



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

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**HEARING BEFORE**

**THE UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON VETERANS' AFFAIRS  
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY**

**ON THE SUBJECT OF**

**THE VETERANS' LOAN GUARANTY PROGRAM**

**WRITTEN STATEMENT/TESTIMONY OF**

**MOE VEISSI, FIRST VICE PRESIDENT**

**NATIONAL ASSOCIATION OF REALTORS®**

**MAY 20, 2010**

Madam Chairwoman, Ranking Member Boozman, and members of the Subcommittee, My name is Moe Veissi. I have been a REALTOR® for 40 years, and am broker/owner of Veissi & Associates Inc., in Miami, Florida. I have been active within the National Association of REALTORS® (NAR), holding significant positions at both the state and national levels. Since 2002, I have been the President of the Florida Association, an NAR Regional Vice President, and a member of the NAR Board of Directors. Most recently, I was elected NAR First Vice President for 2010. I am here representing 1.1 million REALTORS® working in all aspects of the real estate transaction.

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. The homeownership rate for veterans is significantly higher than the national average – as high as 80%. The Department of Veterans Affairs (VA) Home Loan Guarantee program deserves much of the credit.

I am also here representing American families who are making the sacrifice for our freedom. My son is on active duty with the Army in Iraq. And when he comes home, the VA will be there for him, making good on the promises our nation made when he joined the military.

#### The VA Home Loan Guarantee Program

The VA home loan guarantee 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 nearly 19 million loans to American veterans, with a total loan volume of just over one trillion dollars. 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. In fact, 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 debt-to-income ratios required to obtain an FHA loan.<sup>1</sup> The VA program, therefore, offers unique and important benefits for helping our military families achieve the dream of homeownership – even with no downpayment.

VA's strong yet flexible underwriting allows veterans the ability to purchase a home of their own without depleting their savings. More than 90% of veterans utilize the zero-downpayment option provided by VA. Yet, despite this, VA's 2009 fourth quarter delinquency rate is low. According to the recent delinquency survey published by the Mortgage Bankers Association, VA's delinquency rate was 7.41%, and the foreclosure rate was 2.46%. In contrast, sub-prime delinquency rates for the same period were a staggering 25.26%, and

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<sup>1</sup> Evaluation of VA's Home Loan Guarantee Program, Final Report. Economic Systems Inc.; ORC Macro; The Hay Group; Department of Veterans Affairs, July 2004.

foreclosure rates were 15.58%. Even prime loans had higher rates than VA at 6.73% for delinquencies and 3.31 for foreclosures.<sup>2</sup>

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. They have solid underwriting using debt-to-income ratios and credit history. However, VA also requires the use of manual underwriting for those veterans who marginally qualify. Then, 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 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 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. Since 2000, VA has been able to help more than 144,000 veterans, active-duty members, and survivors keep their homes, at a savings to the Government of over \$3.1 billion

We want to thank the Subcommittee for their help to veterans who may have been victim to the subprime loan crisis. The Veterans' Benefits Improvement Act of 2008 made changes to VA's home loan refinancing program. VA has never guaranteed subprime loans. However, as a result of the work of this Subcommittee, veterans have been able to refinance in a safe, affordable VA loan if their non-VA loan is in distress. Previously, veterans who wished to refinance their subprime or conventional mortgage were limited to 90 percent of the value. Increasing the loan-to-value ratio and raising the maximum loan amount allows more qualified veterans to refinance through VA, allowing for savings on interest costs or even potentially avoiding foreclosure. We thank the Subcommittee for their work in this area.

### VA Home Loan Guarantee Outreach

The combination of mortgage market conditions and the changes provided in the Veterans' Benefits Improvement Act of 2008, have made the VA home loan guarantee program more important than ever. As a result, NAR has stepped up its efforts to education our members about this valuable program.

Just last fall the National Association of REALTORS® partnered with the Department of Veterans Affairs to produce "Unlocking the Future", a VA Toolkit for REALTORS® and homeowners. This comprehensive informational DVD and brochure complete with videos and Frequently Asked Questions, provides

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<sup>2</sup> National Delinquency Survey, Mortgage Bankers Association, Q409 (March 2010).

REALTORS® with all the information they need to successfully guide a veterans through the home loan process. It includes information about veteran eligibility, qualifications, and all the different VA home loan programs including the 30-year fixed mortgage, Adjustable Rate Mortgages (ARMs), refinancing and foreclosure help, and even the Specially-adapted Housing Program for disabled veterans. This toolkit is available free for our members on our website, and has been used by thousands of REALTORS® to work with veterans in their communities.

### Changes to the VA Home Loan Guarantee Program

As we have discussed, this Subcommittee was instrumental in making a number of changes to the VA home loan guarantee, making this program even more useful for veterans. One of these changes was an increase in the VA loan limits to help veterans wherever they live be able to purchase a home under this program.

Approximately 60 percent of veterans 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 prices of homes are well above the national average. The current loan limits, which provide loans up to 125% of local area median price, expire in 2011. We urge the Subcommittee to take action to make these limits permanent. Veterans in high costs areas should not be penalized for geographic differences in the housing market.

The law also extended authority for adjustable rate and hybrid ARMs through 2012. ARMs are especially useful loan products for active duty military. Since military families tend to move often, an ARM or hybrid ARM can be a very reasonable choice. These soldiers can purchase a home with a low interest ARM, and will likely get orders to relocate prior to the first rate adjustment. In addition, many military families can anticipate promotions and 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.

### 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 we fully support 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. Some sellers have refused to accept offers from VA borrowers, due to the inability of VA buyers to pay certain customary buyer-paid fees. NAR believes that VA borrowers should be allowed to negotiate fees with sellers as a normal 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. And, in instances where there are multiple bids, this certainly puts veterans at a disadvantage to the non-veteran purchaser.

This issue is exacerbated by the current proliferation of distressed properties on the market. On a national level, foreclosed homes and short sales make up 35% of all home sales today, and a number of communities have rates that are significantly higher. Veterans are virtually cut out of this market, because there is no “seller” on the other side to pay the necessary fees. These homes are often the most affordable option in many housing markets; however, because VA policy restricts the fees that veterans can pay, the veteran home loan purchaser is clearly disadvantaged from utilizing his certificate of eligibility for a VA loan to purchase a home.

We urge VA to provide veterans with the flexibility to negotiate fees, so they aren't disadvantaged when trying to buy a home.

### 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.