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TESTIMONY OF

SHERRI MEADOWS
2016 VICE PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

VETERANS' AFFAIRS COMMITTEE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

HEARING TITLED

**A REVIEW OF VA'S LOAN GUARANTY AND SPECIALLY
ADAPTIVE HOUSING GRANT PROGRAMS**

FEBRUARY 10, 2016

INTRODUCTION

Chairman Wenstrup, Ranking Member Takano, and members of the Subcommittee, My name is Sherri Meadows. I have been a REALTOR® for 33 years, and am the broker/owner of three Keller Williams offices in Florida. In 2014 I was elected President of the Florida Association of REALTORS®, and today I serve as the 2016 Vice President of the NATIONAL ASSOCIATION OF REALTORS®. I am here representing more than one million REALTORS® working in all aspects of real estate.

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of housing opportunities for veterans. REALTORS® commend the Subcommittee for its attention to issues impacting American veterans. According to the US Census, there were 19.3 million military veterans in the United States in 2014. The Department of Veterans Affairs (VA) Home Loan Guaranty program serves a large population and is doing it well. The homeownership rate for veterans was 76 percent in 2014 – well above the national average of 64 percent.

The VA Home Loan Guaranty Program

In 2014, the GI bill turned 70 years old, and with it, the VA Home Loan Guaranty program did as well. The very first loan was made that same year right here in Washington, DC. This entitlement program encourages private lenders to offer favorable home loan terms to qualified veterans. Today, the VA has guaranteed nearly 22 million loans to American veterans, with a total loan volume of over \$1.7 trillion. The number of veterans eligible to buy a home is increasing. Active military and veterans comprised 21 percent of all home buyers in 2015, according to NAR's 2015 Profile of Home Buyers and Sellers report released in November 2015.

The VA home loan guaranty program is a vital homeownership tool that provides veterans with a centralized, affordable, and accessible method of purchasing homes as a benefit for their service to our nation.

VA's strong yet flexible underwriting allows veterans the ability to purchase a home of their own without depleting their savings. More than 82 percent of veterans utilize the zero-downpayment option provided by VA. Yet, despite this, VA's delinquency rate is very low. In fact, VA's foreclosure inventory rate (the percentage of loans in foreclosure) has bested that of even prime mortgage loans for 25 of the last 30 quarters, according to the Mortgage Bankers Association's National Delinquency Survey data. According to the 2015 3rd quarter MBA data, VA's seriously delinquent rate was 1.46 percent, and the foreclosure rate was even lower at 1.39 percent. That number is very comparable to conventional lending products, which had a foreclosure rate of 1.10 percent, and a delinquency rate of 0.97 percent. This is the experience even when conventional lending rules are widely believed to be very tight with high downpayment requirements.¹

How does VA have such a successful program with zero down? VA requires participating lenders to ensure that the loan payments are appropriate for the veteran's present and anticipated income and expenses and solidly underwrite the loans using debt-to-income ratios and credit history. But, in contrast to conventional lending and even FHA, VA also uses a residual income test. Residual income calculates how much income a borrower will have left for other monthly expenses after home payments. This calculation considers the borrower's complete financial picture, and ensures money is available for emergencies or other contingencies.

¹ National Delinquency Survey, Mortgage Bankers Association, Q315.

VA also requires the use of manual underwriting for those veterans who marginally qualify. For these borrowers, lenders must look at non-traditional factors and give veterans the benefit of the doubt when making a decision.

This program shows that accurate and proper underwriting is the key to successful low-downpayment lending programs. Despite all the talk about “skin in the game”, loans with appropriate underwriting and zero down can successfully balance risk and provide for sustainable homeownership.

In addition, the VA home loan program offers protections for veteran borrowers when unexpected financial difficulties occur by offering a variety of supplemental loan servicing programs to help military families avoid foreclosure. VA offers financial counseling and can serve as an intermediary between the veterans and the private lender holding the loan. VA will try and negotiate repayment terms for veteran borrowers in financial difficulty. Under some specific conditions, VA may also purchase the loan and allow the borrower to make payments directly to the VA at a reduced interest rate.

These interventions not only help the veteran retain their home, but save the VA money by avoiding the payment of a guaranty claim. Since 2009, more than half a million veterans, active-duty members, and survivors kept their homes, at a savings to the Government of over \$16.3 billion.

Specially Adapted Housing Programs

In addition to our strong support for the underlying VA loan program, NAR strongly supports grant programs that allow disabled veterans to own a home that accommodates their needs. VA provides two types of grants to service members and veterans with service-connected disabilities to help purchase or construct an adapted home, or modify an existing home to accommodate a disability. These grants are critical to allowing disabled veterans to live independently, and a critical part of our commitment to the benefits provided in return for their service. In FY 15, VA approved more than 1,800 grants totaling \$96M in home modifications for seriously injured service members.

NAR urges Congress and the VA to ensure that this program is fully funded and fully staffed, so that veterans with disabilities can access this valuable resource. Making a home suitable for an individual's disability is expensive and time consuming. The Specially Adapted Housing programs are designed to reduce these costs for our veterans. Our wounded warriors need assurances that their needs will be met through this program, and that applications will be received, reviewed and approved without unnecessary delay, so they can move forward with their lives and regain their independence.

REALTOR® Outreach to Veterans and Active Duty Service Members

Many REALTORS® are veterans themselves, and NAR is proud to support our military members and has created special pins that recognize the service of REALTORS® in each of the military branches. Our members wear these proudly to display their veteran status.

The National Association of REALTORS® has also created an educational program for our members to learn how to best service our military families. The Military Relocation Professional Certificate program focuses on educating real estate professionals about working with current and former military service members to find the housing solutions that best suit their needs and take full advantage of military benefits and support. To date 6,868 REALTORS® have earned the certification.

NAR also has an ongoing partnership with the Department of Veterans Affairs. Each May, REALTORS® from across the nation attend a briefing at the Department regarding the home loan program and discuss ways to make it work to the greatest benefit to veterans. NAR has produced a short video, “VA Home Loans – 70 Years and Counting”² to educate REALTORS® on the program, and has worked to disseminate a video produced by the VA entitled, “VA Home Loan Program: Why Should REALTORS® Work with VA?”³

Changes to the VA Home Loan Guaranty Program

This Committee was successful in 2008 and 2012 in making a number of changes to the VA home loan guaranty, making this program even more useful for veterans. The National Association of REALTORS® offers several other changes that could further enhance the program.

Consider High Cost Loan Limits: The VA Home Loan guarantee program is unique. It is not simply a federal loan program – it is an entitlement promised to our military members in return for their service to our nation.

A significant number of veterans live in urban areas. States with the largest veteran population are California, Texas, and my home state of Florida. These three states account for about 24 percent of the total veteran population. Both California and Florida include areas where the median prices of homes are well above the national average. The current loan limits simply cannot provide all veterans with the full range of access. Higher limits, which provided loans up to 125 percent of local area median price, expired in 2014. NAR urges the Subcommittee to take action to give veterans the freedom to purchase a home where they choose to live. Veterans in high costs areas should not be penalized for geographic differences in the housing market.

VA Fee Requirements: To ensure the veterans do not have to pay excessive fees in the home purchase transaction, VA rules limit the amount veterans can be charged for closing costs and even fees like termite and other inspections. While NAR fully supports VA's efforts to limit fees paid by veterans, our members report that veterans using the VA Home Loan Guaranty program have found themselves at a disadvantage when purchasing a home because of these rules. NAR believes that VA borrowers should be allowed to negotiate fees with sellers, just as non-VA borrowers do, as a part of home purchase transactions.

In some purchase transactions, special certifications and inspections stemming from VA policy guidance are required by lenders. Today, these certifications and inspections involve fees that must be paid by the seller, as VA limits the fees veterans can pay in a home purchase transaction. If the seller refuses, the veteran is denied the opportunity to purchase the home of his or her choice.

Some sellers have refused to even accept offers from VA borrowers, due to the inability of VA buyers to pay certain customary buyer-paid fees. This issue is exacerbated by the current low inventory of homes. When there is a multiple bid situation on a home, veteran buyers are often at a disadvantage, because buyers do not want to have to abide by VA's rules. NAR believes that VA borrowers should be allowed to negotiate fees with sellers as a normal part of home purchase transactions.

² <http://www.realtor.org/videos/veterans-home-loans-70-years-and-counting>

³ https://www.youtube.com/watch?v=O90LCcea_Uo&list=PLA93A5833057D78B7

On November 7, 2014, the Department of Veterans Affairs issued new guidance that allows veterans to negotiate the payment of wood destroying insect inspection fees in select southern and western states. NAR and VA continue to work together to find ways to improve the loan process for Veterans. NAR has urged VA to allow buyers to negotiate the payment of certain fees, such as pest inspections. While pest inspection fee payments will not be allowed in all states, this policy change is a step in the right direction.

REALTORS® urge VA to create a level playing field, and provide veterans with the flexibility to negotiate all fees, so they aren't disadvantaged when trying to buy a home.

Incentivize a Program for Renovation/Rehabilitation: NAR urges the US Department of Veterans Affairs (VA) to incentivize lenders to use existing authority to offer a Veterans Renovation Pilot Program similar to the Federal Housing Administration's (FHA) 203(k) Program. The pilot could be run through VA's Loan Guaranty Program, which allows a veteran to purchase, repair, alter, renovate, and improve a home under USC Title 38, section 3710. Like FHA's 203(k) Program, this pilot would promote homeownership and be an important tool for community and neighborhood revitalization and stabilization. The program would also be effective in areas with a large stock of older homes in need of renovation, just as the FHA program has been for years. Under the Veterans Renovation Pilot Program, veterans would use their guaranty to purchase single family homes in need of renovation and repair. Condominium units would also be eligible. The borrower gets just one mortgage loan, at a long-term fixed rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work. Renovations should be completed only by licensed and bonded contractors. This program has been very successful for FHA borrowers, and should be offered to veterans as well.

Conclusion

I thank the Subcommittee for this opportunity to share the views of NAR regarding veterans housing. The NATIONAL ASSOCIATION OF REALTORS® strongly supports housing opportunities for our nation's veterans and active duty military professionals. It is our hope that the Subcommittee will support our recommendations for enhancing and improving the VA home loan guaranty program, so it may be a real benefit to those who have so bravely served our country.