

**Statement on V.A. Home Loan Guaranty Program**

**Reserve Officers Association of the United States**

**and**

**Reserve Enlisted Association**

**before the**

**Subcommittee on Economic Opportunity**

**House Veterans Affairs Committee**

**United States House**

**May 20, 2010**



*“Serving Citizen Warriors through Advocacy and Education since 1922.”™*



---

**Reserve Officers Association**  
1 Constitution Avenue, N.E.  
Washington, DC 20002-5618  
(202) 646-7719

**Reserve Enlisted Association**  
1501 Lee Highway, Suite 200  
Arlington, VA 22209  
(202) 646-7715

---

The Reserve Officers Association of the United States (ROA) is a professional association of commissioned and warrant officers of our nation's seven uniformed services, and their spouses. ROA was founded in 1922 during the drawdown years following the end of World War I. It was formed as a permanent institution dedicated to National Defense, with a goal to teach America about the dangers of unpreparedness. When chartered by Congress in 1950, the act established the objective of ROA to: "...support and promote the development and execution of a military policy for the United States that will provide adequate National Security." The mission of ROA is to advocate strong Reserve Components and national security, and to support Reserve officers in their military and civilian lives.

The Association's 63,000 members include Reserve and Guard Soldiers, Sailors, Marines, Airmen, and Coast Guardsmen who frequently serve on Active Duty to meet critical needs of the uniformed services and their families. ROA's membership also includes officers from the U.S. Public Health Service and the National Oceanic and Atmospheric Administration who often are first responders during national disasters and help prepare for homeland security. ROA is represented in each state with 55 departments plus departments in Latin America, the District of Columbia, Europe, the Far East, and Puerto Rico. Each department has several chapters throughout the state. ROA has more than 450 chapters worldwide.

ROA is a member of The Military Coalition where it co-chairs the Tax and Social Security Committee. ROA is also a member of the National Military/Veterans Alliance. Overall, ROA works with 75 military, veterans and family support organizations.

**President:**

Rear Admiral Paul Kayye, MC, USNR (Ret.) 919-696-5155 cell

**Staff Contacts:**

**Executive Director:**

Major General David R. Bockel, USA (Ret.) 202-646-7705

**Legislative Director, Health Care:**

CAPT Marshall Hanson, USNR (Ret.) 202-646-7713

**Air Force Director,**

Mr. David Small 202-646-7719

**Army and Strategic Defense Education Director:**

Mr. "Bob" Feidler 202-646-7717

**USNR, USMCR, USCGR, Retirement:**

CAPT Marshall Hanson, USNR (Ret.) 202-646-7713

The Reserve Enlisted Association is an advocate for the enlisted men and women of the United States Military Reserve Components in support of National Security and Homeland Defense, with emphasis on the readiness, training, and quality of life issues affecting their welfare and that of their families and survivors. REA is the only Joint Reserve association representing enlisted reservists – all ranks from all five branches of the military.

**Executive Director**

CMSgt Lani Burnett, USAF (Ret) 202-646-7715

**DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS**

The Reserve Officers and Reserve Enlisted Associations are member-supported organizations. Neither ROA nor REA have received grants, sub-grants, contracts, or subcontracts from the federal government in the past three years. All other activities and services of the associations are accomplished free of any direct federal funding.

## **Executive Summary – recommended changes**

The Reserve Officers Association and the Reserve Enlisted Association make the following recommendations:

- ▶ Make permanent Reserve Component VA Home Loan Guarantees expiring in Oct. 2012.
- ▶ Eliminate the .25 percent fee differential between Active Component and Reserve Component programs on VA Home Loan.
- ▶ Reduce the VA funding fee to a lower percentage for subsequent financing and for down payments higher than 10 percent.
- ▶ Lower the higher VA Funding Fee for repeat use by a veteran of VA Home Loan program
- ▶ Allow occupancy by any other immediate family relatives (parents, siblings) as a substitute for personal occupancy by the veteran.
- ▶ Make it easier for serving Active and Reserve Component members to rent their homes, if they are unable to sell the property following a change of permanent duty station assignment.
- ▶ Raise the guaranty dollar levels permitting veterans to afford more home in a potentially rising real estate market; if not nationally, an audit needs to be done to enable adjustment of county guaranty levels.

## **Introduction**

ROA and REA believe that the VA Home Loan Guaranty Program is more financially relevant in today's market place as conventional loan qualifications standards have tightened since the real estate bubble collapsed over two years ago. In 2009, there were about 1.3 million active home loans that used the VA's Home Loan Guaranty Program. The VA Loan Guaranty Program is one of the few remaining programs that require zero down payment with more than 90 percent of VA-guaranteed loans are made without a down payment, VA reports. It allows easier qualification for the veteran who is a first time buyer, and is assumable by the new buyer at the time of resale.

Key to any economic environment is the fact that this program provides veterans a backup plan should other options fall through. As some 57 million American's are eligible for the program, if anything, it demonstrates that it is under-utilized, likely because most of these veterans are unaware of this program. Veterans Affairs is dependent upon the Real Estate and mortgage industry to help get the word out. Certainly, there are means, other than having veterans go to the V.A.'s website, to help put the word out.

The ROA and REA feel it is important to authorize this program beyond 2012, and we are appreciative that this committee is holding a hearing on this early in the legislative cycle to take a look at the program.

## **Advantages**

The VA loan guaranty program is one of the few remaining programs that require zero down payment. Prime conventional loans may require up to a 20 percent down payment.

For Real Estate agents, having an eligible veteran for the V.A. Loan Guaranty Program provides more versatility to the agent, when it comes to buying a home by having an option of a conventional loan and a V.A. loan, which makes negotiations easier. It also provides leverage to the veterans during a period of dynamic interest change.

With a VA Loan, the veteran can have the seller pay as much as 6 percent of the borrower's closing costs, while most conventional loans will only permit the seller will pay up to 3percent of the loan .

VA Home Loan Guarantee program has competitive interest rates.

For a first time, younger buyer, the VA loan program makes it easier to purchase a house. The VA loan program can finance up to 100 percent without requiring mortgage insurance which positively changes the calculus for loan qualification to favor the veteran. It is also easier to qualify as the VA doesn't base approvals solely on credit like many conventional lenders.

Veterans receiving VA disability benefits are exempt from the VA Funding Fee.

It helps in the selling of houses, as a V.A. loan is transferable to a non-veteran. The only risk to doing this is the veteran loses access to the guarantee while the mortgage remains to be paid.

The veteran has the right to prepay without penalty.

## **Disadvantages**

Reservists pay a ¼ of a percent higher VA Funding Fee than serving members or veterans from Active Duty. (Guard or Reserve members with a DD-214 confirming active service qualify for the active rate.)

VA Funding Fees are higher if a veteran wishes to subsequently reuse the VA loan program paying a 1.15 percent higher funding fee.

In conventional loans, the higher the down payment the smaller the closing costs are, yet the VA Funding Fee remains 3.3 percent for and down payment of 10 percent or more.

For the buyer, the VA Loan program is more stringent when it comes to appraisal and building inspection requirements, so for the individual selling the house to a veteran, the requirement to make repairs make the transaction more expensive, and a V.A. loan takes longer to close, putting a veteran at a disadvantage in having a bid initially being accepted. These standards also create duplicate paperwork; VA documents in addition to conventional documents.

VA Loan program has stricter underwriting guidelines in terms of debt to income ratios and residual income (qualify by using net income versus gross income), yet the loan program has a very low delinquency rate, and the lowest foreclosure rate.

**Disadvantages – cont.**

Lenders can only charge certain fees to veterans (lender must absorb the unallowable costs or in a purchase transaction, the seller can pay).

Mortgage brokers will try to qualify veterans in conventional loans before utilizing the V.A. program.

The VA offers Adjustable Rate Mortgages (ARM). While this allows for easier qualification upfront, as rates rise (1 percent per year up to 5 percent higher) veterans risk an inability to make payment. At a minimum the VA needs to provide financial counseling for those veterans selecting ARMs.

Losing access to the guaranty is also a problem for active duty members who purchase a home using the VA loan program, because upon transfer to a new station many are unable to sell the first house. They lose their eligibility for a new VA loan until the first property is sold.

Condominiums are subject to great deal of regulation/red tape, making it hard to finance condo thru VA Home Loan Program.

VA Loan ceiling are determined by counties within the state with most locations being limited to \$417,000. The down payment required to close the gap. While there are exceptions, the veterans still has to qualify for the higher amount, and in many locations the program hasn't kept up with the real estate market.

The law requires that you certify that you intend to occupy the property as your home when you are applying for the loan. If an active duty member is deployed, a spouse can occupy, but the law makes no provision for occupancy by any other relatives as a substitute for personal occupancy by the veteran.

While there are no restrictions on renting out a primary residence after living in it, the VA can prove to be a little difficult when one lives in the home a very short time and then tries to rent it out. Many Active (and in some cases Reserve) members are transferred after a short duration. With some mortgage companies, one may have to submit a letter requesting permission to rent out a VA loan house.

**Delinquency rates**

	First Qtr 2009	Third Qtr 2009
Prime Loans	6.41 percent	6.73 percent
Subprime Loans	25.35 percent	25.26 percent
FHA loans	14.42 percent	13.57 percent
VA loans	8.06 percent	7.41 percent.

Source: Mortgage Bankers Association

Foreclosures decreased by nearly half between 2001 and 2008.

VA says its percentage of loans in foreclosure is the lowest of all measured loan types - lower even than prime loans. When a VA-guaranteed home loan becomes delinquent, VA provides supplemental servicing assistance to help cure the default. Veteran borrowers may be able to

request relief pursuant to the Servicemembers Civil Relief Act (SCRA). Court permission is usually necessary to foreclose a loan that falls under the provisions of the Act.

VA's loan specialists can intervene on a veteran's behalf to help pursue home-retention options such as repayment plans, loan modifications and forbearance. Additionally, under certain circumstances, VA can refund a loan, which involves purchasing the loan from the mortgage company and modifying the terms to make a new mortgage plan more affordable.

### **Suggested Improvements**

- In the past, some Veterans Service Organizations have recommended a repeal of the VA funding fee. This fee is not out of line with the mortgage market, which often includes “points” up to three percent of the loan amount, if not more. The VA Funding fee also eliminates private mortgage insurance (PMI) which is required on conventional loans with less than 20 percent down. Changes that ROA and REA recommend include:
  - Parity between Active and Reserve VA Funding Fees.
  - Reduction of the VA Funding Fee secured by a down payment greater than 10 percent.
  - Reduction of the higher VA Funding Fee for subsequent use by a veteran of VA Home Loan Guaranty program.
- VA counseling should warn about the possible risks of the Adjustable Rate Mortgage options.
- Allow occupancy by any other immediate family relatives (parents, siblings) as a substitute for personal occupancy by the veteran should members deploy.
- As eligibility is limited prior to a mortgage being paid off, make it easier for serving Active and Reserve Component members to rent their homes, if they are unable to sell the property.
- Raise the guaranty dollar levels permitting veterans to afford more home in a potentially rising real estate market; if not nationally, an audit needs to be done to enable adjustment of county guaranty levels.

### **Conclusion**

The VA Home Loan Guaranty program has a very low delinquency rate, and the lowest foreclosure rate when compared to FHA, prime and subprime conventional loans. In addition, the program has the assurance that serving Active or Reserve members who default on any home type of mortgage will put their security clearances at risk, which can terminate careers.

Because of the success of this program, it should be continued beyond 2012, and many of the fees, underwriting standards and guarantees should be reexamined and reduced to encourage both serving members and veterans to utilize this program for both initial and subsequent home purchases.

Both ROA and REA again thank the committee for this opportunity to testify.

## FAQ

### What is the V.A. Home Loan Guaranty Program?

VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home which must be for their own personal occupancy. The guaranty means the lender is protected against loss if you fail to repay the loan. The guaranty replaces the protection the lender normally receives by requiring a down payment allowing you to obtain favorable financing terms.

### Who qualifies?

More than 57 million Americans currently qualify for a VA Home Loan. Veterans with DD-214, and serving Active, Guard and Reserve members are eligible. Reservists w/o active duty time must serve six years to qualify. These loans are also available for the widows or widowers who have not remarried and the spouses of the veterans and active military personnel.

### How does one qualify?

It requires a VA Certificate of Eligibility. One needs to complete a VA Form 26-1880, Request for a Certificate of Eligibility. The process to obtain a VA Certificate of Eligibility used to take weeks through the VA to have it delivered, delaying the house buying process, but most lenders have access to the Web LGY system allow eligibility to be established in minutes.

### What is the VA funding fee?

The VA funding fee is required by law and is what the VA charges to guarantee the loan. This fee is simply added to a base loan amount and is paid over the life of the loan, replacing more expensive mortgage insurance.

The active duty veteran will have to pay 2.15 percent funding fee of the loan amount if it is a first time loan.

Type of Veteran	Down Payment	1st Time Use	Subsequent Use for loans from 1/1/04 to 9/30/2011
Regular Military	None	2.15%	3.3%*
	5% or more (up to 10%)	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard	None	2.4%	3.3%*
	5% or more (up to 10%)	1.75%	1.75%
	10% or more	1.5%	1.5%

If the first loan is paid off, the VA loan program can be used again, but the fee increases to 3.3 percent the next time.