



Removing Barriers to Veteran Homeownership

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Statement of

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Subcommittee on Economic Opportunity

With Respect To

“Removing Barriers to Veteran Homeownership”

Washington, D.C.

Chairman Levin, Ranking Member Moore, and members of the subcommittee, on behalf of the men and women of the Veterans of Foreign Wars of the United States (VFW) and its Auxiliary, thank you for the opportunity to provide our remarks on this important topic.

VA Home Loan Guaranty Significance

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The Department of Veterans Affairs (VA) Loan Guaranty Service has long been providing opportunities for upward economic mobility to the military community by opening the doors to homeownership. For over seventy years, the VA Home Loan program, established through the *Servicemen's Readjustment Act of 1944*, has provided a means to obtain and adapt homes, in recognition of the dedication and sacrifice of service members. For eligible veterans who have served on active duty and in the National Guard or Reserve forces, this program has been one of the most significant benefits offered through VA.

The unique elements of the VA Home Loan program, to include allowing veterans to purchase a home without a down payment and to save thousands of dollars by not requiring mortgage insurance, make this program invaluable among the benefits provided to veterans for their service. Through this program, VA guarantees to over 1500 nationwide approved lenders that it will back at least twenty-five percent of loans if the loans were to default. This has made these loans some of the safest in the market and allowed veterans to gain access to a housing market from which they may otherwise have been excluded.

In addition to allowing veterans to avoid saving for a down payment, VA-backed home loans also generally provide greater flexibility for credit score and income requirements than conventional loans. This creates greater accessibility for individuals who may not otherwise be able to achieve the dream of owning a home. Several fees such as VA-guaranteed loan processing fees, known as "funding fees," can be financed into the loan or waived for those who have an eligible service-connected disability rating. These loans lessen the burden of up-front savings requirements for veterans who may not be as well positioned to access savings as their civilian counterparts.

In 2020, several provisions of the *Blue Water Navy Vietnam Veterans Act of 2019* went into effect that also improved access to home ownership for eligible veterans. Through this legislation, funding fees were reduced for Reservists and National Guard borrowers, providing them parity with their active duty counterparts. VA borrowers with full entitlement are also permitted to obtain VA-guaranteed home loans with no down payment without being subjected to price limitations, allowing these borrowers to compete in an environment of rising home costs if their income permits.

While some of the prominent features of the VA Home Loan Guaranty are well known, many peripheral benefits are not. For example, VA offers the opportunity for Energy Efficient Mortgages (EEM), allowing buyers to finance up to an additional \$6,000 on their loan for energy efficiency improvements such as solar heating and cooling, insulation, weatherizing, and furnace replacement. This benefit, which is lesser known in the military community, provides an opportunity for buyers to leverage their VA benefit even more, creating greater equity in their homes and saving on their utility bills.

In addition to backing 1,440,000 home loans in fiscal year 2021 (fifteen percent above the previous year), VA reported also preventing over 200,000 foreclosures during this time. During the COVID-19 pandemic, VA offered two new programs for veterans in financial distress, allowing VA-guaranteed home loan holders to avoid foreclosure. The VA Partial Claim Payment Program will continue to run through October 2022 and facilitates VA to make overdue mortgage payments to lenders through an interest-free second mortgage for the borrower. The Covid-19 Refund Modification Program similarly uses a new interest-free second mortgage to give borrowers up to a twenty percent reduction in monthly mortgage. VA has reported that programs such as these have saved taxpayers over 4.5 billion dollars by avoiding claim payments in fiscal year 2021.

Low foreclosure rates are generally a highly praised element of VA-guaranteed loans, with the Mortgage Bankers Association reporting these loans to be the most foreclosure-resistant on the market for most of the last twelve years. A strong appraisal process with higher standards than other programs contributes to the safety of these loans. This high standard for appraisals includes a review of Minimum Property Requirements (MPRs) and a home valuation conducted by a VA-approved appraiser. This process ensures borrowers using these loans purchase structurally sound homes in good condition and that their investments are fiscally responsible and not subject to overpricing. These requirements are designed to protect veterans, and are separate from standard home inspections but include thorough reviews of home safety and sanitation.

Barriers to Veteran Homeownership in 2021 and Beyond

VA Appraisal Process and Misconceptions

While the high standard for VA-guaranteed loan appraisals has made these loans among the safest, it has also historically posed a challenge to buyers and contributed to misconceptions veterans must overcome when purchasing a home. For many sellers, accepting an offer with a VA-guaranteed loan is viewed as too burdensome and risky in terms of meeting appraisal standards and extended time to close a sale.

In addition to MPR standards, veterans using VA-guaranteed loans face other difficulties associated with this program's appraisal process. While conventional loans provide flexibility in choosing appraisers, VA-guaranteed loans require VA-approved appraisers. In addition to their reputation for being more stringent, these appraisals have been associated with longer wait times. Data from ICE Mortgage Technology indicates that on average for the first three months of 2021, these loans took fifty-five days to close compared to forty-nine days for conventional loans. Although the difference is less than a week, some buyers are either unaware of wait times based on the current market, or do not find a twelve percent difference to be negligible. Sellers want to close quickly on the sale of their homes. In light of the high demand for appraisals, VA has responded by increasing timeliness requirements as well as appraisal fees for VA-approved loan appraisers, while stipulating that these increases are temporary.

The VA appraisal process also has an established reputation for strict home value assessments.

This can often pose a challenge for rural veterans when comparable homes are not available to accurately assess the true value of a home. Some veterans report the lack of a local VA-approved appraiser who understands the nuances of the community that factor into home values.

The concerns associated with VA-guaranteed loans are particularly problematic in the current 2021 housing market and housing shortage crisis. Considering an increase in cash offers and competitive elements that are easier to use through conventional loans, veteran buyers report choosing to not move forward with securing VA-guaranteed home loans. Some report choosing conventional loans to stay competitive, or worse, forgoing the dream of homeownership altogether. "It seems like sellers prefer just about every other financing option when weighing offers," one veteran who recently was hoping to buy a home in North Carolina shared, "so VA buyers start out at a disadvantage." A veteran spouse in Seattle, Washington, shared that she and her husband recently decided to forgo using a VA-guaranteed loan because they have heard about all the challenges. While she felt they should

take advantage of the benefits VA-guaranteed loans offer, her husband was resistant and did not want to risk losing the opportunity to build their new home. Veterans have reported their realtors advising against securing a VA-guaranteed loan, instead recommending a conventional loan.

Realities Behind “No Money Down”

For those who do forge ahead in the 2021 market with a VA-guaranteed loan, an additional significant challenge can be lack of cash on hand to make a competitive offer, or even make an offer at all. One of the most appealing and rightfully lauded elements of a VA-guaranteed loan is the lack of a down payment. Despite the established reputation of these loans as “no money down,” there are still many fees for which buyers need to be prepared, such as “earnest money” and fees for appraisals and inspections. Many veterans, especially those who served for years in junior positions in high-cost areas living paycheck to paycheck, have no savings and are unprepared to even start the home loan process. When faced with upfront costs, these veterans may be discouraged to learn that despite qualifying for a loan on their dream home, they are still not able to move forward with an offer.

In the current competitive market, buyers are enticed with offers for concessions to home inspections and assistance with closing costs. Veterans who know they do not have the savings to make needed repairs may not be in a position to include these types of concessions when making their offer on a home. Additionally, current sellers may expect buyers in this market to offer to help with closing costs, once again making those VA-guaranteed loan users without cash on hand less competitive.

Subsequent Use Barriers

An additional challenge faced by veterans is in the subsequent use of the VA-guaranteed benefit and understanding their remaining entitlement. A lack of comprehension by lenders and realtors regarding the specificities of VA-guaranteed loan policy can adversely affect securing timely loans that reflect all the benefits offered through the VA home loan program. Multiple veterans reported lenders and realtors insisting they would need to provide a down payment for a subsequent use home loan, despite the changes made through

the *Blue Water Navy Vietnam Veterans Act of 2019*. One veteran in the Washington, D.C., area delayed pursuing purchasing a home with a restored full entitlement based on his realtor's insistence he would need to provide a down payment, despite his claims otherwise. A veteran in Florida had to present the law to lenders himself on multiple occasions to combat skepticism. "Because of the complexity, there are nuances that are not well understood by those charged with providing the money," said the veteran. "We need to continue to review the laws and make sure lenders and buyers understand all the details. Every situation is not black and white."

Military Spouse and Transitioning Service Member Income Requirements

For many veterans, it may not make financial sense to purchase their first home until they transition from a lifestyle of the frequent Permanent Change of Station (PCS) moves inherent to military service, and begin their next chapter as civilians. Generally, when seeking VA-guaranteed loan approval while on active duty, service members will be required to provide their Leave and Earnings Statement (LES) as proof of income in the process of loan qualification. Unlike a standard paystub, the LES is a standard document for service members that not only provides pay information, but also the anticipated end date of their active duty status. If a service member's active service is scheduled to end within the next twelve months, the individual will be required to provide additional information such as proof of continuation of enlistment or a job offer with compensation from a civilian employer, in order for their income to be counted when securing a loan using an LES, potentially creating a barrier for service members as they transition.

Although not a challenge unique to VA-guaranteed loans, military spouse underemployment and unemployment can also be a barrier to opportunity, particularly when trying to purchase a home when embarking on a new life following transition from active duty service. While VA-guaranteed loans sometimes provide greater flexibility to income requirements than many conventional loans, military spouse job history can pose a problem when establishing income for loan approval. When applying for a VA-guaranteed loan from a popular military lender, a military spouse in Ohio, who had been employed full time in a well-paying job for seven months, faced scrutiny due to her gaps in employment during times she completed frequent PCS moves with her husband. Because her husband was transitioning out of active duty service within twelve months, his income was also ineligible, and they were unable to achieve loan approval. "Since I couldn't prove that I could 'last' at a job, I was told I would only get the loan if I could prove I'd worked for a full year," she stated. "It's once again the curse of military and veteran spouse underemployment and

unemployment.”

Knocking Down Barriers

The VFW believes there are actions that VA, the Department of Defense (DOD), lenders, and realtors can all take to combat both the real and perceived challenges surrounding VA-guaranteed loans. Through enhanced education and training for both users and providers, and analysis of usage of benefit elements during the current housing market, the VFW believes we can collectively remove these barriers to veteran homeownership.

The VFW recommends funding VA for outreach and recruiting to reduce the gap in closing times compared to conventional loans and combat misinformation on how much longer VA-guaranteed loans actually take to close. First, VA must bolster the VA-appraiser force. While VA has temporarily increased appraiser fees, the VFW recommends that Congress funds additional enticement pay for appraisers to become VA-approved without the additional cost being incurred by the buyers. Also, there needs to be more outreach and recruitment in underserved, rural areas where VA-approved appraisers might not be readily available. Second, VA must educate the public and market VA-guaranteed loans as similarly timely to conventional loans to combat misconceptions.

VA currently allows veterans to request a waiver in cases where they believe an appraiser-directed MPR repair is not necessary, providing the property is habitable from the standpoint of safety, structural soundness, and sanitation. Given the negative reputation among sellers of the strict inspection requirements, the VFW recommends that VA evaluates the MPR waiver process and reports its findings related to approval and denial rates, response times, and request types. Using data on the effectiveness of the MPR waiver process to see where improvements might be made could help mitigate concerns surrounding these inspections. Additionally, we feel it is important that VA educates and conducts outreach to lenders, realtors, and buyers on the opportunity to submit waivers in the first place.

The VFW recommends that DOD and VA enhance outreach and educational opportunities to teach service members, veterans, and family members how to best maximize their VA

home loan benefit, and how to best plan and save for required fees. Educating service members early in their careers—long before they enter the Transition Assistance Program—about opportunities such as First-Time Home Buyer Savings Accounts (FHSA) in states where these programs are available. The VFW also recommends that Congress drafts legislation to establish tax-favorable savings accounts for home buyers nationally, which would drastically help service members and veterans, especially those considered low income, to invest in their futures and save early to best enhance their ability to be competitive in the housing market.

To combat the challenges veterans face in the timing and subsequent use of VA-guaranteed loans, the VFW recommends that VA explores opportunities for any waiver or extension policies based on the current status of the housing market. In a seller's market, if a veteran could be approved to purchase a new home prior to selling their current home, providing there is evidence or data indicating the likelihood of a quick sale of their current home, this flexibility would help the veteran continue to use their entitlement.

The VFW recommends that VA conducts targeted, enhanced outreach to lenders and realtors, providing training on the nuances of VA-guaranteed loan benefits, special programs such as EEMs, updates to policies with new laws such as the *Blue Water Navy Vietnam Veterans Act of 2019*, and new programs such as the Partial Claim Payment Program. This type of training would help combat missed information, and prevent missed opportunities for veterans to maximize their benefit.

Lastly, the VFW recommends Congress and VA collaborate with lenders to collect data on the use of and evaluate opportunities to enhance forward-looking elements of the VA-guaranteed loan benefits, such as EEMs and new emergency foreclosure protections. For EEMs, the VFW recommends that VA reviews the impact of current maximum loan amounts in comparison with the average cost in today's market to invest in energy efficient home improvements such as solar panels, and that Congress increases the maximum loan dollars available to keep up with the current market. Assessing the level of understanding veterans have of the availability of these programs and what degree of measurable success they are having on veteran economic opportunity is critical to moving the VA Home Loan program in a positive direction.

For over seven decades, the VA Home Loan program has been one of the strongest factors that allows veterans to thrive after service and obtain upward mobility for themselves and their families. This earned benefit is an important demonstration to the military community

of the value our nation places on their service and sacrifice. We hope that needed oversight and improvements can be initiated quickly so veterans may continue to maximize their benefits for many years to come, and VA-guaranteed home loan use thrives even in times of competitive housing markets.

Chairman Levin, Ranking Member Moore, this concludes my testimony. I am prepared to answer any questions you or the subcommittee members may have.

Information Required by Rule XI2(g)(4) of the House of Representatives

Pursuant to Rule XI2(g)(4) of the House of Representatives, the VFW has not received any federal grants in Fiscal Year 2021, nor has it received any federal grants in the two previous Fiscal Years.

The VFW has not received payments or contracts from any foreign governments in the current year or preceding two calendar years.