STATEMENT OF
JOSEPH C. SHARPE JR., DIRECTOR
NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
ON THE
STATUS OF THE LOAN GUARANTY PROGRAM

MAY 20, 2010

Chair Herseth Sandlin, Ranking Member Boozman and Members of the Subcommittee.

Thank you for the opportunity to present The American Legion's views on the Status of the Loan Guaranty Program.

VA HOME LOANS

VA's Home Loan Guaranty Program has been in effect since 1944 and has afforded over 18 million veterans the opportunity to purchase a home. The home loan programs offer veterans a centralized, affordable and accessible method of purchasing homes in return for their service to this nation. In the last five fiscal years (2005-2009), VA has assisted more than 947,000 veterans in obtaining home loan financing totaling almost $180 billion. In FY 2009, VA guaranteed 325,690 loans with the average loan being at $209,404.

The American Legion has been very pleased to watch the performance of VA loans during the unprecedented downturn in the mortgage marketplace over the last two and a half years. Historically, the Mortgage Bankers Association has tracked the performance of Prime, Subprime, Federal Housing Administration and VA loans using its National Delinquency Survey. The most recent available survey is for the 4th quarter of 2009 and it shows the serious delinquency rate for these loan types is as follows:

- Prime 7.01%
- Subprime 30.56%
- FHA 9.42%
- VA 5.42%

This data clearly shows that VA loans are performing better than all other mortgage loan types in the marketplace. This favorable performance during a difficult economic period can likely be attributed to several factors: (1) VA has continued to maintain its prudently crafted credit underwriting standards, while other players in the mortgage industry compromised their standards to generate more business; (2) VA selects the appraiser that will be used for a VA loan from its list of approved appraisers and does not allow lenders to make the selection as is typical in the rest of the mortgage industry; (3) VA has always maintained a comprehensive and aggressively administered program of assisting veterans who encounter trouble making their loan payments; and, (4) the fact that veterans and service members are generally more responsible borrowers as a result of the maturity and discipline they develop while serving their country.

VA has a longstanding program of assisting veterans who encounter financial difficulty and have trouble making their mortgage payments. This program involves a partnership with the servicers of VA loans under which VA aggressively monitors the efforts of these servicers in assisting veterans with repayment plans, loan modifications and the granting of forbearance. VA often intervenes directly with the veteran to assure that he/she has the opportunity to take advantage of one of these options. When it is not possible to affect one of these options, servicers are required to consider alternatives to foreclosure, such as a deed in lieu of foreclosure or a short sale. Also, in 2008, VA finished the development of a leading edge information technology system known as the VA Loan Electronic Reporting Interface (VALERI) as well as a comprehensive change to the business processes and regulations involved in the servicing of VA loans. This has given VA an even greater opportunity to assure that veterans are given every reasonable chance to keep their homes during times of financial difficulty.

The VA loan program remains relevant and flexible in today's marketplace as it nears its 66th year of providing no down payment loans to veterans. Until the mid-1990s this program was virtually alone in the mortgage industry in offering a no down payment product. Gradually, during the 1990s and up until the mortgage crises that began around 2007-2008, many players in the industry aggressively marketed highly risky products such as payment option ARMS, interest only loans, as well as many versions of subprime loans. Some even ventured into the no down payment mortgage arena. The aggressive marketing of these products caused the VA Home Loan Program to experience a fall-off in loan origination volume as some veterans were lured away from using their VA benefit by the aggressive marketing of these products. When the "subprime crisis" was well underway in 2008, most lenders ceased offering these highly risky products. Since that time there has been a significant increase in VA loan volume as, once again, the VA program assumed the posture of being virtually the only source of no down payment loans. This resurgence is dramatically illustrated by looking at VA's diminished loan volume in Fiscal Year 2007 when it guaranteed only 133,297 loans, but followed in 2008 with 179,648 and 325,673 in 2009. It looks like VA is on track to match last year's high volume during Fiscal Year 2010.

VA presently has the statutory authority to offer a wide variety of mortgage products to veterans for the purpose of buying or refinancing a home, to include: fixed rate mortgages; adjustable rate mortgages or ARMS (both traditional and hybrid ARMS); growing equity mortgages; graduated payment mortgages; direct loans to Native American veterans; and, energy efficient mortgages. These products enable veterans to buy homes (new and existing), condominiums, manufactured homes and cooperative housing units. The American Legion believes that limiting VA to only those products for which specific statutory authority has been provided by Congress has generally been an effective process. While there have been instances over time when providing VA with authority to guarantee a new product was not accomplished in a timely manner, e.g. traditional and hybrid adjustable rate mortgages, on balance the process has worked well. As a test, Congress might wish to consider providing limited authority to the Secretary of Veterans Affairs to engage in geographically and time limited pilot programs as a means of testing a new product. This authority could include a requirement that VA report to Congress on the results. Congress could then decide whether to provide statutory authority for an ongoing program.

VA has always believed that veterans should be given every opportunity to use their earned home loan benefit. Consequently, they employ a multi-faceted approach to credit underwriting that includes the following: (1) VA uses the residual approach to underwriting in which all of the veteran's obligations (consumer credit obligations, proposed housing expense, tax obligations, etc.) are subtracted from his/her gross income to determine the net effective income available to support the veteran's family. The net effective income is compared with guidelines obtained from the Bureau of Labor Statistics on what is required to support a family of varying sizes in different parts of the country; (2) debt-to-income ratios; and, (3) credit history obtained from credit reports. VA's credit underwriting guidelines require lenders to consider all aspects of a veteran's financial situation when making the decision to approve or disapprove a loan application. At the same time, lenders are directed to not consider the guidelines to be "hard and fast" rules. Consequently, if a veteran does not meet one aspect of these guidelines, VA encourages lenders to look at the veteran's whole financial make-up to determine if there are any positive offsetting factors that would justify approving the loan.

Furthermore, VA has approved several automated underwriting systems (AUS) for use in processing veterans' loan applications. For example, VA allows lenders to use Fannie Mae's Desktop Underwriter System and Freddie Mac's Loan Prospector System. AUS's are only approved after companies incorporate VA's underwriting standards into the algorithms contained in the software and VA subsequently tests the systems to assure that the decisions rendered are consistent with VA standards. These systems have significantly decreased the timeframe for obtaining a VA loan while maintaining the integrity of the underwriting process. The American Legion believes that use of these automated underwriting systems has resulted is greater willingness of lenders to participate in the VA Home Loan Program.

Currently, VA loans appear to be readily available in both high and low cost areas of the country. However, this has not always been the case. Prior to enactment of Public Law (P.L.) 108-454 in December of 2004, VA loans were sometimes difficult to obtain in high cost areas of the country because the statutory maximum guaranty was insufficient to permit all veterans in these areas to purchase the home of their choice. With the enactment of this law, Congress indexed the guaranty amount to 25% of the conventional conforming loan limit. Since this amount automatically adjusts every year based on the increased cost of housing, the maximum VA guaranty should always be high enough to allow veterans in high cost areas to purchase the home of their choice.

In 1982, P.L. 97-253 was enacted and imposed a ½ % funding fee (1/2% of the loan amount) on all veterans using the loan program, with the exception of those veterans in receipt of compensation for a service connected disability. This was considered to be a temporary measure to help reduce the national debt. Unfortunately, this fee has become a fixture of the home loan program and, even more unfortunately, it has been raised numerous times by Congress since 1982. Presently, veterans using the program for the first time pay 2.15% of the loan amount and those using it for a second or subsequent time pay 3.3%. Although veterans are permitted to include the fee in the loan amount, it constitutes an added financial burden. For example, a veteran using the program for the first time obtaining a $200,000 loan will pay $4,300. For a second time user, the fee on this loan amount would be $6,600. While this is substantial in and of itself, it is even more significant when you consider the amount of interest the veteran will pay on these amounts as a 30 year mortgage is amortized. The American Legion strongly urges Congress to consider either eliminating this fee or significantly reducing it. Veterans should not have to make such a significant financial sacrifice in order to use a benefit that they have earned as a result of their service to America.

In addition, The American Legion supports that all spouses of deceased veterans gain eligibility for the VA Home Loan program. The current eligibility for a home loan for spouses is: an unremarried spouse of a veteran who died while in service or from a service-connected disability; or, are a spouse of a service member missing in action or a prisoner of war. It is unfair for a veteran's spouse only to become eligible for the home loan if the veteran dies of a service-connected disability. Moreover, veterans are more likely than not to be the primary income provider for the household and contribute the majority of payments to mortgages for the family. Upon death of a veteran, the mortgage payments must continue to be paid and the burden falls on the widow/widower. Many times the spouse elects to relocate to a smaller, more economical establishment that is within their means. By allowing spouses to gain eligibility, many elderly widows/widowers will be able to enter the VA Loan Program.

Finally, as the mortgage crisis continues to unfold, the VA needs to do more to promote their excellent home loan program, and to encourage veterans facing housing problems to contact a VA financial counseling center.

I would like to thank the Chair, Ranking Member and the rest of the Subcommittee for giving The American Legion the opportunity to speak on this important issue.