MORTGAGE BANKERS ASSOCIATION

Statement of
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On Behalf of the Mortgage Bankers Association

U.S. House of Representatives
Committee on Veterans' Affairs
Subcommittee on Economic Opportunity

Legislative Hearing on Pending Legislation

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Chairman Van Orden, Ranking Member Pappas, and members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Mortgage Bankers Association ("MBA")[1] My name is Elizabeth Balce, and I am the Executive Vice President of Servicing at Carrington Mortgage Services.

I am appearing here today in my capacity as a member of MBA and a member of its Veterans' Affairs (VA) Home Loan Working Group. I am here, presenting MBA's views, which do not necessarily reflect those of Carrington Mortgage in every instance. As a lender with extensive experience in originating, securitizing, and servicing VA Home Loan Program mortgages, I am honored to testify before this panel.

MBA appreciates the Subcommittee's commitment to preserving and strengthening the VA Home Loan Program – ensuring it remains an effective, accessible choice for our nation's heroes. As such, MBA believes the program must continue to offer strong loss mitigation options comparable to those available via other federal housing programs. MBA also wishes to reaffirm our industry's strongly held belief that the VA funding fee should not be used as a budgetary offset for policy-related needs unrelated to the Home Loan Program.

MBA continues to support the need to establish a permanent partial claim program, which is a proven foreclosure prevention tool that aligns VA loss mitigation options with FHA and housing Government Sponsored Enterprise (GSE) programs. Partial claims help borrowers facing temporary financial hardship by allowing them to move missed payments to the end of their loan term, ensuring stability without requiring immediate repayment. The partial claim funds are eventually repaid, either at the sale of the home or the conclusion of the mortgage term. Unlike almost every widely utilized mortgage product, the VA Home Loan Program currently lacks this critical tool to help borrowers avoid foreclosures.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

MBA values its relationship with members of this subcommittee (and full committee) – and the House Veterans' Affairs Committee staff (on both sides of the aisle) – and appreciates the opportunity to work collaboratively with you to augment and improve the VA's loss mitigation and partial claim policies. Our association is grateful for the progress that has been made through these discussions to date, and we are pleased to offer recommendations today to further strengthen the proposed legislation that has been noticed for this hearing. It is important to recognize that the VA may require additional resources appropriated by the Congress to successfully implement the program improvements being proposed. MBA is committed to working with this Subcommittee, the full Committee, the full House and Senate, the VA, and other key stakeholders to develop bipartisan, practical solutions that uphold the integrity of the VA Home Loan Program. We look forward to playing a constructive role in these ongoing discussions.

As noted in prior MBA testimony before this panel, MBA member firms that originate and service VA loans continue to maintain a strong relationship with the agency. The VA Home Loan Program continues to be among the most significant benefits earned for Veterans and their families through our heroes' service to, and sacrifice on behalf of, our nation. Accordingly, I am pleased to offer recommendations aimed at improving the proposed legislation noticed for this hearing.

The VA Home Loan Program Reform Act (H.R. 1815)

Though MBA believes the VA already has the existing statutory authority to implement a partial claim program, our association supports legislation that explicitly establishes a permanent partial claim program for the VA Home Loan Program. A partial claim is a straightforward and effective solution to help prevent foreclosures and is already available to borrowers that utilize other federal housing programs. This option allows borrowers who have overcome a financial hardship to move their missed payments to the end of the loan term after a period of forbearance through a secured second lien payable to the VA. Veterans can stay in their homes with a partial claim while the VA and taxpayers remain protected due to the eventual repayment of the partial claim when a veteran sells or refinances. By using this tool, borrowers can resume their regular monthly mortgage payments or seek a modification for a more affordable payment plan.

Despite the introduction of the VA's Veterans Affairs Servicing Purchase (VASP) program to address today's high-interest rate environment relative to prior years, MBA believes Veteran homeowners facing temporary financial hardship deserve access to a partial claim option to reinstate their loan and remain in their homes. Veterans deserve a loan program with the same options and protections as other government-backed loan programs.

Access to both solutions—partial claim and VASP—will offer Veteran homeowners a more comprehensive set of loss mitigation options, ensuring homeownership remains stable and affordable during financial difficulties or periods of interest rate fluctuation.

MBA appreciates the bill's recognition of the need for a partial claim but is concerned that certain provisions may have unintended negative consequences for Veteran homeowners, the VA, and mortgage servicers. Therefore, our association suggests the following improvements to the bill in priority order are:

1. Clarify that a partial claim shall not diminish the amount of a loan guarantee to the lender. Section 3 should specify that a partial claim is not a claim against the guaranty of the *existing* loan. As drafted, the bill states that a partial claim will not affect the guaranty of a *new* loan. If enacted in this form, the bill would create confusion and increase the risks to the VA program associated with the application of the guaranty. MBA strongly supports the need to amend Section 3 of the bill for the following reasons:

    - The loan guaranty is a fundamental statutory protection that mitigates default risk for lenders at loan termination and insures up to a maximum of 25% of the loan balance, while the balance of 75% is borne by the lender. The bill, as drafted, defines a partial claim as a purchase of a portion of the indebtedness to resolve a default, in line with VA's existing purchase authority. However, paying the guaranty portion before loan termination – that is, attributing a 20% partial claim to the 25% guarantee to the lender – could negatively impact credit losses for lenders and servicers, thereby increasing the cost to service, constraining affordability for borrowers, and make the VA program less attractive for lenders to participate in. In this case, an initial partial claim paid against the VA guaranty would leave little to no guaranty to the lender to cover future losses in the event a borrower redefaults.

    - Additionally, by reducing the guarantee coverage of a VA loan, a claim against the loan guaranty will also render a loan ineligible for Ginnie Mae pooling in strict violation of Ginnie Mae's Mortgage-Backed Securities (MBS) guide.[2] Without clarity that a partial claim will not diminish a loan's full VA guarantee of 25%, the lender would be required to repurchase assets from the MBS and hold the loan in their portfolios without an ability to redeliver loans back into a Ginnie Mae security in the future. Independent mortgage banks, which originate 80% of VA loans, do not have large balance sheets to hold portfolios of whole loans, and could exit the VA program.

    Together, these risks will ultimately limit Veterans' access to affordable financing. Therefore, MBA recommends that the bill affirmatively state that the guaranty

[2] Ginnie Mae 5500.3, Rev. 1, Chapter 24: For a VA-guaranteed loan to be eligible for pooling, the following additional requirements apply: The amount of cash down payment and/or equity, plus the amount of available VA guaranty must equal at least 25% of (i) the purchase price of the property or (ii) the Certificate of Reasonable Value (CRV), whichever is less. The guaranty fee charged by VA must not be included in this calculation.

cannot be used to fund a partial claim and, instead, that it constitutes a direct purchase of a portion of the indebtedness.

2. Remove the requirement that Veterans repay partial claims with interest. The bill currently requires Veterans to begin repaying their partial claim within three years to maintain a 0% interest rate, with a 0.5% interest applied if repayment does not begin within that timeframe. MBA urges alignment of the VA partial claim with the partial claims allowed by FHA and Fannie Mae and Freddie Mac (two of the housing GSEs), structuring partial claims as non-interest-bearing junior liens repaid only upon refinance, sale, or loan maturity. These changes may be motivated by a desire to generate revenue from a partial claim through interest income, but the VA will recoup the initial outlay in most cases without such an anomalous feature.[3] Because repayment terms – including minimum payment requirements – remain undefined, this provision is not in the best interest of Veteran borrowers and introduces unnecessary risk. By definition, a repayment plan requires a borrower to pay more than their contractual payment, which challenges a borrower's ability to sustainably afford their mortgage.[4]

   Additionally, creating a repayment plan raises complications regarding the treatment of the otherwise performing first lien mortgage if the borrower becomes delinquent on the repayment plan. The VA would also need to fund and manage a complex payment processing operation to collect interest payments on partial claims, which could significantly reduce the revenue generated under this approach. To avoid these issues, MBA recommends defining a partial claim as a subordinate, non-interest-bearing junior lien that does not require repayment during the mortgage term, similar to FHA's partial claim or the GSEs' payment deferral.

3. Tie the termination of the partial claim to a period after enactment of the bill. As proposed, the bill sunsets the partial claim program on a specific date, September 30, 2027. Even if the bill were enacted, a sunset date after less than two years limits the utility of a partial claim program to Veterans currently in default. Instead, more time is appropriate to allow distressed Veterans to maximize the partial claim program. MBA recommends the bill sunset the partial claim program five (5) years after enactment.

4. Increase the available amount of partial claim to 30% of the unpaid principal balance. As stated, MBA supports ensuring parity with other federal loss mitigation programs to provide maximum protections to Veterans borrowers while creating a consistent loss mitigation review experience. Capping protections at 20% undermines this goal.

[3] The average life of a mortgage loan is under 7 years, which will fluctuate with market interest rates.
[4] An interest penalty – while nominal - also creates the risk of negative amortization creating a greater financial burden to the Veteran than underlying delinquency itself.

5. Allow multiple partial claims for borrowers impacted by a natural disaster. Currently, the VA can make only one partial claim per loan under the bill, which could inhibit borrowers affected by a natural disaster from receiving assistance quickly to provide borrowers with the space to pursue repairs to the affected property. Borrowers who previously received a partial claim should not be barred from future assistance if funds remain available. Therefore, MBA recommends providing an exception for borrowers that have been impacted by a natural disaster.

6. Require notice and comment to implement partial claim regulations. The bill permits the VA to issue administrative guidance to implement a partial claim for borrowers currently in default without following the regulatory process outlined in the Administrative Procedures Act. While the intention to assist Veterans quickly is commendable, transparency is required in the policy development process. Mortgage servicers should be provided the opportunity to opine on the operational impact of the new rules to their daily processes. Therefore, MBA suggests the VA propose renewed regulations within 180 days of enactment.

MBA appreciates your consideration of the recommendations for improvement to the bill outlined here. Our association – and its members that originate, service, and securitize VA Home Loan Program mortgages – look forward to continuing to work with members of this subcommittee (and full committee), the VA, and other key stakeholders on the *VA Home Loan Reform Act.*

Restoring the VA Home Loan Program in Perpetuity Act (H.R. 1814)

MBA strongly opposes H.R. 1814, which imposes an arbitrary cap on the number of loans the Veterans Affairs Servicing Purchase (VASP) program can acquire and mandates a study on selling these loans to non-government entities. This legislation, as proposed, undermines critical foreclosure prevention efforts for Veteran borrowers and limits VA's ability to effectively manage its loan portfolio.

Capping VASP loan purchases at 250 per Fiscal Year will render the program ineffective. The VA Home Loan Program serves a large and diverse population of Veteran homeowners, some of whom face financial hardship due to economic downturns, service-related disabilities, or unexpected life events. Given current delinquency rates, this cap is far too low to provide meaningful relief to the expected population of struggling borrowers. Instead of ensuring Veterans can remain in their homes, this bill, if enacted, would force the VA to deny assistance to many Veterans who would otherwise qualify for relief under the current guidelines.

As this Committee knows, mortgage servicers have worked diligently with the VA to help Veteran homeowners navigate rising interest rates since March 2024. Through VASP, and following the expiration of the voluntary foreclosure moratorium, mortgage servicers have provided relief to thousands of distressed Veterans through the VASP program. VA should continue working with their industry partners to ensure that performing borrowers whose loans have already been purchased by VA can successfully transfer to the VA's contractor. Any disruption to those efforts will undermine assistance to the very Veterans the VA and servicers are committed to protecting.

Rather than restricting VA's authority, MBA believes that Congress should prioritize strengthening the agency's set of foreclosure prevention tools. A more constructive approach (in keeping with our prior comments) would be to establish a permanent partial claim program, which is a more effective and widely used foreclosure prevention tool available in other federal loan programs, ensuring that VASP or similarly structured programs would be tools of last resort.

Fair Access to Co-ops for Veterans Act (H.R. 1803)

MBA appreciates the intent of H.R. 1803, which seeks to expand homeownership opportunities for Veterans by permanently authorizing VA-backed cooperative (co-op) loans. Ensuring Veterans have access to a broad range of housing options is an important goal, and our association's members recognize that co-ops are a viable homeownership model in many markets. The bill's removal of the outdated $144,000 loan cap is a necessary improvement that will help make this benefit more widely utilized.

However, MBA remains concerned about several key provisions that could limit lender participation and borrower access. The bill imposes an additional 3.25% funding fee on VA-backed co-op loans, significantly increasing costs for Veterans. MBA urges the subcommittee to reconsider this fee, as it could discourage use of the program and make co-op loans less competitive.

Unlike traditional VA loans, co-ops do not provide direct title ownership in real estate. The bill does not resolve how VA will handle foreclosures, co-op project failures, or competing liens that may take priority over a Veteran's interest. MBA recommends further statutory clarity to ensure both borrowers and lenders are protected. This bill also does not address whether Ginnie Mae will securitize VA-backed co-op loans, which would impact lender participation. Without this clarity, the law's enactment may fail to provide meaningful benefits.

While MBA does not oppose expanding co-op eligibility for Veterans, our members would encourage Congress to refine the bill as it moves forward to address these outstanding concerns. Our members appreciate the opportunity to provide input on this proposed legislation.

Other Potential Policy Options

VA Funding Fees

MBA remains concerned about the repeated use of VA home loan funding fee increases to pay for non-housing related Veterans' benefits. As Congress considers several wide-ranging pieces of legislation that would expand or alter Veteran benefits across a range of programs, I want to make clear that MBA opposes legislation that increases or extends VA funding fees to offset the costs associated with new and/or unrelated expenditures.

Simply stated, these funding fee increases and extensions are not tied to the actual credit risks of Veteran homebuyers. If that were the case, the actual funding fee would be a fraction of where it currently sits today, meaning that far more Veterans would be able to qualify to purchase a home. As a result of prior funding fee hikes for unrelated non-housing benefits, many Veterans cannot afford homeownership today. Those who *can* access the benefit today are paying far more – in the midst of a housing affordability crisis – to help subsidize other federal programs.

MBA feels strongly that these continued increases and extensions of previous increases severely threaten the VA home loan program. While any individual funding fee increase may be small, the cumulative impact of the many hikes and extensions over the past decade is worrisome and significant. Our members recognize that in many instances the funds diverted from the home loan program fund worthy and important initiatives, but firmly believe that Congress should fund that work separately rather than diminish the strength of the home loan program to achieve those ends.

MBA urges Congress to work with the Trump administration to ensure that VA funding fees are set at levels commensurate with the default risks associated with VA-guaranteed home lending. Congress should conduct appropriate oversight and analysis of past funding fee increases before simply defaulting to the practice of levying further increases or extensions.

NAR Litigation Settlement Impacts on VA Borrowers

The National Association of Realtors® (NAR) entered an agreement to settle numerous class action lawsuits alleging violations of antitrust law. The terms of NAR's settlement agreement that were implemented last August and approved by the court in November included industry practice changes that impacted the setting and payment of buyer-agent commissions. In some transactions, sellers may choose not to pay buyer broker compensation – particularly if competing buyers are offering to cover the cost themselves. As the implementation date approached, the VA temporarily lifted its longstanding policy that prohibited Veterans from paying fees or commissions to real estate agents or brokers in relation to a VA home loan.

Without the ability to potentially match competing offers that cover buyer agent commissions, Veteran borrowers faced a significant disadvantage. MBA appreciates VA's temporary measure addressing this prohibition. Accordingly, our association urges the VA to permanently amend its regulations as written in its temporary suspension to allow Veteran borrowers to pay reasonable and customary fees and commissions to retain agents that will represent their interests in the transaction.

Drafting Table

As we have noted in prior testimony before this Subcommittee, MBA encourages Congress to ensure the VA has the necessary resources to implement a permanent public input process for developing new lending and servicing policies before implementation is required. Creating a "Drafting Table" similar to FHA's for interested stakeholders would enable the VA to gather thoughtful comments on the impact of policy changes on lenders' and servicers' operations before implementation and enforcement. Enhancing transparency and collaboration in policy development will help ensure that VA's mission is achieved, leading to a more efficient mortgage program and improved outcomes for Veterans.

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Conclusion

Once again, MBA appreciates the opportunity to comment on the many critical issues that impact the VA Home Loan Program, including the specific legislation noticed for this hearing today. Our association and its members value our partnership with Congress and the VA on these issues – and continue to embrace our shared mission of helping Veterans utilize their hard-earned benefit to achieve homeownership.

Our association looks forward to continuing to work with the members of this Subcommittee – and the full Committee – to help forge practical solutions such as the legislation to establish a permanent partial claim option to help distressed VA borrowers. MBA also looks forward to working with Congress to help provide the VA with the resources necessary to implement changes and improve the delivery of the Home Loan Program benefit to our nation's heroes.

I look forward to answering any questions you may have.