MBa®

MORTGAGE BANKERS ASSOCIATION

MBA Statement for the Record for "A legislative hearing on the following bills: "H.R. 815; H.R. 3018; H.R. 3634; H.R. 3949; H.R. 3965; a draft bill entitled, "To amend title 38, United States Code, to eliminate the applicability of certain provisions of the Administrative Procedure Act to housing and business loan programs of the Department of Veterans Affairs"; and a draft bill entitled, "To amend title 38, United States Code, to make certain improvements to the use of educational assistance provided by the Department of Veterans Affairs for flight training programs."

The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to submit this statement for the record regarding the Subcommittee on Economic Opportunity hearing held on October 11, 2017. MBA commends Chairman Jodey Arrington and Ranking Member Beto O'Rourke for holding this important hearing to address the vital concern of veterans' access to mortgage credit. Considering their personal contributions to defending our country, veterans merit special consideration with regards to accessing capital. MBA supports Congressman Lee Zeldin's intent to allow veterans access to larger loans to help them purchase homes in high-cost areas, however we believe there are potential unintended consequences that need to be addressed to ensure the bill does not undermine the safety of the VA program.

With rising home prices in the US, the current VA loan program has not kept pace. The average VA loan amount in 2004 was for $134,230, which is under the basic entitlement limit. However as of 2015, the average new loan balance has risen to $238,560. A full 82 percent of VA loans now exceed the $144,000 basic entitlement. And yet, with a default rate of 2 percent, veterans are roughly half as likely to default on their mortgage compared to the population at large, despite their lower downpayment requirements. With this in mind, addressing the opportunities and limits for this growing population of home buyers is a timely and important undertaking. Veterans living in high-cost areas such as Long Island, California, or the Washington, DC area deserve the increased access to credit necessary to be competitive in the marketplace.

However, MBA does have concerns about changing the current policy. The bill as written could allow some veterans to collect several investment properties while providing no down payment of their own. Such higher-risk uses of the VA entitilement could put both veterans and the VA program at risk. In addition, the bill does does not address the need for certain servicing changes that are needed in the program today, and could be exacerbated by the proposed changes

1 The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

in the bill. Finally, MBA is concerned that 30 days is not adequate time to implement the policy change. Lenders will need a year to fully update their systems, processes, technology, and training.

<u>No Borrowing Cap</u>

Currently, the law limits the loan amount a veteran can receive with the VA guarantee. As it is written, H.R. 815 would eliminate this borrowing cap, potentially allowing veterans to acquire several homes, with no investment of their own capital. This incentive could lead to veterans collecting rental properties under the umbrella of their VA entitlement. Not only does such a practice go against the original purpose of the VA-guaranteed loan, but it also poses a risk to the veterans, the VA loan guaranty program, and the taxpayers that stand behind it. A downturn in the housing market or in the broader economy could have a precipitous effect on a veteran borrower's ability to repay all of his or her mortgages. MBA has no problem with veterans purchasing a new home with their unused entitlement while retaining their existing home. However, we are concerned that the bill could be used to collect multiple investment properties, rather than simply improving a veteran's purchasing power in a high cost market. Accumulation of multiple investment properties introduces new risks for veterans, the VA program, and the taxpayer that should be taken into account.

MBA urges the Committee to consider provisions that would target the expanded benefit under this bill to allow veterans to boost their purchasing power for a primary residence in certain high-cost markets. MBA would welcome the opportunity to work with the Committee to focus the bill on its intended purpose.

<u>Servicing Considerations</u>

We also believe that this bill provides an opportunity to authorize the VA to re-examine the VA loan modification regime and improve it. VA modifications routinely offer veterans less relief and smaller payment reductions than other government-guaranteed loan programs. These challenges will only be compounded if interest rates rise. Allowing the guarantee to be used to provide loan modification relief—perhaps in a similar fashion to FHA's partial claim—will help veterans in financial distress save their homes.

Expansion of VA's suite of loss mitigation options is especially prudent in light of the proposed changes to the VA loan limits. These prospective changes will undoubtedly result in more potential taxpayer exposure through larger guarantees. Developing more efficient loss mitigation processes will limit these losses and provide benefits to all veterans who may run into temporary troubles in making their mortgage payments.

Conclusion

We thank the members of the Subcommittee on Economic Opportunity for their attention to the VA loan program and are especially grateful to Congressman Zeldin for his leadership on addressing these important issues through his legislation. MBA recognizes that rising home prices and high-cost areas necessitate reforms to VA loan limit regulations, and we stand ready to help the Subcomittee work through these concerns. We also strongly encourage the Committee to consider amending the bill to to provide VA with the authority to improve the program's loss mitigation options. While we acknowlede its laudable intent, H.R. 815 does not yet account for the aforementioned concerns, and we look forward to addressing these issues from all sides, to protect veteran borrowers, the program, and the taxpayers that support it.