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**STATEMENT OF JOHN E. BELL III
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BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY**

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Good morning Chairman Levin, Ranking Member Moore and other Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the Department of Veterans Affairs (VA) home loan program.

Overview

The mission of VA's home loan program is to maximize opportunities for Veterans (which includes certain Service members) to obtain, retain and adapt their homes by providing viable and fiscally responsible benefits in recognition of their service to our Nation. Our vision is simple: VA should be the home loan product of choice for Veterans and the program of choice for our employees.

Since 1944, VA has guaranteed over 27 million loans worth almost \$3.3 trillion in total. This benefit has helped millions of Veterans achieve the dream of home ownership and build wealth for themselves and their families. For many Veterans, VA's home loan program is the most advantageous mortgage option available. VA's home loan program is popular because Veterans receive competitive interest rates, pay limited closing costs and avoid private mortgage insurance requirements—usually without having to make a down-payment. Because of these advantages, VA's home loan program has seen record utilization over the past two years, setting an all-time program high of 1.44 million loans guaranteed in Fiscal Year (FY) 2021, worth \$447 billion in total, an approximate 15% year-over-year increase from FY 2020. VA-purchased loans reached a program high in FY 2021, as VA guaranteed 444,050 purchase loans, which was an increase over the 428,000 purchase loans guaranteed during FY 2020. Historically low interest rates driving demand and increasing home values driving sales also contributed to this record-setting utilization.

Current market variables have resulted in unique challenges for veterans and the program, but these factors also provide the opportunity for VA to make improvements that ensure high-quality delivery of VA's home loan benefit and a positive customer experience.

VA Home Loan Program Activities During COVID-19

At the start of the COVID-19 pandemic, VA proactively announced numerous flexibilities in underwriting and appraisal policies, as well as servicing guidelines, to help

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maintain the ability for Veterans to purchase homes, refinance their loans and navigate these unprecedented and uncertain times if they faced financial difficulty. These actions set the stage early, giving mortgage companies assurance that VA encouraged, and would support their efforts to provide the home loan benefit to our Nation's Veterans.

As the COVID-19 pandemic persisted, VA continued to make temporary but far-reaching adjustments to afford Veterans, industry partners, and VA employees the necessary tools and information to ensure program continuity. For example, VA gave loan servicers tools to employ the following relief options: forbearance requests, waiver of late charge fees, suspensions of credit bureau reporting on affected loans and a temporary moratorium on completing/initiating foreclosures and evictions. Further, VA announced flexible protocols regarding valuation practices, underwriting and electronic mortgages. As a result of these and other actions, VA's home loan program has experienced virtually no interruption in customer service to Veterans during the pandemic.

VA has been steadfast in its commitment to home retention during the most difficult times of the COVID-19 pandemic, leveraging VA's loan servicing staff capabilities and implementing multiple new programs during this timeframe. VA developed the COVID-19 Veterans Assistance Partial Claim Program to assist Veterans with VA-guaranteed home loans as they exit their COVID-19 related forbearance periods. This temporary program launched in July 2021 and is expected to have positive impacts on both Veteran borrowers and VA home loan servicers by minimizing foreclosures and reducing stress on the servicing ecosystem.

To further assist Veteran borrowers exiting COVID-19 forbearance, VA developed an additional short-term home retention option to assist Veterans with VA-guaranteed loans called the COVID-19 Refund Modification. The COVID-19 Refund Modification is intended to help ensure Veteran borrowers can afford future mortgage payments.

Special Focus Areas

VA's Appraisal Process:

Most government sponsored home loan programs and many lenders have requirements related to appraisals, property inspections or a combination thereof. Under VA's statutory authority (38 U.S.C. § 3731), VA is required to maintain lists of appraisers to make appraisals for the purposes of the home loan program. These appraisers, who are selected on a rotational basis, forward their appraisal reports to VA for review and VA relies on these reports when determining the Notice of Value (NOV). The amount shown on the NOV is the amount VA considers the reasonable value. While some individuals may see the appraisal process in general as a burden, VA's process has been effective in ensuring that benefits are provided in a fiscally responsible manner. For example, VA's unique appraisal process helped protect VA's home loan program against much of the market manipulation that contributed to the Great Recession. Also,

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although no appraisal report can fully protect against overpayment or substandard property conditions, VA's appraisal process has been helpful in exposing potential defects or maintenance issues that could have significantly affected a property's value.

VA ensures that, in cases in which the NOV is below the sales contract price, the Veteran has the option to walk away from the purchase without forfeiting the Veteran's earnest money. This option is part of the '*Escape Clause*,' which must be included in the sales contract for all VA-guaranteed loans. However, Veterans may still choose to go through with the sale if they have the down-payment to cover the difference.

Most of the appraisal reports VA receives reflect a valuation of the property that either meets or exceeds the sales contract price. However, when an appraisal report does not, VA has two unique features that help support Veterans during the home buying process.

- **Tidewater Process:** If the appraiser expects the appraisal report to reflect a valuation that is less than the sales price, the appraiser is required to notify the requester and allow 48 hours for the real estate agent, lender and Veteran to supply evidence-based data to support the sales contract price.
- **Reconsideration of Value:** If the Tidewater process does not result in an appraised value at or above the sales price, then the Veteran or lender may request, after the appraisal has been completed and the NOV has been issued, a Reconsideration of Value (ROV). VA staff will review the information included in the request, as well as market data available to VA through its Appraisal Management System. If VA staff determines an increase in value is appropriate, VA will amend the NOV.

VA is continuously seeking ways to improve the appraisal process for VA-guaranteed home loans. One such improvement includes modernizing the ROV procedure through automation to enhance the customer service experienced by Veterans, appraisers and lenders.

Addressing Stigma Surrounding VA's Home Loan Program:

I want to first state that I am a Veteran and have used this program to purchase every home I have owned. I have many years of experience in both the private sector mortgage industry and working with VA home loans. VA's home loan program continues to be my product of choice.

Veterans are excellent neighbors and bring added value to their communities—including that low Veteran default and foreclosure rates help stabilize community home prices.

Veteran borrowers are competitive when compared to borrowers of other loan products. We have witnessed a rise in Veterans' financial assets, credit scores and

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residual income. VA borrower debt-to-income ratios show they are better prepared to take on mortgages. Unfortunately, the strengths of Veteran borrowers are often not known by selling agents and sellers in the marketplace. This could help explain one reason why, despite the increase of overall Veteran usage in VA's home loan program portfolio, the share of cash buyers and those utilizing conventional lending still outpaced VA loans in market share as of late. VA continues to show significant progress in helping Veterans stave off financial difficulties; and the health of VA's home loan portfolio and the credit characteristics of the Veteran borrower remains strong.

Some sellers and their real estate agents may negatively view, or even reject outright, an offer with government-guaranteed financing or an appraisal contingency. They may not know that the Blue Water Navy Act eliminated a requirement that was, in effect, a longstanding loan limit for those Veterans with full entitlement, thereby increasing access to higher value homes previously unavailable to Veterans using their home loan benefits. They also may not understand how a no down-payment and no private mortgage insurance VA-guaranteed loan allows Veterans to build wealth and invest in their homes. A real estate agent is often the first person a homebuying Veteran will contact so it is essential that real estate agents have up-to-date information about VA's home loan program. To address the lack of knowledge and dispel the myths regarding VA's home loan program, Loan Guaranty Service personnel engage in continuous outreach with the National Association of Realtors and other real estate industry groups.

VA believes that Americans want to honor the service of Veterans. However, many Americans may not know that accepting the bid of a Veteran is a way to honor their service, without a loss to themselves. VA's home loan program is designed to offer opportunity of homeownership to those who served while remaining competitive with other mortgage products, whether they are government-backed or conventional. VA wants to spread this message.

Shift in Market Presented New Challenges:

Over the past two years, there has been a shift in the U.S. mortgage market. For reference, rapid increases in home values, seller-friendly due diligence fees, property inspection waivers in the competitive bid process, low housing inventory and lower margins in home building have proved challenging for many homebuyers. Veterans are not alone in this regard. The challenges in the housing market are further exacerbated by income stagnation and cash offers that exceed asking prices, sometimes by shocking amounts that are not justifiable under prudent lending practices.

The current seller's market and location-specific low home inventory has tilted competition in favor of buyers using all-cash offers. Many government-backed and conventional buyers are competing with investors, third-party companies or previous homeowners who can offer cash and other favorable terms, such as very short closing periods or no appraisal or property inspection. Cash-only, "sight unseen" offers create an environment where even if Veterans using their home loan benefits are willing and

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ready buyers, they may not get the opportunity to buy. In some locations, the industry is facing a shortage of appraisers. This appraiser shortage is not unique to VA. VA has been recruiting additional appraisers in these markets.

Many of the present challenges experienced by VA borrowers are cyclical, and VA expects the market to adapt and correct based on the influence of external factors. While VA is aware some Veterans are experiencing difficulties trying to purchase a home in “hot markets”. VA data supports improved homeownership opportunities for Veterans. As noted in the introduction, VA experienced record loan volume having guaranteed over 1.44 million home loans, totaling more than \$447 billion during FY 2021. Additionally:

- VA exceeded FY 2020 total loan volume with an approximately 15% year-over-year increase.
- As of FY 2021, VA purchase loan volume grew from 186,288 in 2011 to over 444,000 loans in 2021 – the highest count in program history and 138% growth over the 10-year period.

VA continues to engage with industry partners, lenders and appraisers to work with borrowers who may face buying challenges.

Combating Predatory Lending:

Over the past several years, VA has worked with the Consumer Financial Protection Bureau to develop blogs to help borrowers understand the potential risks associated with mortgage loans. The first was a November 2017 joint “Warning Order” blog on home loan refinancing and identifying unsolicited offers to refinance mortgages that appear official and may sound too good to be true. The second was a July 2021 joint consumer fraud alert blog that gave tips for avoiding VA home loan scams.

On August 3, 2021, Representative Katie Porter’s office published a report stating that Federal agencies are failing to provide the necessary protections to Veterans and Service members regarding predatory lending and refinancing.

- Loan Guaranty Service conducted its own analysis and presented it to Representative Porter’s office on September 10, 2021. Loan Guaranty Service leadership provided their initial findings, including not finding a pattern of predatory lending practices by the two lenders named in the report (New Day Financial and Federal Savings Bank).
- VA responded to a letter submitted by Chairman Mike Levin noting concerns identified in Representative Porter’s report, and Loan Guaranty Service held a subsequent briefing in September 2021, which resulted in VA providing follow-up responses outlining VA home loan oversight activities, including the full file loan review process, early payment default reviews and high-risk

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appraisal handling. For loan servicing, the areas of loss mitigation, claims, and post audit procedures, as well as providing preliminary analysis that the lenders in question did not appear to be overstepping VA statutes, regulations, or policies..

VA encourages legislation to provide VA broad statutory authority to address predatory lending and servicing practices as they occur.

Specially Adapted Housing Grant Program:

VA approved over 2,300 Veterans or Service members for a Specially Adapted Housing (SAH) grant in FY 2021. This is a record-breaking volume and a 13% increase over FY 2020. When possible, VA processes new SAH grant applications and active grant projects virtually. The enactment of the Ryan Kules and Paul Benne Specially Adaptive Housing Improvement Act of 2019 led to SAH program growth due to the expansion of benefits for program participants with visual impairments and post-9/11 Veterans. This legislation also increased the number of grant uses available to a participant.

Conclusion

Mr. Chairman, we will continue to provide our Nation's Veterans with efficient, effective and meaningful programs centered on expanding their homeownership opportunities. This concludes my testimony, and I welcome any questions that you or other Members of the Subcommittee may have.