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**TESTIMONY OF
LESLIE ROUDA SMITH
2022 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®**

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

**HEARING TITLED
REMOVING BARRIERS TO VETERAN HOMEOWNERSHIP**

DECEMBER 8, 2021

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INTRODUCTION

Chairman Levin, Ranking Member Moore, and members of the Subcommittee on Economic Opportunity, my name is Leslie Rouda Smith and I am the 2022 President of the NATIONAL ASSOCIATION OF REALTORS® (NAR). I work as a broker associate at Dave Perry-Miller Real Estate in Dallas, TX, where I specialize in residential, ranch, and country real estate, along with my husband Brian and my children Kristin and Austin, all of whom are REALTORS®. NAR is America's largest trade association, representing more than 1.5 million members involved in all aspects of the residential and commercial real estate industries.

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of housing for our nation's veterans, active duty servicemembers, and surviving spouses. We commend the work of the Subcommittee for its attention to issues related to homeownership for our veterans. According to the U.S. Census Bureau, there are currently around 18 million veterans in the country.¹ The Department of Veterans Affairs (VA) Home Loan Guaranty program serves a large and diverse population and has done so for many years. The current homeownership rate for veterans is around 78%, higher than that of the general population, which sits around 64%, but roughly in line with the rate for homeowners age 55 and older.² Active duty servicemembers have a lower rate of homeownership at 42.7%, which is slightly higher than the average for all Americans under 35³, but the active-duty population includes many older officers.

The homeownership rates for veterans and active-duty military are comparable to rates for the larger population, but veterans face unique challenges when trying to purchase a home, especially in this strong housing market. Because communities of color rely disproportionately on VA financing, this problem also impedes a reduction in the racial homeownership gap, something NAR is committed to helping improve. I hope to highlight some of these issues today as well as some proposed solutions while underscoring the necessity for the VA loan program and the work that REALTORS® nationwide are doing to serve our nation's heroes and secure safe, reliable, and sustainable housing.

THE VA HOME LOAN GUARANTY PROGRAM

In 1944, Congress passed the G.I. Bill, which provided a range of benefits for veterans, especially those returning from World War II. Within the G.I. Bill was the creation of the VA Home Loan Guaranty program. This entitlement program provided an avenue to homeownership for veterans by encouraging private lenders to offer favorable home loan rates with down payment assistance. Since 1944, the VA Home Loan program has served more than 25 million veterans.⁴ Unfortunately, because of discrimination in the private mortgage and real estate markets, these benefits were realized almost entirely by White veterans. Only a handful of the over 1 million Black veterans who served in WWII received benefits to buy a home under the GI Bill.⁵

The VA program has continued to grow and in 2021, the program provided over 1.4 million loans, a record for VA.⁶ According to NAR's 2018 Veterans and Active Military Home Buyers and Sellers

¹<https://www.census.gov/newsroom/press-releases/2020/veterans-report.html>

²https://www.urban.org/sites/default/files/publication/101495/the_impacts_of_us_military_service_on_homeownership_and_income.pdf

³ <https://www.census.gov/housing/hvs/data/q321ind.html>

⁴ <https://www.va.gov/opa/pressrel/pressrelease.cfm?id=5554>

⁵ <https://www.history.com/news/gi-bill-black-wwii-veterans-benefits>

<https://www.demos.org/blog/how-gi-bill-left-out-african-americans>

<https://apnews.com/article/lifestyle-business-veterans-affairs-world-war-ii-discrimination-b2d02e6030ef44e798d4e2d4165ae13e>

⁶ https://www.benefits.va.gov/HOMELOANS/Lender_Statistics.asp

Profile, 82% of active-duty personnel expect to move for their next job compared to just 58% of the total population, reflecting the tough demands on military personnel. The VA plays a critical role in facilitating home purchases during relocations as 78% of active duty personnel and 58% of veterans utilize the VA home loan program.⁷

REALTORS® believe 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.

The loan program provides many unique benefits that other loan programs do not. These benefits include:

- No down payment requirement;
- Competitive interest rates;
- Limited closing costs;
- No loan limit on funding based on local median home price;
- No need for private mortgage insurance (PMI); and
- A lifetime benefit, meaning the program can be used multiple times.

Maybe the most well-known feature of the VA loan program is the zero down payment requirement. Despite fears that a no down payment loan may be riskier than a home loan with a down payment of 3% or higher, data show that delinquency rates for VA loans are much lower than FHA loans and comparable to that of conventional loans.⁸

One reason for the success of the VA loan program and the no down payment requirement is the robust underwriting, specifically the residual income test. In addition to traditional underwriting for loans, such as evaluation of borrower's debt-to-income ratio and credit history, VA loans also include a residual income test. This test evaluates the discretionary income that remain after paying monthly expenses, such as the mortgage payment. These leftover expenses can include gas, groceries, childcare, and other family needs. The residual income requirement also varies across regions with the more expensive areas requiring greater residual income.

This evaluation presents a clearer and more complete financial picture of a borrower that verifies that a veteran will have the money on hand to weather an unexpected financial storm. And for borrowers who marginally qualify, manual underwriting is required. This additional step allows lenders to look at non-traditional factors which works to provide veterans with as many paths to sustainable homeownership as possible.

If veterans do encounter financial hardship or emergency, the VA requires servicers to move swiftly to engage distressed homeowners so that they do not fall further behind. The VA has also stepped in to protect these borrowers by creating a number of supplemental loan servicing programs to help servicemembers and veterans avoid foreclosure. The VA offers financial counseling and can also serve as a mediator between a private lender and the borrower to solve unexpected issues, be it with refinancing, loan modifications, or other repayment plans. And in certain situations, the VA may also purchase the loan and allow the borrower to make payments to the VA instead at a lower interest rate in hopes of keeping the veteran in their home.

The VA Home Loan program demonstrates that prudent underwriting and servicing are key to a successful loan program, even those where more than nine out of ten veterans are choosing a no down payment option. As Congress and other regulators look to expand homeownership opportunities to communities who are often disadvantaged in the current credit markets, we believe they should look to the way the VA has successfully provided low down payment guarantees.

⁷ <https://cdn.nar.realtor/sites/default/files/documents/2018-05-veterans-and-active-military-home-buyers-and-sellers-profile-05-25-2018.pdf>

⁸ <https://www.corelogic.com/intelligence/buy-stories/serious-delinquency-rates-for-fha-and-va-highest-since-great-recession/>

These steps not only serve to keep veterans and servicemembers in their homes, but they also save the government money by avoiding a guaranty claim. These steps are vital for the program and show that unique solutions to complicated problems can work.

THE NATIONAL ASSOCIATION OF REALTORS® AND OUR COMMITMENT TO VETERANS

REALTORS® can help veterans and active-duty service members understand the unique appraisal and inspection process as well as finding lenders who offer VA financing and contractors who can help with the renovation process. In fact, NAR has developed a special course for its members who specialize in working with active-duty service members called the Military Relocation Professional (MRP) credential.⁹ This special training can further help REALTORS® serve active-duty service members as the housing market has taken off and homes are harder and harder to find, negotiate, and purchase. REALTORS® know that their professional homebuying services can ease the burden on servicemember and allows them to focus their full attention to their families and service to our country. Furthermore, REALTORS® have advocated for various programs to improve the plight of veterans and servicer personnel such as higher loan limits, reduced fees, program modifications, and improvements to the Specially Adapted Housing Program, among other things.

BARRIERS TO VETERAN HOMEOWNERSHIP

While the homeownership rate for veterans is comparable to that of the general population, that does not mean that veterans and servicemembers are without headaches and hurdles as they try to purchase a home. Many of the VA program's elements that have served veterans and active-duty personnel so well are also those that are keeping them on the sideline in the current housing market.

Today's hot housing market is an extreme sellers' market where homes often receive multiple offers, sometimes in the double digits, and listings are frequently gone within days or even hours of posting. While mortgage rates are still near all-time lows, housing prices have skyrocketed across the country.

Some of these issues are cyclical, but it doesn't change the fact that these elements have made it harder for veterans and servicemembers to find housing. Home shoppers must monitor the market closely, attending multiple open houses and devoting precious time and attention to finding a suitable home, repeating the process multiple times as homes are snatched up in furious competition. It is not uncommon for veterans to be shut out of the process entirely when a home is purchased by a buyer who can offer all-cash. This stress adds to the already significant pressure veterans and servicemembers experience on a daily basis in service of our country.

Furthermore, veterans and service personnel of color rely disproportionately on the program and it has been an important tool for narrowing the racial homeownership gap for Black and Hispanic Americans. The homeownership gap between Whites and Blacks is 30 percentage points for the general populations but falls to 19 percentage points for veterans and a similar pattern holds for Hispanic Americans.¹⁰ Furthermore, 15.9% of Black Americans received financing through the VA in 2018, compared to just 8.9% for Whites.¹¹ Thus, headwinds for the VA financing program could exacerbate the current gap in homeownership for communities of color relative to White Americans.

⁹ <https://www.nar.realtor/realtor-benefits-program/educational-tools/military-relocation-professional-mrp-certification-course-discount>

¹⁰ <https://www.urban.org/urban-wire/evidence-shows-military-service-reduces-racial-homeownership-gap>

¹¹ <https://www.nareb.com/site-files/uploads/2020/10/2020-SHIBA-REPORT-OFFICIAL-COPY.pdf> pp.44

The VA loan program has certain requirements, such as a cap on fees that can be charged and fees that must be paid by a lender, which make a VA borrower less appealing in a market where homes can be sold in a matter of hours. Conventional loans and FHA loans often do not have these additional requirements. Likewise, the VA program requires an inspection of the property, which is intended to uncover problems that may require costly repairs down the road. Because of these additional hurdles with VA financing, sellers frequently go with the easiest or cheapest path to sell their home, which may be an offer without the limit on fees or inspection requirement of the VA. In these instances, we hope that a seller will know that the buyer is a veteran or servicemember who deserves an equal shot and has served the country and has earned this buying opportunity. However, that is not always the case.

Much like onerous limits on fees and requirements for an inspection, appraisals are another obstacle that prevents users of VA financing from being competitive. The appraisal community has a shortage of certified appraisers and VA appraisers are even harder to find. Part of the issue is the additional requirements in a VA appraisal, as well as the higher standard and cost to be certified to perform VA appraisals. Compounding these issues is the VA's cap on the fee that can be charged for an appraisal and the time in which it can be performed.

Luckily, in November the VA announced temporary allowances that enable VA appraisers to charge higher fees and which allow for longer timeframes for VA appraisals. These important changes will attract more appraisals to the VA program while allowing more flexibility during the process. REALTORS® are encouraged by these changes and applaud the VA for them, but we also urge the VA to monitor them for sufficiency to address the availability of VA appraisals and to modify them if necessary.

The VA has its heart in the right place when it comes to protecting veterans from shoddy construction or unforeseen repairs that could hurt the buyer once they've moved into a home. A home inspection and appraisal can often identify these issues. However, in the current environment, the time that it takes to order and perform an appraisal can unfairly shutout borrowers.

There are additional facets of the appraisal results that can cause issues. If the appraised value of the home arrives lower than the agreed price, the veteran must either pay the difference, negotiate the sale price further, or move on. In addition, the VA requires an "escape" clause where the buyer can walk away from the agreement free of fees. In an environment with rapidly rising prices, contract prices can outpace comparables. Thus, the VA's requirement and the escape clause pose a threat to sellers.

While these appraisal issues have lingered for years, NAR applauds the work of the VA in creating the Tidewater Initiative, which is used when the appraised value of a home falls below the price agreed upon by the buyer and the seller. In these situations, Tidewater can be initiated so that more information can be gathered to assess the property's value. The VA will then review the additional information and reevaluate the initial appraisal. This process allows some flexibility to change the appraised price based on more data and sales, often serving in the best interest of the veteran and the seller. A REALTOR® can play an important role in researching other homes for comparables but the same issue arises if there are multiple offers and the seller will often choose the easier path to selling the home, kicking the veteran from consideration.

CHANGES TO THE VA HOME LOAN GUARANTY PROGRAM AND OTHER SOLUTIONS

Making VA Loan Borrowers Competitive: Many of the protections put in place to protect servicemembers and borrowers from defective homes and poor construction are necessary to ensure that our veterans acquire safe and sustainable housing. With that said, today's current market creates unique challenges that make it harder for borrowers to obtain housing with a VA loan.

One of the biggest challenges has been the limitations on fees that a originators and service providers can charge. While this is designed to protect veteran purchasers, it places them at a disadvantage in multiple bid situations or when buying real-estate owned (REO) properties. NAR is working to ensure veterans are not paying unnecessary fees, while ensuring they are able to purchase the home they wish. NAR hopes to continue its work with the Subcommittee and VA to provide more flexibility in VA's policies to help make VA borrowers as attractive as other borrowers, such as allowing veterans to negotiate fees in a fair way that doesn't put them at an unfair disadvantage with other buyers.

REALTORS® also encourage Congress and the Subcommittee to explore new ways of encouraging sellers to offer their homes to veterans and servicemembers. This could include further changes to the appraisal process and retaining and training new appraisers as well as finding ways to speed up the appraisal process. While not an overtly discriminatory process, it's unfair to our nation's heroes that they are often passed over due to their military status and the loan program they're using. This isn't in the best interest of our veterans nor our communities. They deserve better than this.

Funding: NAR continues to voice our opposition to any legislation that would increase VA home loan funding fees to offset the costs associated with non-housing-related expenditures. Although previously proposed legislation would use the fee increase to fund job training and education programs, we believe the use of the VA home loan program for this purpose is inappropriate, particularly in the midst of a pandemic and as the economy continues to recover. The changes in funding often apply to refinance loans and would increase costs at a time when veterans are looking to lower their monthly mortgage payments in a responsible way. These savings are particularly important for those veterans who have suffered temporary job losses or reductions in income. Any fees charged in a VA transaction by VA should be used to explicitly to support the VA Home Loan Guaranty program.

Education: While many veterans and servicemembers are aware of the VA Home Loan program, many do not know the full advantages a VA home loan can give them, including no down payment and other protections and alternatives in servicing. We support a veteran's option to choose the program that is right for them but they may not be aware of the potential savings they could earn from going with a VA loan over conventional financing or FHA.

Therefore, we encourage more work to market and explain the program to veterans, either through the VA, or by including questions about active duty or veteran status on mortgage applications so that if a borrower does note that they are a veteran or active duty, they are provided details about the VA program and the potential for a cheaper loan or reduced down payment. We believe this strikes the balance between giving the borrower more education without overwhelming them with various loan programs.

Improve the for Renovation/Rehabilitation Program:

REALTORS® were pleased when the VA introduced its home renovation loan. The program has benefits such as no down payment and low rates that match the VA's primary mortgage program. The program allows the homebuyer to finance the cost of construction up to the post-renovation value as determined by a VA appraiser. However, renovations are capped at \$50,000 and additions are not allowed, which can severely limit the options for a veteran or service member and their ability to make critical upgrades to a property. Furthermore, the current shortage of supplies, materials, and labor have pushed up on construction and renovation costs, compounding the issue. The VA should reconsider this limitation in light of current construction and renovation environment, which is expected to persist for up to a decade.

CONCLUSION

I thank the Subcommittee for this opportunity to share the views of NAR regarding the barriers to veterans' housing. The NATIONAL ASSOCIATION OF REALTORS® strongly supports housing opportunities for our nation's veterans and active-duty military professionals. We look forward to working with members of Congress and the VA going forward, and 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.