

Testimony of

James B. Barber

On Behalf of the

AMERICAN BANKERS ASSOCIATION

Before the

Subcommittee on Economic Opportunity

Of the

Committee on Veterans Affairs

United States House of Representatives



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Chairwoman Sandlin, Ranking Member Boozman, and members of the Subcommittee, my name is James Barber. I am Chairman and CEO of Acacia Federal Savings Bank, Falls Church, VA. Acacia Federal is a federally chartered savings bank with approximately \$1.3 billion in assets. I am pleased to be here today on behalf of the American Bankers Association (ABA). The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its two million employees.

The subject of today's hearing is an important one for the millions of veterans who have taken advantage of this opportunity for homeownership. The Veterans Administration (VA) Loan Guaranty Program is unique in the mortgage lending industry, in that it allows a veteran to obtain a mortgage with no down payment and no requirement to obtain private mortgage insurance (PMI). Maintaining the strength of this program will ensure that millions more of our service members can access this valuable program.

There are two points we would like to make today:

- The VA Loan Guaranty Program is a valuable program that should be continued.
- Updates to the program may help in some situations.

I. The VA Loan Guaranty Program is Valuable and Should be Continued

There is no better demonstration of the value of a program than its use, and the VA loan guaranty program is being used. One ABA member reported *an increase in applications through the VA program* at the same time applications in other areas were going down. This should not be surprising, given that it is the only program on the market today that can offer 100 percent financing. There are simply no comparable conventional or FHA insured options that can offer this kind of support and opportunity.

While zero down payment loan programs have come under increased and deserved scrutiny, anecdotal evidence shows that the VA program is working well, in large part because of particular features and circumstances that make it unique. One ABA member reported that, while increased unemployment has caused an increase in delinquency rates in its loan portfolio generally, the delinquency and foreclosure rates for its VA guaranty loans have remained lower than private market loans. Where there have been issues, the VA is uniquely prepared to address them. The VA monitors the delinquent loan servicing process through the VA loan electronic reporting interface. Although the VA only directly handles delinquent loan cases that are exceptions and require special analysis, it will perform oversight of the process to help veterans avoid foreclosure on delinquent loans and reduce losses to the government.

One might be tempted to wonder how such a program could possibly work in the current economic environment. The answer is threefold:

1. The Veterans Administration (VA) – and the banks that work with them – have clung to strict underwriting standards.
2. The VA is supportive of the program and has worked to constantly improve in support of its lenders and its borrowers.

3. The men and women who access this program have a strong commitment to meeting their financial obligations, despite economic difficulties they may encounter.

The VA Loan Guaranty Program has underwriting standards that have not varied over the years. The required documentation has never been streamlined nor have there been any stated income or stated assets options. Currently, non-VA backed product guidelines have changed and become more stringent than in times past. Ironically, they are now more in line with VA-backed products. Though a few minor changes could be made, which I will mention a little later, the current reliance on strict underwriting has certainly contributed to the success of the VA Loan Guaranty Program.

Even with the stringent underwriting requirements, from the perspective of banks in today's market, a VA loan is the easiest form of mortgage to originate, process and close. In a time when many government programs are still working to streamline and simplify, the ease of use of the VA loan guaranty is high praise. The VA is constantly working to support the Loan Guaranty Program and the lenders who participate. Just last year, a number of regional lenders participated in a conference with the VA to discuss ways the program could be enhanced. These efforts on the part of the VA are what make the program very usable.

Acacia Federal is fortunate to work with many service men and women in addition to veterans, because of our location near Washington, DC. We have placed these customers in many loan products, including mortgages backed by the VA guaranty. We find that the people associated with the armed forces have a strong commitment when they enter into a contract. Although these borrowers are not immune to the economic difficulties our country is facing, they are more likely to contact the bank to let us know they may be having difficulty making payments. This enables us to work with them to find solutions for their particular situation.

II. Improvements Can be Made That Will Reach More Veterans More Efficiently

Although the program is working well, there are some improvements that will help it to work better for lenders and for borrowers. Before I address these improvements, I want to encourage Congress to avoid putting global requirements on lending that would severely hamper the good work of this program. Recent legislative proposals have contemplated requiring some down payment for any mortgage. This would be a mistake that would take away one of the main benefits of this program for our veterans – the ability to access homeownership even though the down payment may be difficult to obtain. The risks in this program are mitigated by the strict underwriting, the good management by the VA, and the quality of the borrowers themselves. To require some down payment for all customers is to cut off this avenue to home ownership for an otherwise qualified segment of our society that deserves an extra chance.

The VA has made an effort to improve and upgrade the program over the years. Notably, in recent years VA has modified its guides for high cost areas, a move that has had lasting implications. Our bank is located in such a region, and many qualified borrowers have been able to purchase homes because of this change. Despite these improvements, there is still more that can be done. A few ideas follow.

- *Nationwide Consistency.* The VA Loan Guaranty Program is organized by regions. Unfortunately, all regional offices do not have the same requirements, which make it difficult and more time-consuming to underwrite, especially for national lenders. One good example is the appraisal process. Certain regional offices require specific verbiage regarding septic systems. If we do not conform to the regional office requirement, a deficiency letter will be issued on that appraisal. One way to improve this situation would be to allow nationwide originators to have a single point of contact, a sort of account representative. That would ensure that an individual lender received consistent advice on the details of the program.

- *Communication Issues.* The VA has made a commitment to have information available to lenders. For example, the 1-800 customer service line actually works. Representatives that are knowledgeable and helpful are always available, and they will go out of their way to offer options and solutions. The VA also makes good information available via the Internet, although it is often difficult to find. Each region has its own Web portal, and these differ from one another. In addition, the Web sites suffer from frequent outages. Perhaps the Web sites could be centralized and the system upgraded. Also, the addition of a nationwide database that would allow both regional offices and the national office to be aware of information even down to the level of a single application.
- *Automation.* The VA has made improvements in the automation of many processes in the past few years. We encourage the VA to continue this work. One area that might benefit from automation is the assignment of a Builder ID. Many builders either are unaware of or find it difficult to obtain. When this happens, the process is so time-consuming that often customers are unable to obtain the home through that builder. Perhaps more important for banks is to automate the process for signatures. The elimination of original signatures on certain documentation – with the exception of legal closing documents – would significantly speed up the process.
- *Underwriting.* As I mentioned previously, the underwriting of VA loans has been consistent, and VA loans have experienced fewer delinquencies. However, there are some updates that could be made. One example is that the expiration date of documents on new construction VA properties is still at 180 days, while most lenders have a 30-day expiration period. These time frames should be standardized and reconciled. Another, perhaps more serious issue is that there is no formal process for managing Loan to Value (LTV) in areas where the market is declining.

This is particularly dangerous for active-duty personnel who will experience permanent change of station (PCS) within 2-3 years.

- *Interest Rate Reduction Refinancing Loan.* A change has been made to Interest Rate Reduction Refinancing Loan (IRRRL) guidelines that now exclude veterans from qualifying for a refinance under this program if they have had a single late payment in the last 12 months. This is a change from previous requirements that the veteran only had to be current at the time of the refinance. This impacts many veterans that may have suffered during the recent recession but managed to get current on their payments. These veterans now cannot benefit by lowering their interest or payments under this program. Another related issue is the VA process of “no-bid” or buy-down actions. Because of a lender’s risk in the “no-bid” and buy-down process, this can result in some lenders accepting IRRR (Interest Rate Reduction Refinance) applications only from their own portfolio. This can limit availability for a veteran to obtain IRRR financing.
- *Certificates of Eligibility.* Borrowers are required to obtain a Certificate of Eligibility to show whether and to what extent they are eligible for a VA Loan Guaranty. The entitlement requirements on Certificates of Eligibility are confusing for both veterans and lenders in certain situations. It would be beneficial for the VA to have an intuitive online calculator to determine what would be acceptable according to each veteran’s profile and the county that the property they are purchasing is located. This would eliminate concerns and confusion for both the veteran and the lender and speed up the process for veterans.
- *Condominium Loans.* The approval process for a condominium complex is a long, manual and time-consuming process for the veteran, the lender and the VA. Perhaps this could be automated through the VA’s Web site to speed up the process of approval and focus on key areas of concern. Alternatively, the process could make use of a questionnaire similar to the one that Fannie Mae requires.

III. Conclusion

The banking industry appreciates the work that has been done over the years to make the VA Loan Guaranty Program a useful one for military personnel. We hope that the program will continue to offer unique opportunities to our service men and women. We hope to work together with Congress and the VA to make improvements so that the program can serve its customers better.