



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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**HEARING BEFORE THE
VETERANS AFFAIRS COMMITTEE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY**

ENTITLED

SUBPRIME MORTGAGE CRISIS AND AMERICA'S VETERANS

**WRITTEN TESTIMONY OF
ANTHONY AGURS, ABR, CRS
2008 MEMBER, BOARD OF DIRECTORS
ON BEHALF OF
NATIONAL ASSOCIATION OF REALTORS®**

FEBRUARY 28, 2008

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As a veteran and a REALTOR® thank you for inviting me to testify on the Subprime Mortgage Crisis and its impact on American veterans. My name is Anthony Agurs, and I am a REALTOR® with the Agurs Group in El Cajon, CA. I am proud to say I served 21 years in the United States Marine Corps and have now been in real estate for nearly 14 years.

I am here on behalf of 2008 NAR President Dick Gaylord and the 1.3 million members of the National Association of REALTORS® representing a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers.

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of housing opportunities for veterans. We commend the Subcommittee for its attention to issues impacting American veterans. Military veterans represent more than 25 percent of the U.S. homeless population, although they comprise only 11 percent of the civilian adult population¹. Men and women who have served this country deserve better. As NAR Past President Pat V. Combs said at a press conference on VA home loans last year, "The homelessness rate among our veterans is unacceptable to Realtors®, who believe in building safe, healthy communities...Many of our members are veterans and active service personnel who know firsthand the struggles and sacrifices faced by those who have fought to protect our safety and freedom."

REALTORS® across the country are also doing their part to help our veterans. In November, NAR presented a 2007 Good Neighbor award to Phil Landis. Chosen from over 320 REALTOR® nominees nationwide, Phil is a REALTOR®, a Vietnam vet, and since 2001 has been Chairman of the Veterans Village of San Diego (VVSD). VVSD provides food, clothing, housing, substance abuse treatment, mental health counseling, and job training and placement services to homeless veterans. Since becoming active in the organization, Phil has utilized his real estate acumen to improve the financial standing of the VVSD, growing its net worth from \$1.5 million to almost \$16 million. Today, VVSD has 100 employees, a five-acre site with 127 treatment beds and a new 112-bed facility scheduled to open in 2008. Phil has been in real estate for 21 years and currently is a sales associate with RE/MAX Ranch & Beach in San Diego.

In addition, NAR has partnered with U.S. Vets, an organization serving the homeless veteran population. U.S. Vets works to break the cycle of homelessness by fostering individual responsibility. NAR sponsored its inaugural US Veterans Day Golf Tournament in Washington, DC. All proceeds from the event went to U.S. Vets-DC. In addition, as part of our Annual Convention in 2007, NAR President-elect Charles McMillan and First Vice President Vicki Cox Golder visited the Las Vegas office of U.S. Vets on Veteran's Day and presented a donation to help the more than 5,000 homeless veterans living in Clark County, Nevada.

¹ Vital Mission: Ending Homelessness Among Veterans, Homelessness Research Institute (November 2007).

I passionately believe in the American Dream of Home Ownership for anyone who desires to achieve that goal for themselves and their families especially the Soldiers, Sailors, Airmen, and Marines of our Armed Forces who sacrifice so much in defense of the American way of life, yet ask for so very little in return. Unfortunately, like many Americans, our military families have been hit hard by the subprime mortgage crisis. These homeowners are in financial crisis and need our help.

Subprime Mortgage Crisis

Irresponsible and abusive lending practices are a major problem for all of our nation's communities. While responsible subprime lenders have played an important role in helping millions of consumers achieve homeownership, abusive lending occurs much too often in subprime markets. Unfortunately, some lenders have abused their role and taken advantage of some borrowers, including veterans, by charging extremely high interest rates and loan fees unrelated to risk, using aggressive sales tactics to steer consumers into unnecessarily expensive or inappropriate loan products, advertising "teaser" interest rates (like the 2/28 or 3/27 adjustable rate mortgage) that steeply increase after the first few years of the loan and basing their lending on artificially high appraisals. Real estate professionals have a strong stake in preventing abusive lending because:

- Abusive lending erodes confidence in the Nation's housing system.
- Legislative and regulatory responses to lending abuses that go too far can inadvertently limit the availability of reasonable credit for prime as well as subprime borrowers in a credit-driven economy. When responses to abusive lending constrain the ability of the secondary mortgage market to provide liquidity for home finance, consumers will find it more difficult and expensive to buy a home.
- Citizens of communities, including real estate professionals, are harmed whenever abusive lending strips equity from homeowners. This is especially the case when irresponsible lenders concentrate their activities in certain neighborhoods and create a downward cycle of economic deterioration.

Just last month, the Center for Responsible Lending (CRL), which more than a year ago warned Congress about the more than 2 million American families projected to lose their homes to foreclosure, released startling research on the spillover effect on our nation's communities and neighborhoods. Specifically, CRL estimates:

- More than 40 million neighboring homes will suffer a decline in property values because of foreclosures in their neighborhood;

- Homeowners living near a foreclosed home will see their property value reduced by about \$5,000; and
- The total decline in property values and reduced tax base from foreclosures will total \$202 billion.²

Recently, the U.S. Conference of Mayors³ commissioned a report on the economic and fiscal impact of foreclosures. The findings were largely consistent with the CRL report and concluded that 2008 will bring more foreclosures, curtailed consumer spending and significant financial stresses for state and local government budgets. NAR research shows that due to the housing market contraction, the US economy expanded only 2% in 2007. A further weakening of the housing market has the potential to tip the economy into recession in 2008.

State and local governments will immediately feel the impact of the reduced property tax revenue, which goes to fund important county/city services we depend on every day (police protection and fire rescue services, schools, social services, public transportation etc.). Some have already begun to cut back or curtail funding for critical programs that help the homeless. Furthermore, what many people do not realize is that foreclosures actually require local governments to spend money “for inspections, court actions, extra law enforcement, visits from city utilities and sometimes demolition.”⁴

Someone once said that foreclosures are like mold — once it starts, it’s difficult to rid a community of it. Families struggling to make mortgage payments and living in a neighborhood where homes have already been lost to foreclosure will find it difficult to refinance or sell due to declines in neighborhood home values. Far too often these financially stressed families will end up losing their home and feeding the vicious cycle of foreclosures.

Impact on Veterans

Many veterans, like other Americans, were seduced by the low payments promised by abusive subprime lenders. However, military families seem to be an especially attractive target for those wishing to prey on people with less than perfect credit. A report by the National Consumer Law Center found the following:

² Subprime Spillover: Foreclosures Cost Neighbors \$404 Billion; 40.6 Million Homes Lose \$5,000 on Average, Center for Responsible Lending (January 2008).

³ The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas, Global Insight for the United States Conference of Mayors and the Council for the New American City (November 2007).

⁴ T.W. Farnam, As Foreclosures Rise, Mayors Brace for Fallout, Wall Street Journal (January 28, 2008).

“Military personnel are ripe targets for consumer predators because many are low-income (always the most targeted group) but have a far longer list of economically-attractive qualities than most low-income people. Periods of deployment like those for the recent war in Iraq are especially vulnerable times. And military conduct codes that stress the need for orderly personal lives, including orderly finances, may inadvertently be driving service people toward the quick fixes many consumer predators offer.”⁵

Veterans are more likely to have lower credit scores due to their service to our country. Sporadic civilian work due to calls to service and low military pay lead some military families to into financial difficulties.

Committee Chairman Filner recently stated, “For many of our returning service members and veterans, the stress of what they have gone through in war is still prevalent when they return home. Unfortunately, for many of these heroes, subprime loans are the only option when they do not have the best credit score, and more often than not, their low credit score is a direct result of their service to our country.”⁶

VA Home Loan Guarantee Program

We believe the Veterans Home Loan Guaranty Service can be a valuable asset to help our nation’s veterans achieve the dream of homeownership in a way that is safe, fair, and affordable. This program, created under the GI bill, encourages private lenders to offer favorable home loan terms to qualified veterans. The VA home loan guarantee program made its first loan for a home in Washington, DC in 1944. Today, the VA has guaranteed well over 18 million loans to American veterans. We believe this 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.

The VA home loan guarantee program is designed to provide veterans who are unable to qualify for a conventional loan with favorable loan terms. A study conducted in 2004 found the program did just that. The percentage of VA borrowers who could not qualify for a conventional loan was 82% for first-time homebuyers, and 78% for repeat borrowers. In addition, the typical VA borrower could also not qualify for an FHA loan. Sixty-one percent (61%) of VA first-time borrowers could not meet either the downpayment and/or maximum

⁵ “In Harms Way – At Home: Consumer Scams and the Direct Targeting of America’s Military and Veterans”, National Consumer Law Center (May 2003).

⁶ The Honorable Bob Filner, “Filner Introduces Legislative Package to Help Veterans Survive the Subprime Mortgage Crisis”, Press Release, December 19, 2007.

debt-to-income ratios required to obtain an FHA loan.⁷ The VA program, therefore, offers unique and important benefits for helping our military families achieve the dream of homeownership.

Despite offering borrowers a zero-downpayment loan, VA's delinquency rate is low. According to the most recent delinquency survey published by the Mortgage Bankers Association, VA's delinquency rate was 6.58%, and the foreclosure rate was 1.03%. In contrast, sub-prime delinquency rates were a staggering 16.31%, and foreclosure rates were 6.89%.⁸

In addition, the VA home loan program offers protections for borrowers when 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 a conduit between the veterans and the private lender holding the loan. VA will try and negotiate repayment terms for 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 guarantee claim. In 2007, VA accomplished more than 8,453 successful interventions, which translated into a savings to the government of \$181.3 million in claims avoided.

The VA home loan program has a proven record for promoting homeownership amongst our nation's veterans. However, with the increasing costs of housing, and abuse in the subprime market, we believe additional enhancements are needed to improve the program's usefulness and position it as a viable homeownership vehicle in this changing world. We are pleased to note the bills introduced by Rep. Murphy and Chairman Filner (H.R. 2385 and H.R. 4884 respectively) which will implement some of these changes. NAR strongly supports these bills, and urges the Veterans Affairs Committee to move them to markup.

Increasing the VA Loan Limits in High Cost Areas

The VA loan guaranty limit is currently set at 100% of the conforming loan limit. Despite recent increases to the conforming loan limit included in the Economic Stimulus Act of 2008, it does not appear that the VA loan guaranty will increase above the current \$417,000 loan limit. This is unfair to our military personnel and veterans who live in high cost communities where FHA and conventional limits will exceed \$417,000 but will be excluded from homeownership and

⁷ Evaluation of VA's Home Loan Guarantee Program, Final Report. Economic Systems Inc.; ORC Macro; The Hay Group; Department of Veterans Affairs, July 2004.

⁸ National Delinquency Survey, Mortgage Bankers Association, Q307 (December 2007).

refinancing opportunities that would be available to them if the VA loan limit were allowed to move in concert with the conforming loan limit for those communities.

Of the 25 million veterans currently alive, sixty percent (60%) live in urban areas. States with the largest veteran population are California, Florida, Texas, Pennsylvania, New York and Ohio, respectively. These six states account for about 36% of the total veteran population. Of these, California, Florida, Pennsylvania and New York all include areas where the median price of homes are well above the national average, and above the current loan cap of \$417,000. Veterans in these areas should not be penalized for geographic differences in the housing market.

NAR supports legislative efforts to increase the VA limits to 150% of the conforming limit in high cost areas. The VA loan guarantee is a critical entitlement for our men and women in uniform, providing them a safe, affordable, and accessible method of purchasing homes in return for their service to our nation. In light of risky and sometimes predatory alternative loan products being marketed, the veteran's loan guarantee needs to serve all veterans, regardless of where they live.

Easing Refinancing for Veterans

Some veteran homeowners are certainly among those who are currently in a risky sub-prime loan that they will not be able to afford when the interest rate or loan terms reset. But current law makes it nearly impossible for veterans to refinance into a VA home loan.

VA requires veterans to have at least 10% equity in a home prior to refinancing. This limitation would make it impossible for many veterans in risky sub-prime loans to refinance into a safer, more affordable VA loan. We urge Congress to revisit this provision of law to reduce to 5% the equity required to refinance a home. Increasing the cap from 90% to 95% will provide more opportunities for veterans to refinance. In light of the high number of non-VA adjustable rate mortgages that will reset in the coming months, allowing veterans the opportunity to use the loan guarantee is critical. The highly touted FHASecure program permits refinance loans with only 3% equity. Veterans should be afforded the same type of opportunity that FHASecure provides other homeowners.

In addition, current law limits the guaranty that can be used for a typical VA refinance loan to \$36,000. As a result, refinance loans of more than \$144,000 will result in the lender not receiving 25 percent backing from VA and, as a result, probably not making the loan.⁹ We recommend eliminating this refinancing restriction and making the maximum VA guaranty –

⁹ On a standard loan the VA limit goes to \$104,250, or 25% of \$417,000.

25% of the Freddie Mac conforming loan limit applicable for all VA-guaranteed loans – be they purchase or refinance.

Raising the guarantee on VA refinancing loans and reducing the loan-to-value ratio will allow more qualified veterans to refinance their loans and save their homes. In light of the high number of non-VA adjustable rate mortgages that will reset in the coming months, allowing veterans the opportunity to use the loan guarantee will save many from foreclosure.

Permanently Authorize ARMS

The *Veterans Benefits Improvement Act of 2004*, which was signed into law by President Bush as Public Law 108-454 on December 10, 2004, extended the VA's guaranty to adjustable-rate mortgages (ARMs) and hybrid ARMs through September 30, 2008. In addition, the law indexed the VA guaranty to the Freddie Mac conforming loan limit.

The bulk of the VA's guaranty activity is in fixed-rate mortgage loans and this trend is likely to continue even if Congress reauthorizes the VA to guaranty adjustable- and hybrid adjustable-rate mortgage loans. However, these adjustable- and hybrid adjustable-rate loans provide the VA with additional flexibility to better meet the needs of the nation's veterans, service members and reservists.

ARMs are especially useful for active duty military. These soldiers can purchase a home with a low interest ARM, and will likely get orders to relocate prior to the first rate adjustment. Since military families tend to move often, an ARM or hybrid ARM can be a very good choice. In addition, many military families can anticipate promotions or salary increases, making payments on the adjusted interest on an ARM possible. The VA does not allow lenders to charge borrowers a prepayment penalty, and so the risk is low for the veterans if they move or chose to refinance. We encourage Congress to authorize these products permanently.

Education and Outreach

NAR strongly believes the private sector has an obligation to help educate homebuyers about today's mortgage products. Starting in 2005, NAR worked with the Center for Responsible Lending (CRL) to produce a series of brochures that describe the pros and cons of conventional loans and nontraditional mortgages, give consumers tips on how to avoid predatory loans. In May of 2007, NAR partnered with CRL and NeighborWorks, on a brochure that focuses on helping financially stressed homeowners understand their options and offers tips on how to avoid foreclosure. Shortly after the brochure was released, NAR's President sent an e-mail to over 1.3 million REALTORS[®] informing them of the foreclosure prevention brochure and encouraging REALTORS[®] to put the brochure into the hands of every consumer they help to become a homeowner.

In 2006, NAR partnered with the Department of Housing and Urban Development to produce a brochure promoting FHA home loans. *Shopping for a Mortgage? FHA Improvements Benefit You* has been a valuable resource for REALTORS® and their clients.

NAR is now in discussions with the Department of Veterans Affairs to work together on a similar brochure promoting the VA Home Loan Guarantee Program. Getting the word out about VA loans and steps veteran homeowners should take when loan trouble is on the horizon is a critical way to prevent additional military families from falling pretty abusive or predatory lending.

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 guarantee program, so it may be a real benefit to those who have so bravely served our country.