbook language, including streamlining loss mitigation and not charging interest on the Partial Claim. We urge VA to also take additional steps to make their Partial Claim and loan modification programs more affordable for Veterans and effective for the VA Loan Guaranty Fund.

5. While some changes to VA lending programs can be made, they should preserve VA loan performance and are unlikely to serve as a major cure for the affordability crisis.

Aside from adjustments to its home retention program, the other steps VA could take, including those associated with origination costs, will only help around the edges at best or would seek to address issues that are not within VA's control. The problems of housing supply and overall market affordability are problems for all homebuyers and mortgage borrowers. For example, the particular issue of institutional investors using their significant financial advantages to purchase single family homes harms all families, including Veterans, who rely on mortgages and cannot compete with investor resources. The current Administration has recognized that this is a market-wide problem, and Veterans share the housing market with other borrowers. Addressing these dynamics is outside of VA's control and requires a whole-market set of solutions.

With respect to VA's appraisal and Minimum Property Standards, these perform important functions of ensuring the soundness of the homes Veterans purchase and catching faulty

¹¹ See [Alexei Alexandrov, Laurie Goodman & Ted Tozer, Urban Institute, Normalizing Forbearance](#) (July 2022).

¹² See [Draft VA Manual M26-4 Chapter 22 Loss Mitigation at 22.04 \(posted March 4, 2026\)](#).

appraisals. We participated in VA's public comment process in 2024 discussing how to improve the appraisal and minimum property standards.¹³ We have urged VA, in any revision to its appraisal standards, to implement controls against appraiser bias consistent with fair lending laws.

Regarding the VA loan origination process, any steps the agency takes to alter its underwriting should take into account that VA loans perform very well, and the agency should avoid changes that could undermine this loan performance or would unnecessarily narrow access to the program. In particular, it is worth noting that VA's unique underwriting guidelines, with a focus on the borrower's residual income, have led to an impressive track record of performance. Because the agency has enjoyed significant success with its underwriting process, and better loan performance than FHA,¹⁴ the agency should be cautious of changes to its underwriting process. Moreover, any reductions in closing costs will be limited and can not have a significant impact on market-wide affordability issues.

6. VA should do a small-dollar mortgage pilot.

One constructive step the VA should explore is a small-dollar mortgage loan pilot in coordination with FHA. There is not sufficient mortgage financing available for borrowers who are seeking to buy relatively less expensive homes. There is a particular dearth of lending for mortgages with balances under \$150,000. This lack of lending limits the ability of people with modest incomes to buy modest-priced houses and instead pushes them into a challenging rental market.

Some have blamed the federal Truth in Lending Act (TILA) rules that were developed in the aftermath of the financial crisis, and that test for high-cost mortgages and limit how loan originators are paid, as causes for the lack of small dollar mortgage lending. As indicated in our issue brief, *Myths and Facts About Ways to Increase Small-Dollar Mortgage Lending*,¹⁵ that is simply not the case. Because the thresholds for rules adjust depending on the size of the loan, they are sufficiently flexible to accommodate small mortgages and the CFPB already has the ability to do an evidence-based adjustment as needed.

However, we do recognize that economic forces are limiting the availability of small dollar credit, and this directly impacts affordability. In order to better understand the state of this market and explore solutions, VA, along with FHA, should engage in a pilot program to better understand how to improve the situation. This pilot could include exploring different approaches to compensating loan originators, including salaries and minimum payments (even where a loan may be small enough to otherwise yield a smaller payment).

¹³ See [Comments to the VA Regarding Loan Guaranty: Minimum Property Requirements for VA-Guaranteed and Direct Loans \(Feb. 2024\)](#).

¹⁴ See [Ginnie Mae, Report on VA Liquidity at 12-13 \(Nov. 10, 2022\)](#); [Congressional Budget Office, The Role of the Department of Veterans Affairs in the Single-Family Mortgage Market \(Sept. 2021\)](#); [Laurie Goodman, Ellen Seidman & Jun Zhu, Urban Institute, VA Loans Outperform FHA Loans. Why? And What Can We Learn? \(July 2014\)](#).

¹⁵ See [Myths and Facts About Ways to Increase Small Dollar Mortgage Lending, National Consumer Law Center \(Aug. 2024\)](#).

7. Conclusion

We appreciate VA's efforts to date to stand up the Partial Claim program, and urge VA leadership to focus squarely on the task before them – rolling out an affordable Partial Claim and loss mitigation waterfall. The agency should take steps to improve home retention programs in a manner that protects the VA Loan Guaranty Fund, eliminates unnecessary burdens on loan servicers, and ultimately stabilizes homeownership for Veterans who earned the home loan benefit through service and sacrifice.

Thank you for the opportunity to testify. We look forward to working with you and the VA to shape systems that will improve affordability for Veteran borrowers.