HOME LOAN GUARANTY PROGRAM AND DRAFT LEGISLATION TO ENHANCE THIS PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

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HOME LOAN GUARANTY PROGRAM AND DRAFT LEGISLATION TO ENHANCE THIS PROGRAM

THURSDAY, JUNE 30, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 9:33 a.m., in room 334, Cannon House Office Building, Hon. George E. Sangmeister (chairman of the subcommittee) presiding.

Present: Representatives Sangmeister, Kreidler and Everett.

OPENING STATEMENT OF CHAIRMAN SANGMEISTER

Mr. SANGMEISTER. The subcommittee will come to order.

As all of you that are here probably know by now, last night, contrary to the original plans, the House completed its work and everybody is heading back for the district work break, as we call it, so I don't anticipate—maybe one other Member may be showing up for the committee today because practically everybody else, are making their arrangements or on their way home already.

This morning's hearing is going to focus on the Department of Veterans' Affairs Home Loan Guaranty Program. We will discuss the overall state of the program and focus on a draft bill which contains several enhancements, and I presume most of you have seen the draft bill that we have prepared here.

Over the last several years, enacted laws have had a significant and positive impact on the VA's Home Loan Guaranty Program—achieving a sounder financial base, diminishing the need for appropriations, and improving the home loan benefit for more veterans.

This morning the VA will discuss the sale of loan assets, including the way such assets are marketed, the most recent results of loan sales, and plans for future sales. I am also interested in hearing about the VA's efforts in the servicing and property management functions. Servicing and property management are vital parts of the Loan Guaranty Program, needing our careful oversight and attention. I am satisfied by the progress that has been made in the loan guaranty area in the past few years and hope that my draft bill, if enacted into law, will strengthen it further.

We are hoping to schedule this bill for subcommittee markup on or about July 21. Essentially what my bill does, is extend loan guaranty eligibility for Reservists discharged because of a service-connected disability and surviving spouses of Reservists who died

while on active duty. It also contains authority to refinance adjustable rate mortgages to fixed rate mortgages at little or no cost to the veteran, permits a veteran to simultaneously include energy efficiency improvements in an interest rate reduction refinancing loan, and amends the minimum active duty service requirement for loan guaranty purposes as a result of a reduction in force.

And lastly, the bill permits the VA to accept a foreclosed property notwithstanding an overbid by the lender. It simply gives the VA some flexibility when an administrative error occurs. And I want to emphasize that the guaranty computation does not change in this proposal—neither increases the veteran's debt nor the costs to the Government. According to the Congressional Budget Office, the costs associated with this bill are insignificant.

The ranking member on the committee, Mr. Burton, is unable to be here this morning, and he has left with me the remarks he would like to be put in the record. If you bear with me, I will read them into the record at this time.

This is Mr. Burton.

"Thank you, Mr. Chairman. In your opening remarks you mentioned how this subcommittee has initiated several changes to Federal law that would put the VA's Loan Guaranty Program on a sounder financial base. After reading the statements of the VA and the veterans' service organizations which were prepared for today's hearings, it appears that this is indeed true. I was particularly pleased to read that defaults for the first half of 1994 are down 13 percent from those reported in 1993 and down 21 percent from 1992. Foreclosures, for the first half of 1994 are also down 10 percent from those reported in 1993 and down 28 percent from 1992."

Then he was, if here of course, going to be looking forward to hearing the testimony of the witnesses.

So we will put the written portion of that also as part of the record.

[The prepared statement of Congressman Burton follows:]

PREPARED STATEMENT OF HON. DAN BURTON

Thank you, Mr. Chairman. In your opening remarks you mentioned how this subcommittee has initiated several changes to Federal law that have put the VA's Loan Guaranty Program on a sounder financial base.

After reading the statements of the VA and the veterans' service organizations which were prepared for today's hearings, it appears that this is indeed true. I was particularly pleased to read that defaults for the first half of 1994 are down 13 percent from those reported in 1993 and down 21 percent from 1992. Foreclosures, for the first half of 1994 are also down 10 percent from those reported in 1993 and down 28 percent from 1992.

Mr. Chairman, I am looking forward to hearing the testimony of our witnesses and their views on your draft bill, which will extend loan guaranty elibility to Reservists who were discharged because of service-connected disability and to surviving spouses of Reservists who died while on active duty.

Mr. SANGMEISTER. We obviously want to move our hearing along today, and with that, why don't we get right to the first panel, which is Mr. Raymond Avent, who is deputy undersecretary for benefits, and accompanied by our good friend Keith Pedigo, director of the Home Loan Guaranty Program.

Welcome to you both. As you know, the purpose of this hearing this morning is to bring myself and the committee up to date as to what has been going on since the last time you reported to us

on the home loan guaranty area, and we have your written testimony, and you can expand or condense that. Whenever you wish.

Mr. Avent.

STATEMENT OF RAYMOND AVENT, DEPUTY UNDER SECRETARY FOR BENEFITS, U.S. DEPARTMENT OF VETERANS' AFFAIRS, ACCOMPANIED BY KEITH PEDIGO, DIRECTOR, HOME LOAN GUARANTY PROGRAM

Mr. AVENT. Thank you, Mr. Chairman. I am pleased to be before you today and to discuss the operation of the Department of Veterans' Affairs Loan Guaranty Program, and, with your approval, I would like to submit my full statement and just give a brief summary of some of the information that is there.

Mr. SANGMEISTER. Proceed, without objection.

Mr. AVENT. Thank you, and, as you mentioned Mr. Pedigo is with me, who is the director of the loan guaranty service at DVA.

Mr. Chairman, first I would like to bring you up to date on the current activity of the Loan Guaranty Program. As a result of the low mortgage interest rates and recent program improvements, the number of VA guaranteed home loans made this year has increased significantly. Current projections are that we will guarantee over 600,000 loans this fiscal year. This would rank as the second largest yearly volume in VA history, second only to the 640,000 loans guaranteed in 1947. Over half of the loans guaranteed were interest rate reduction refinancing loans.

Even with the unprecedented loan volume, we have been able to process certificates of reasonable value on a very timely basis nationwide. This year 90 percent of all CRV's issued to date were processed within 20 days of the request, which is the established timeliness standard.

I am pleased to report that the trend in defaults and foreclosures is downward. Defaults reported during the first half of this fiscal year were down 13 percent from the same period last year. Foreclosures for the same period are down 10 percent from last year.

Mr. Chairman we continue to emphasize our program to provide delinquent veteran borrowers with personal supplemental loan servicing. These efforts assist veterans to retain homeownership and mitigate our program losses. As a direct result of these efforts, we realized savings of nearly $78 million in fiscal year 1993 and nearly $38 million for the first half of fiscal year 1994.

VA's inventory of properties reached an all time high of 25,000 in 1988. Since that time, we have focused on a steady measured reduction in the inventory. We are acquiring fewer properties, and consistent sales efforts by our regional offices have reduced the inventory to under 12,000 properties on hand as of the end of May 1994. Property sales this year have generated over $1 billion in revenues for the revolving funds.

Mr. Chairman, you asked that our testimony address loan asset sales. A major success in that area is the Vinnie Mac securities program which was launched in June of 1992. Sales under the program have been continued for fiscal years 1993 and 1994 as authorized by Public Law 102–547. Analysis of the Vinnie Mac offerings indicate that we have received significantly better prices for guaranteed Vinnie Mac mortgage securities than those obtainable

through the prior American Housing Trust. Total increased proceeds to VA on the $3.4 billion of Vinnie Mac sales to date are estimated to be more than $55 million.

My next area of discussion is Loan Guaranty staffing. The Loan Guaranty Program had a total staffing level of 2,033 for fiscal year 1994 through the month of May. Approximately 42 percent of these employees are involved with origination of new guaranteed loans. The remaining 58 percent are involved with servicing delinquent guaranteed and portfolio loans, payment of lenders' claims due to foreclosure, and management and disposition of the acquired properties. The fiscal year 1995 amended request of 1,942 FTE represents a decrease of 4.5 percent in current program employment. This is 100 FTE's less than the original request of 2,042. This reduction reflects fewer refinancing loans due to rising interest rates as well as the continued improvement in the level of defaults.

Mr. Chairman, you also requested VA's views on a draft bill to make various amendments to the VA Housing Loan Program. Section 1 of the draft bill would grant loan benefits to Reservists who were discharged or released from the Reserves before completing 6 years of service because of a service-connected disability and to the surviving spouses of Reservists who died from a service-connected cause incurred during Reserve training. VA strongly favors these amendments.

Current law waives minimum service requirements for housing loan benefits for veterans discharged or released from active duty for a service-connected disability. The law also grants loan entitlement to surviving spouses of veterans with qualifying active duty who died from a service-connected disability. Equity dictates that similar treatment be given to Reservists who are killed or injured or who died from an illness or injury incurred during their weekend drills or their two-week annual training.

Section 2 of the draft bill would repeal the prohibition on guaranteeing loans for newly constructed residences in areas not served by public or community water and sewerage systems where local officials certify that the establishment of such systems is feasible. Since 1965 when this requirement was enacted, conditions have changed significantly. Federal, State, and local laws now adequately cover this subject. Accordingly, VA favors repealing this requirement.

Section 3(a) of the draft bill would authorize VA to include in interest rate reduction refinancing loans an additional amount for energy efficiency improvements. We believe this provision needs more study, and therefore VA cannot support this proposal at this time.

Section 3(b) of the draft bill would correct a problem that has arisen in cases involving veterans who wish to refinance existing VA guaranteed adjustable rate mortgages with fixed rate mortgages using the interest rate reduction refinancing loan program. During periods of low interest rates, it may benefit the veteran to refinance an ARM with a fixed rate loan even though the short-term costs may be higher. Current law prevents the veteran from doing this. The draft bill would permit veterans to refinance existing VA ARMs to convert them to fixed rate loans whenever the veteran considered it advantageous to do so. Accordingly, VA favors this amendment.

Section 4 of the draft bill would provide that any manufactured home properly displaying a certificate of conformity with all applicable Federal manufactured home construction and safety standards would be eligible for purchase with VA financing. This section would also repeal the requirement that we inspect the manufacturing process of manufactured homes and conduct on-site inspections of manufactured homes purchased with VA financing. VA favors this amendment.

Section 5 of the bill would permit VA to accept conveyance of a foreclosed property from a loan holder even if the holder's bid at the foreclosure sale exceeded the upset price. The holder will be permitted to convey the property to VA for the upset price which is the same amount VA was prepared to pay for the property had the holder bid the upset price. Neither the Government nor the veteran is prejudiced by a bid in excess of the upset price, and it is still cost effective for VA to acquire the property for the upset price. Accordingly, VA has no objection to this amendment.

The final section of the bill, Mr. Chairman, would waive the 2-year minimum service requirement for loan guaranty benefits for servicemembers who were released from active duty due to a reduction in force. VA believes it is inequitable to deny loan guaranty benefits to veterans who failed to serve 24 months when they were released early from active duty through no fault of their own. Since certain provisions of this bill will increase direct spending, the bill is subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The total estimated 5-year cost of the entire bill is approximately $14.8 million. However, none of the provisions require additional FTE resources for us. VA's favoring of certain provisions of this bill are conditioned on the Congress finding offsetting savings.

Mr. Chairman, this completes my testimony. I will be pleased to answer any questions that you or other members might have.

[The prepared statement of Mr. Avent appears at p. 37.]

Mr. SANGMEISTER. Okay.

Getting to the very last point that you were talking about, we get from CBO that there are negligible costs to this and you are getting a cost—I am talking about the bill—of $14.8 million. Is that what I heard you say?

Mr. AVENT. Yes, sir.

Mr. SANGMEISTER. Can you expand on that a little as to where they figure that expense is going to come from? Like I say, we are getting reports that there is really no cost to this. Where is this $14.8 million coming from.

Mr. AVENT. Mr. Pedigo.

Mr. PEDIGO. Mr. Chairman, we do have the OMB costing data on that. It is rather lengthy, and perhaps it might be better if we submitted that for the record. But they do provide a detailed breakdown of how they arrived at that $14.8 million.

Mr. SANGMEISTER. Okay. Would you see that we get a copy of that breakout, as to how they are arriving at this figure, because we will get together with CBO then and find out what the difference is, why there is a little bit of a difference there, you might say.

Mr. PEDIGO. Yes, we will provide that for you.

Mr. SANGMEISTER. All right. Thank you.
[The information follows:]

Under Secretary for Benefits (20A34)

H.R. ___ (Discussion Draft) 103rd Congress, 2nd Session

General Counsel (022)
THRU: Assistant Secretary for Finance and
Information Resources Management (041)

1. This bill would amend title 38, USC, relating to veterans housing programs, and for other purposes. The bill proposes various technical changes in the operations of the Housing program, as well as expansion of program eligibility requirements. There are three sections (see attached methodology) which expand eligibility, thus increasing the subsidy requirements of the Guaranty & Indemnity Fund (GIF) Program Account. Cumulatively, these sections would increase GIF loan originations by approximately 2,165 loans per year, beginning in 1995. The cost of each section, if enacted separately, is shown in section F of the attached methodology.

2. Shown below is the estimated cost of this bill if enacted.

(dollars in thousands)

	1995	1996	1997	1998	1999	Total Cost
Increase in subsidy BA.	$2,415	$2,487	$2,532	$2,571	$4,756	**$14,761**
Admin. expense.....	...	...	...	...	...	...
Total Cost	**$2,415**	**$2,487**	**$2,532**	**$2,571**	**$4,756**	**$14,761**

R. J. Vogel

Attachment

cc: 041

HESSLING:kjh 6/6/94 20A34 20A31 20A3A 20A3 26 20

METHODOLOGY

A) Identification of Bill - H.R. ___ (Discussion Draft) 103rd Congress, 2nd Session

B) Highlights - This bill would amend title 38, USC, relating to veterans housing programs, and for other purposes.

C) Estimated five-year cost - See memo.

D) Employment Requirements - None

E) Change in workload - The following sections of the bill would increase loan originations as shown:

- Section 1.(a) Reservists Discharged Because of A Service-Connected Disability
  This would increase the GIF loan level by approximately 150 loans per year beginning in 1995.

- Section 1.(b) Surviving Spouses of Reservists Who Died While in Active Military, Naval, or Air Service
  This would increase the GIF loan level by approximately 15 loans per year beginning in 1995.

- Section 6. Minimum Active-Duty Requirement
  This would increase the GIF loan level by approximately 2,000 loans per year beginning in 1995.

F) Benefit Methodology - In costing this bill, data and assumptions were provided by Loan Guaranty Service. This bill increases the GIF Guaranteed Loan Financing Account (GIF_GLFA) loan level by approximately 2,165 loans per year, beginning in 1995. This increase in loan originations causes a nominal increase in the number of direct loans established in the GIF Direct Loan Financing Account (GIF_DLFA).

The following table shows the increase in budget authority by individual account due to the cumulative increase in loan activity.

(dollars in thousands)

	1995	1996	1997	1998	1999	Total Cost
GIF_GLFA	$2,415	$2,485	$2,516	$2,525	$4,672	$14,613
GIF_DLFA	. . .	2	16	46	84	148
Total Cost	**$2,415**	**$2,487**	**$2,532**	**$2,571**	**$4,756**	**$14,761**

The following tables show the cost of each individual section of the bill if enacted separately:

Section 1.(a) Reservists Discharged Because of A Service-Connected Disability

	1995	1996	1997	1998	1999	Total Cost
GIF_GLFA	$167	$172	$174	$175	$324	$1,012
GIF_DLFA	...	...	...	5	9	14
Total Cost	**$167**	**$172**	**$174**	**$180**	**$333**	**$1,026**

Section 1.(b) Surviving Spouses of Reservists Who Died While in Active Military, Naval, or Air Service

	1995	1996	1997	1998	1999	Total Cost
GIF_GLFA	$17	$17	$17	$17	$32	$100
Total Cost	**$17**	**$17**	**$17**	**$17**	**$32**	**$100**

Section 6. Minimum Active-Duty Requirement

	1995	1996	1997	1998	1999	Total Cost
GIF_GLFA	$2,231	$2,296	$2,325	$2,333	$4,316	$13,501
GIF_DLFA	...	2	16	41	75	134
Total Cost	**$2,231**	**$2,298**	**$2,341**	**$2,374**	**$4,391**	**$13,635**

G) Administrative Methodology - The Loan Guaranty service expects to accomplish the nominal increase in Loan Guaranty activity at the current resource level estimated for 1995. No additional administrative costs would be required in any year.

H) Previous estimates - The three sections which expand program eligibility were included in the legislative package (A-19) submitted with the 1995 OMB budget.

I) Office and persons responsible - VBA Budget and Finance Staff (20A34); Kurt Hessling, Laura O'Shea, A. K. Raja

Mr. SANGMEISTER. You referred to in your testimony employment levels for 1995, that the staffing level is going to be dropped by 4.5 percent or about 100 FTEE's. Where are you planning to cut in order to meet that requirement?

Mr. AVENT. Mr. Chairman, we have been able over the years to train our staff in a way where we are able to move them from either the front end of the business to the back corner where the work load is. So at this time it would be hard to say which exact area we would cut from. It would be based on the work load situation. We do expect decreases in the refinancing requests that have come about this year, so we see that as one area where we will have sufficient staffing plus.

Mr. SANGMEISTER. But there will be about 100 employees that are going to have to be let go from one end or the other, right?

Mr. AVENT. They will be moved through the system, but we will staff with about 100 less than we are this year, yes, sir.

Mr. SANGMEISTER. Since you state that you recently mailed a letter to approximately 1.8 million veterans with active VA loans at interest rates of 8.5 percent or higher explaining that refinancing loans were available to reduce their interest rate on their current loans with little or no expense, don't you think that that volume will still be high?

Mr. AVENT. We think we will be able to manage it, sir. Up to this point we have already guaranteed over 200,000 of refinancing loans through the month of May, and our projections of 600,000 loans being guaranteed, we feel a large amount of work load for the balance of the year will be those refinancing loans. However, we think with the system we are using that we will be able to handle it without any difficulty.

Mr. SANGMEISTER. You will have adequate people to do it then?

Mr. AVENT. Yes, sir.

Mr. SANGMEISTER. Okay. Will you have to move people out of your loan servicing and property management where the work loads will probably increase? I suppose the answer to that is yes.

Mr. AVENT. We are training sufficiently now that we can move people from either area based on where the work load is. We feel comfortable with it.

Mr. SANGMEISTER. Okay.

Now the intended benefit of the Lenders Appraisal Processing Program, also known as LAPP, is to speed the time to loan closing, and you state that during the 12-month period of April 1 of 1993 through March 31 of 1994 that the VA guaranteed 27,477 loans whereby the lender made a determination of reasonable value for the property which secures the loan as compared with 7,374 LAPP loans guaranteed during the 12-month period ending March 31 of 1993. Has there been a significant improvement in the timeliness? If so, how much?

Mr. PEDIGO. Mr. Chairman, at the present time we do not have a system that will enable us to determine the timeliness on the LAPP cases, but when we submitted our annual report to Congress a year ago we did a sampling of cases from around the country and were able to determine at that time that for the 12-month period preceding that report that veterans using the LAPP program did get more timely service, and we strongly suspect that for the most

recent 12 months, and specifically for those 27,000 cases that were done under LAPP during that 12-month period, that those veterans got more timely service.

Beginning this year we will have a new automated system in place at all of our regional offices which will enable us to collect timeliness data on LAPP cases, so we will then be in a position to provide instant comparisons between LAPP produced cases and non-LAPP produced cases.

Mr. SANGMEISTER. It would be interesting to know whether or not the program has been working or not, but you think a year from now you may have that kind of information.

Mr. PEDIGO. Actually, we will have it before the end of this year because that system is being exported to our 46 offices during this fiscal year.

Mr. SANGMEISTER. Okay.

Now you state that you have approximately 11,283 properties on hand. That is nearly 1,000 fewer properties than were on hand the same time a year ago, and obviously this is very commendable. What is your average turnaround time?

Mr. PEDIGO. We average holding these properties about 5.7 months, and that is down from an all-time high of over 10 months in the mid-eighties.

Mr. SANGMEISTER. Okay.

It is my understanding that the losses associated with your property sales have diminished as well. Could you clarify that?

Mr. PEDIGO. Yes. Losses have diminished. In fact, for the last year and a half we have been enjoying a profit when you compare the price that we get for these foreclosed properties with the value that these properties had at the time that they were foreclosed. That profit presently is running about $700 per sale.

Mr. SANGMEISTER. That is good news.

How are you marketing the properties which have been in your inventory for over 12 months? You state that you currently have around 666 properties. Have you tried to rent any of them, or just what are you doing with those that are over 12 months?

Mr. AVENT. Mr. Chairman, most of our regional offices are using more advertising, more efforts to reach the communities. We find leasing properties to be a somewhat negative way of getting them off our rolls, so we are not doing any leasing. However, we do have some programs ongoing with some of our homeless providers where we are leasing properties to those particular organizations, but in general we are not running a leasing program at this time. We don't find that to be a good method, let's say, of reducing the number of properties in our portfolio.

Mr. SANGMEISTER. Well, that does hamper things when a buyer does come along and you have got a lessee in there that you have got to deal with, so I can understand that.

But you have sold 32 properties to homeless providers and you have done some leasing, as you just indicated, to the homeless?

Mr. AVENT. Right.

Mr. SANGMEISTER. Can you give me an idea where some of these properties are located?

Mr. AVENT. I think early on we had at least a couple of properties in the Pittsburgh area. They were probably the first, I believe, that were involved.

Keith, do you know any?

Mr. PEDIGO. Yes, we have leased and sold these properties in various parts of country, and we could provide a complete rundown on that for the record, if you wish.

Mr. SANGMEISTER. Yes, I think we would be interested in having that.

[The information follows:]

PROPERTY SALES UNDER VA HOMELESS PROGRAM
(section 3735, title 38, United States Code)

Property Address	Municipality	State	Price	Date Sold	Purchaser Name	Property ID	Months On Hand	Months Listed
490-96 Cypress	Coraopolis	PA	20,000	07/01/88	American Legion	11-4-0003776	8	4
4616 S Bennett	Seattle	WA	28,500	12/21/89	Vietnam Veterans Leadership Program	46-5-0283448	29	5
705 Knox Ct	Denver	CO	4,950	10/15/90	American GI Forum	39-2-0407056	6	4
9232 A St	Tacoma	WA	67,500	11/26/90	U.S.A. c/o Secretary of VA	46-2-0274523	9	0
1502 S 85th St	Tacoma	WA	66,000	11/26/90	U.S.A. c/o Secretary of VA	46-2-0354054	15	0
2024 Holmden	Cleveland	OH	6,000	03/22/91	Veterans Transition Home	25-2-0540686	6	3
2432 W 40th Av	Denver	CO	21,950	07/08/91	Veterans for the Homeless	39-2-0563376	10	9
3501 W Custer	Denver	CO	5,950	07/11/91	American GI Forum	39-2-0346870	13	4
2435 W 33rd Av	Denver	CO	19,950	08/05/91	Vietnam Vets Resource Center	39-2-0465414	23	22
919 Washington	Pittsburgh	PA	3,000	02/25/92	Jewish War Veterans	11-2-0226465	18	18
25 S 19th St	Harrisburg	PA	2,500	04/21/92	American Legion	10-2-0417083	1	0
11594 Harlan St	Westminster	CO	37,500	09/25/92	RB Ranch dba CO Homeless Families	39-2-0454537	10	0
84 Burnside Av	Newport	RI	38,000	11/05/92	Church Community Hsg Corp	73-01-2-0450149	10	7
14566 Plainview	Detroit	MI	4,000	11/16/92	NW Detroit Neighborhood Development	29-2-0491429	7	5
222 Washington Av	Greenville	OH	20,000	11/25/92	Community Housing, Inc.	25-2-0476423	16	0
14008 Glenwood	Detroit	MI	9,500	12/07/92	Wayne-Metro Community Service	29-4-0027216	7	5
951 Mammoth Rd	Manchester	NH	35,625	03/08/93	Greater Manchester Habitat for Humanity	73-2-0073530	11	5
12624 Red Pepper	Germantown	MD	31,250	04/19/93	Mankind Research Foundation, Inc	72-2-0514517	9	4
614 64th Pl	Hyattsville	MD	38,000	05/28/93	Mankind Research Foundation, Inc	72-2-0461704	14	7
808 Amoms	S. Houston	TX	5,000	05/06/93	Uplift House	62-2-0406435	10	7
201 S Fawcett	Sioux City	IA	15,750	06/18/93	Siouxland Housing Development Corp	33-2-0139898	3	0
17004 W Village	Silver Spring	MD	75,400	08/06/93	Mankind Research Foundation, Inc	72-2-0532998	6	2
716 NW 10th St	Cedar Rapids	IA	17,775	08/20/93	Metro Area Housing	33-2-0132536	6	0
200 69th St	Seat Pleasant	MD	45,000	10/14/93	Mankind Research Foundation, Inc	72-6-0606669	5	7
3486 Michael Pl	Pittsburg	CA	68,218	11/03/93	Shelter, Inc.	43-4-0016234	12	3
120 William Way	Pittsburg	CA	74,750	11/19/93	Shelter, Inc.	43-6-1043969	3	2
221 Calistoga Dr	Pittsburg	CA	85,150	11/19/93	Shelter, Inc.	43-2-1026525	3	2
4652 Pennoak Rd	Greensboro	NC	46,930	12/06/93	Project Homestead, Inc.	18-6-0470149	7	2
5276 Ironwood Ln	Concord	CA	56,500	01/21/94	Shelter, Inc.	43-7-0018107	-	3
2419 W Magnolia	San Antonio	TX	25,750	01/24/94	American GI Forum*	62-5-0000227	-	9
4805 Clayton Rd	Concord	CA	46,475	02/02/94	Shelter, Inc.	43-7-0018116	-	5
1420 Bel Air Dr	Concord	CA	46,475	02/02/94	Shelter, Inc.	43-7-0018115	-	5
10 E Federal St	Burlington	NJ	22,500	02/22/94	Salt & Light Co. Inc.	09-4-0017584	12	10
49 Dog Hill Rd	Dayville	CT	37,500	03/15/94	United Services, Inc.	73-08-6-0139506	8	8
1424 Court	Sioux City	IA	15,000	04/22/94	Sioux City Housing Aughority	33-2-0152734	-	0
11659 S. Peoria	Chicago	IL	16,250	05/23/94	Allied Housing Group	28-2-0522042	12	5

* Property previously leased by homeless provider for 7 months before purchase

PROPERTY LEASED UNDER VA HOMELESS PROGRAM
(section 3735, title 38, United States Code)

Property Address	Municipality	State	Number Units/BR	Date Leased	Provider Name	Property Id	Months Listed	# Occupants Vet./Non-Vet
2763 Hillside Av	Indianapolis	IN	1/3	04/20/93	Center Township Trustee	26-2-0467833	1	1/ 3 0
5524 E Marilyn Rd	Indianapolis	IN	1/3	04/26/93	Center Township Trustee	26-6-0522640	1	1/ 2 0
1810 Southmore	Houston	TX	1/4	05/21/93	Lost Sheep Ministries	62-6-0767479	0	17/ 0 1
2419 W Magnolia	San Antonio	TX	1/3	05/21/93	American GI Forum Nat'l. Outreach	62-5-0000227*	9	1/ 9 0
37 High Street	Concord	NH	2/5	06/01/93	Community Service of Merrimack Co.	73-2-0074565	8	1/ 0 2
5676 WN 195 Ter	Miami	FL	1/4	06/01/93	South Point Family Center, Inc.	17-2-0297637	0	1/ 5 1
4913 Randee Ci	Pensacola	FL	1/4	06/01/93	Gulf Coast Veterans Homeless Foundation	17-2-0812310	0	2/ 4 0
10122-24 Lantana	Tampa	FL	4/8	06/15/93	Agency for Community Treatment Svc.	17-2-0531749	0	3/ 0 3
145 Millbrook Av	Willingboro	NJ	1/4	06/15/93	Salt & Light Co., Inc.	09-2-0566664	1	0 8
143 Fernwood Av	Burlington	NJ	1/3	06/15/93	Burlington Co. Community Action	09-2-0605299	3	1/ 3 4
3804 Wyandot St	Denver	CO	2/3	06/30/93	Vietnam Veterans Resource Center	39-2-0492880	1	3/ 0 0
4485 San Jose St	Montclair	CA	1/3	07/01/93	Homeward Bound Ministries, Inc.	44-2-2013933	1	2/ 0 14
3333 W Arkansas	Denver	CO	1/3	07/14/93	R.B. Ranch, Inc.	39-2-0548320	3	1/ 5 0
4170 Aiken Rd	Pensacola	FL	1/3	09/01/93	Gulf Coast Veterans Homeless Foundation	17-2-0805528	1	1/ 3 0
565-7 NW 133rd St	N. Miami	FL	2/4	09/01/93	South Point Family & Child Center	17-2-0808641	1	1/ 3 1
3770 40th Av S	Minneapolis	MN	1/2	10/01/93	Transitional Housing for Veterans	35-2-0370345	0	2/ 0 0
3448 E Linden St	Tucson	AZ	1/4	10/01/93	Pact for Life	45-2-0338089	0	---
415 E. 42nd St	Houston	TX	1/3	10/08/93	Lost Sheep Ministries	62-4-0034084	0	3/ 0 0
5612 46th Av S	Minneapolis	MN	1/2	11/01/93	Transitional Housing for Veterans	35-2-0308202	0	3/ 0 0
3514 N Bancroft	Indianapolis	IN	1/2	12/13/93	Center Township Trustee	26-5-0021707	3	1/ 1 0
9324 Ingalls St	Westminster	CO	1/2	12/29/93	R.B. Ranch, Inc.	39-2-0503162	3	0/ 3 0
4653 Columbus Av	Minneapolis	MN	1/2	12/30/93	Simpson Shelter	35-2-0385132	0	1/ 0 0
1205 N Centennial	Indianapolis	IN	1/3	01/07/94	Center Township Trustee	26-4-0020921	2	1/ 4 0
800 Jasper St	Clinton	NC	1/3	02/01/94	SCMPG, Inc.	18-2-0445216	2	1/ 4 0
1138 E Polk St	Phoenix	AZ	1/3	02/24/94	Community Housing Partnership	45-2-0237454	0	----
305 East Av E	Copperas Cove	TX	1/4	03/01/94	Christian House of Prayer	49-2-0646273	2	1/ 3 1
4226 Portland Av	Minneapolis	MN	1/3	04/01/94	Transitional Housing for Veterans	35-4-0005212	0	5/ 0 0
4632 First Av	Minneapolis	MN	1/4	04/01/94	Transitional Housing for Veterans	35-2-0402968	0	4/ 0 0
409 S Arlington	Indianapolis	IN	1/4	04/20/94	Far From Home Foundation	26-2-0484885	0	----
8574 Drury Ln	St. Louis	MO	1/2	05/02/94	Allied Housing	31-2-0234424	2	1/ 2 1
1312 Steadman Av	Durham	NC	1/3	05/10/94	Phoenix House	18-2-0471266	0	3/ 4 0
15 University	Port Jefferson	NY	1/3	05/15/94	Love'm, Inc.	06-2-0599319	2	0 6
1404 Tanbark	Wichita Falls	TX	1/3	05/26/94	Jerusalem Community Development Corp.	49-6-0720850	2	1/ 2 0
1109 Spearson Ln	Austin	TX	1/3	05/31/94	Texas Veterans Foundation	49-2-0650064	0	3/ 0 0
5406 Village Tr	Austin	TX	1/3	05/31/94	Community Partnership for the Homeless	49-2-0647335	1	1/ 2 0
2241 E Harmony	Mesa	AZ	1/3	06/01/94	Family Emergency Service Center	45-2-0347152	0	2/ 4 0
4888 Maureen Ci	El Paso	TX	1/3	06/22/94	Vietnam Veterans of America	49-6-0656149	0	2/ 0 0
2201 93rd St	Lubbock	TX	1/3	06/23/94	Community Housing Resource Board of Lubbock	49-2-0604684	0	------

* Provider exercised option to purchase property

Mr. SANGMEISTER. Now I think you all remember that H.R. 949 passed the House here last fall and that contained a provision to increase the VA's loan guaranty from $46,000 to $50,750 which would then, of course, increase the no-down-payment limits from $184,000 to $203,000. It is my understanding now that the Senate has incorporated a similar provision in one of their bills, and I anticipate an increased guarantee will be effective later this year, hopefully.

Since most mortgage bankers sell their loans to Ginnie Mae, have you been in touch with them regarding their increasing their loan limits?

Mr. PEDIGO. Yes, Mr. Chairman, we have. We have touched base with them on this. They have not indicated to us at this time what action they would take if this becomes law, but in the past they have always increased their limit when Congress has increased the guarantee for VA loans.

Mr. SANGMEISTER. Okay. Well, hopefully, through conferencing we will get this resolved once and for all and put that to the program.

Does the minority have any questions they would like to ask?

Mr. JONES. We may have some questions for the record, Mr. Chairman. I would like to ask one question.

Mr. SANGMEISTER. Go right ahead.

Mr. JONES. That deals with what we will hear in testimony today, a question about restoration of loan guaranty entitlement.

As we heard in your testimony, a large portion of the loans handled by VA last year were refinanced loans and in many of those instances VA is relieved of liability on the original loan. With no future liability to VA, what is your stand on restoration of loan guaranty entitlement to veterans? And if your response is favorable, would you be willing to work with committee staff in drafting appropriate language to restore loan guaranty entitlement to veterans?

Mr. PEDIGO. Presently a veteran can have his or her entitlement restored when they pay off the VA loan and dispose of the property or find a substitute veteran who is willing to assume liability for that VA loan.

I would assume that what you are talking about is a situation where the veteran refinancing a VA loan but—with a conventional loan or an FHA loan but retains ownership of that home, in which case he would not be eligible for restored entitlement.

We have in the past favored a proposal that would enable a veteran to get restored entitlement if there is no disposition of that property as long as the VA is relieved of liability. So I think we would be willing to work with you to draft some language that we could live with along those lines.

Mr. JONES. Thank you, Mr. Chairman.

Mr. SANGMEISTER. Okay. Then you will give us whatever you need on that so that we can work with our staff concerning that, okay?

I have no other questions, so, again, thank you both very much for appearing here today and bringing us up to date, and continue the good work, and we will find out really how good work it is when we bring the next panel up here, okay?

Mr. AVENT. Thank you, Mr. Chairman.

Mr. PEDIGO. Thank you.

Mr. SANGMEISTER. So let's talk to the veterans organizations, Mr. Rick Surratt, the associate national legislative director for the DAV; Mr. Kimo Hollingsworth, the assistant director of the National Legislative Commission from The American Legion; Ms. Linda Schwartz, acting director of government relations and chairman of the VVA Veterans' Affairs Committee from the Vietnam Veterans of America; and Mr. Terry Grandison, associate legislative director from the Paralyzed Veterans of America.

We welcome you all here this morning.

So you heard the testimony of the prior panel and the administration as to what they have been doing, and we would like to hear from you now as to how you feel this Loan Guaranty Program is working and if you have any comments on the proposed legislation.

Why don't we just take it from left to right.

Ms. Schwartz, why don't we start with you.

STATEMENTS OF LINDA SCHWARTZ, ACTING DIRECTOR OF GOVERNMENT RELATIONS AND CHAIR, VVA VETERANS AFFAIRS COMMITTEE, VIETNAM VETERANS OF AMERICA; RICK SURRATT, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; KIMO HOLLINGSWORTH, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; AND TERRY GRANDISON, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

STATEMENT OF LINDA SCHWARTZ

Ms. SCHWARTZ. Good morning, Mr. Chairman.

Mr. SANGMEISTER. Good morning.

Ms. SCHWARTZ. The first thing I would like to say is just a comment that I am also the president of VVA's nonprofit organization and we are presently in the process of acquiring a VA foreclosure for our homeless program in West Haven, CT. We will be able to house nine veterans in this property.

Mr. SANGMEISTER. Sounds great.

Ms. SCHWARTZ. So if you want to know about one of their homes, it is in West Haven.

Mr. SANGMEISTER. Very good.

Ms. SCHWARTZ. But we would also like to talk to you and commend you for holding these hearings today and also for your proposed legislation. VVA shares your interest in ensuring that the VA Home Loan Guaranty Program operates as efficiently as possible in order that it may continue to serve the Nation's veterans. We also appreciate the openness that you have had with us in listening to our concerns in the past.

It is worth noting that the Home Loan Program was part of the original GI Bill which has been helping veterans for the last 50 years. This program continues today to help veterans and their families become home owners. While VVA continues to have some concerns about the VA's servicing of delinquent loans as well as the

management of their portfolio, we are pleased to see the program improvements included in your proposed legislation.

VVA supports all of the provisions included in the draft legislation before us today, and I would like to say as a Reservist who was permanently disabled while I was on active duty, it is especially heartening to me to see that you would expand the eligibility for the Home Loan Guaranty Program to those Reservists and their spouses. As America continues to depend on these citizen soldiers, increased access to VA programs and services becomes more important.

VVA also recommends passage of the provisions in sections 2 and 4 of the draft bill which would provide relief from the outdated statutes regarding inspections of water and sewage systems as well as prefabricated homes.

We are particularly pleased to see the inclusion of the provisions in section 3(a) and (b) which would give veterans more flexibility and discretion in refinancing by offering the option to include the costs of energy efficient home improvements. We also welcome the opportunity for veteran borrowers to save a great deal of interest costs in being able to seek refinancing from an adjustable to a fixed mortgage rate.

After close analysis of section 5 of the draft legislation, VVA feels confident in endorsing these provisions as they will garner continuing support of the program from lending institutions. Although this portion of the legislation was at first confusing, our interpretation concluded that these provisions will not affect the size of the debt established against the veteran nor will it significantly increase VA's work load. We see the proposed language will improve relations with loan holders and therefore enhance the viability of this very important program.

As you know, Mr. Chairman, VVA has in the past voiced concern about practices in assisting veterans with delinquent loans. We have discussed our concerns about the lack of a procedure and qualification by which veterans can get VA assistance in refunding or refinancing their defaulted loans. While the changes suggested in this section of the draft bill would not really alleviate the problem, we do not think that it will escalate it. The language would simply allow VA to acquire a property after foreclosure even if the lender has overbid. Generally it seems that it is lenders that work less with these loans that—cause these problems more often. Under the provisions, VA will not be forced to assume this loss nor would the veteran be at a higher risk of foreclosure.

You will recall, Mr. Chairman, that in the past VVA has also raised concern about VA's management of its property and loan portfolio which seems to cost taxpayers hundreds of thousands of dollars, and as one person who has looked at a lot of those properties in my quest for the property for our homeless veterans. I can tell you that it is a real problem.

Since the real estate market today has improved, VA has made a small profit, and we are glad to hear that, when disposing of the acquired properties. However, some of them are just wasting away.

VVA also supports the provisions of section 6 of the draft bill which would clarify the minimum service requirement for persons released from active duty because of a reduction in the force or an

early discharge for the convenience of the Government. However, we would additionally like to suggest that maybe the committee would consider going a step further and streamlining the program eligibility by removing the varying wartime periods of eligibility and making the criterion more uniform and clear-cut. The program would be much more manageable and would be able to serve more veterans.

In general, the VA Home Loan Guaranty Program has been very successful in serving the mission set forth by the original GI Bill. The whole program has allowed many more American veterans to become home owners and has done a great deal in its 50 years.

Through revenues generated at all levels of government, from property taxes and the incomes generated by home building, the VA Home Loan Guaranty Program has more than paid for itself through these secondary societal benefits. While there may be some uncertainty about opening its eligibility to the general veteran population, I think it seems that the benefits would outweigh the risks.

New protections should be implemented to assure that the VA loan guaranty doesn't allow veterans to borrow more than they can truly afford, and clearly property values have escalated, making homeownership more difficult to attain than it was 50 years ago with the program's genesis.

With thousands of service personnel leaving the military because of the drawdown, the VA Home Loan Guaranty Program is again needed to help our military veterans manage successful transitions into the civilian community. Opening and simplifying eligibility would enhance this program's viability, it would improve the quality of life for veterans and their families, and could stimulate the Nation's economy.

Thank you.

[The prepared statement of Ms. Schwartz appears at p. 54.]

Mr. SANGMEISTER. Thank you.

Mr. Surratt.

STATEMENT OF RICK SURRATT

Mr. SURRATT. Good morning, Mr. Chairman.

Mr. SANGMEISTER. Good morning.

Mr. SURRATT. On behalf of the DAV, I would like to thank you for inviting us to participate in this hearing on the operation of the Loan Guaranty Program and on your draft bill for legislation to improve VA guaranteed loans.

The current year may prove to be one of the busiest years in the Loan Guaranty Program's history since its inception. So far in fiscal year 1994, loans have already exceeded the total of all loans for the entire preceding year. If there are 600,000 new loans as projected by VA, that will represent a 56 percent increase over fiscal year 1993 in which there were 383,000 new loans.

The VA appears to be meeting these increasing demands in a satisfactory manner. With the exception of some delays in processing loan applications and appraisals, we are unaware of any substantial problems.

The VA has mailed approximately 1.8 million letters to veterans with VA guaranteed loans advising them about the program to refi-

nance VA loans to lower the interest rate. More than half of the loans, as you have heard already this morning, being processed are refinancing loans. It appears that this program is a success, and the DAV applauds it.

Through its assistance to veterans with delinquent loans, VA has saved $38 million in the first half of fiscal year 1994 by helping them avoid foreclosure. This type of loan servicing is no doubt also partially responsible for the reduced rate of foreclosures this year. Effective loan servicing therefore results in savings for the Government and helps veterans, who might otherwise default, keep their homes.

To maintain a successful loan servicing program, the VA must maintain adequate staffing levels, however. The DAV is concerned that VA proposes to reduce its FTE at a time when demand for guaranteed loans is increasing and eligibility is expanding.

It is indicated that VA proposes to reduce its FTE for fiscal year 1995 from 2,042 to 1,942, a loss of 100. In a situation where the salaries of VA loan servicing personnel are much more than offset by the savings realized by preventing defaults, reduction of these personnel is simply unwarranted. The DAV suggests that the VA rethink this proposal.

Mr. Chairman, I would like to turn now to the draft bill to amend the provisions of title 38, United States Code, pertaining to housing loans and the Loan Guaranty Program. The proposed legislation would expand current eligibility to include Reservists discharged because of service-connected disability, surviving spouses of Reservists who die while on reserve duty or from service-connected disability, and veterans discharged by reason of a reduction in force before completion of 24 months active duty.

The DAV believes that these three groups are deserving of eligibility for VA guaranteed home loans. The DAV therefore supports the liberalization of the law to provide eligibility for these groups.

The draft bill would also make improvements in the program by adding two options, the option of including a loan for energy efficiency improvements in a refinancing loan and the option of refinancing an adjustable rate mortgage with a fixed rate mortgage. The DAV supports these improvements.

Other provisions in the draft bill streamline the process by liberalizing procedural requirements. These appear to be beneficial, and the DAV has no objection to these amendments.

In closing, Mr. Chairman, the DAV wishes to thank you and the members of the subcommittee for your efforts to improve the DAV Home Loan Guaranty Program and for allowing us to participate in this oversight process. This concludes our remarks.

Thank you.

[The prepared statement of Mr. Surratt appears at p. 49.]

Mr. SANGMEISTER. Welcome, Mr. Hollingsworth.

STATEMENT OF KIMO HOLLINGSWORTH

Mr. HOLLINGSWORTH. Mr. Chairman, The American Legion would like to thank you for your continued leadership and the opportunity to present our views on this legislation that would improve the Home Loan Guaranty Benefit Program for veterans and their spouses. We are grateful that this subcommittee has worked

hard to ensure eligible veterans and their families receive the benefits they have earned. It is this type of leadership that has resulted in the success of the Home Loan Program.

Since the inception of the GI Bill, over 14 million veterans have received benefits through the VA's Home Loan Guaranty Program. The GI Bill not only has educated America's veterans but has also made homeownership a reality. It is evident as we celebrate the 50th anniversary of the GI Bill that these veterans programs not only benefit veterans but the society as a whole.

Mr. Chairman, we are all aware of the current active military force reductions. During this time of rapid downsizing, the Reserves and the National Guard are now fulfilling many missions normally assigned to active duty military units. Today's Reserve units are structured to augment the Nation's shrinking force. The importance of reserve duty is growing daily as world commitments increase and our active force is reduced. This shift in responsibility was clearly evident during the Persian Gulf War.

Also, the rapid downsizing in the military is resulting in many veterans being released from active duty prior to their obligated service time. In many instances veterans who were discharged at the convenience of the Government are released before they meet the minimum service requirements to be eligible for veterans benefits. Veterans should not be denied benefits for circumstances beyond their control.

The American Legion believes that this legislation is equitable and deserving for both former members of the Reserves and their spouses and veterans who do not meet minimum service requirements because of separation due to downsizing.

Many veterans and lenders who desire to participate in the Home Loan Program are frustrated by some of the redundancy in the administrative requirements. This legislation would relieve veterans of the requirement to furnish documentation on local sewage systems and also not require inspection reports for manufactured homes. Since current laws already address these issues, they are not necessary and will simplify the home buying process.

Not only will this bill simplify the program, it will also greatly enhance the VA's marketability by allowing the Government to accept overbids on foreclosures. This is a greatly needed improvement and makes sound business sense.

Finally, this legislation would provide veterans the flexibility to refinance existing loans and/or the ability to lock in rates on adjustable rate mortgages. These provisions are a wise addition to the program. The American Legion believes that these provisions will provide veterans the same types of opportunities available to nonveterans.

Mr. Chairman, once again The American Legion appreciates the opportunity to testify concerning a veterans benefit program that has had a major impact on our society. We believe the recommended changes to this legislation will greatly improve this program.

That concludes my testimony.

[The prepared statement of Mr. Hollingsworth appears on p. 52.]

Mr. SANGMEISTER. Thank you.

Mr. Grandison.

STATEMENT OF TERRY GRANDISON

Mr. GRANDISON. Good morning, Mr. Chairman.

Mr. SANGMEISTER. Good morning.

Mr. GRANDISON. Mr. Chairman, at the outset I would just like to thank you for your long standing dedication to maintaining the viability of the Home Loan Guaranty Program. I wish to thank you also for inviting PVA to testify this morning. I will focus my comments today on the Department of Veterans' Affairs Home Loan Guaranty Program and draft legislation submitted by you to improve the Home Loan Guaranty Program.

PVA has consistently expressed concern regarding the existence of a viable benefit program to assist veterans in purchasing homes. This concern is magnified for those disabled veterans who use wheelchairs. The housing options for veterans who use wheelchairs are limited to accessible housing which makes them particularly vulnerable in an economy which has seen the cost of homes and construction more than double over the past decade.

VA's Home Loan Guaranty Program has, without question, enabled many paralyzed veterans to become home owners. For that reason, PVA takes special interest in the well-being of this indispensable benefit program.

While PVA is generally pleased with the Veterans Home Loan Program, we believe more emphasis should be placed on loan servicing and counseling. Intervention by VA service representatives have produced successful alternatives to foreclosures. VA service representatives provide counseling to veterans and in some cases intercede directly with loan holders to obtain a reasonable payment plan for the veterans. In instances where the veteran cannot afford to maintain the loan payments, the VA encourages the private sale of the home to avoid foreclosure or voluntary conveyance. Each of these alternatives is usually less costly than outright foreclosures.

The monetary savings of loan servicing intervention speaks for itself. VA intervention in fiscal year 1993 saved $78 million at an average savings of $15,000 per intervention and nearly $38 million in savings for the first half of fiscal year 1994.

Since the primary beneficiaries of the veteran home loan programs are veterans and not mortgage lenders, every reasonable effort should be expended to prevent foreclosure. Improving VA's loan servicing activities not only helps veterans keep their homes and avoid financial loss but protects the Government's interest by minimizing claim and property acquisition expenditures.

In addition, PVA is very pleased with the progress of the VA's lender monitoring unit. The VA created the monitoring unit in September 1989 to assure a high level of compliance by lenders with the laws, regulations, and policies governing origination and servicing of VA guaranteed loans. The loan guaranty service has released 276 origination and 65 service final audits completed by the monitoring unit. Audits conducted by the monitoring unit have resulted in recovered losses in the amount of $834,615, accepted indemnification agreements in the amount of $2,397,359, and denied liability on loans with potential claim and acquisition costs totaling $644,000.

While these amounts may seem nominal, the audits do more than recover money, they also function as a significant deterrent to

unsound underwriting practices. PVA recommends that the VA expand and intensify its lender auditing activities.

Mr. Chairman, PVA agrees with the overall intent of the draft legislation. However, we take exception to section 2 of the draft bill. PVA recognizes that some Federal, State, and local laws now adequately cover the subject of individual water and sewage disposal systems as an alternative to public and community systems. Nevertheless, PVA believes that the certificates are still necessary because many homes utilize septic tank systems. In fact, some rural homes do not have water from established water systems. For these reasons, PVA does not support the repeal of section 3704(e).

Mr. Chairman, that concludes my testimony. I will be happy to respond to any questions that I can.

Thank you.

[The prepared statement of Mr. Grandison appears at p. 58.]

Mr. SANGMEISTER. Well, thanks to all of you.

As I understand the testimony across the board here, apparently the loan guaranty system is working well, you are not getting a lot of complaints from your members, and we are happy, of course, to hear that. I also gather that you all support the proposed legislation with the exception that Mr. Grandison talked about. That section, we will take another look at that as a result of that.

Mr. GRANDISON. Thank you.

Mr. SANGMEISTER. If we can get that resolved, I think this is a good piece of legislation. We are really going to try to move it.

As you heard, there is a discrepancy. We didn't think there was any cost to this legislation, but VA is telling us there is $14 million, so we are going to take a look at their figure and see where they are coming from and try to resolve those differences, because I don't know where we are going to get the offsetting money if we have to come up with the $14 billion. But we have the old story of OMB and the Congressional Budget Office not agreeing on something. So we will try to work that out.

Ms. Schwartz, on this new home you have got, I am up to my ears in the largest community in my congressional district, Joliet, Illinois, and the homeless—not just homeless for veterans but homeless across the board, but of course you know that always means at least one-third of those people are probably veterans.

I understand you purchased this home that is going to handle eight or nine veterans. Did you make any provisions, for example, for a veteran's family in that home? Is that possible?

Ms. SCHWARTZ. Actually, what we are doing is, we are taking the existing property. We received a grant from the State of Connecticut to buy property, and what we are doing, we take this VA foreclosure and we are adding on two- or three-bedroom apartments so that families or women veterans will be able to use this facility.

Mr. SANGMEISTER. That is just great.

Ms. SCHWARTZ. It is only a block from the VA hospital too.

Mr. SANGMEISTER. Okay.

Are there going to be any provisions—and, of course, dealing with eight or nine people is not that many, I suppose, but is there any possibility that you are trying to encompass in your program some retraining for these people or medical care?

Ms. SCHWARTZ. Actually, one of the things is that I wrote a grant with Dr. Laurie Harkness of the West Haven VA. We applied to the State of Connecticut for funding. There were 37 requests for proposal. We were one of three that were funded because of this partnership with the Veterans' Administration hospital, and so we work hand in hand, and there is a lot of support, physical as well as vocational and rehab. So it is the best kind of program you could possibly have.

Mr. SANGMEISTER. That is just great.

Mr. Surratt, I share the same concerns you do about the reduction in the employees for the program. Have you made your feelings known to the VA and OMB and the Appropriations Committee that you are concerned about that reduction in personnel?

Mr. SURRATT. I believe this is the only opportunity we have had to make that known.

Mr. SANGMEISTER. Your organization is an important one and I think can give some credence to the fact that we are all concerned about this reduction in employees, and I would suggest you do that if you have not done so.

Mr. SURRATT. Thank you, Mr. Chairman. We will.

Mr. SANGMEISTER. I am going to address this to Mr. Hollingsworth, but it really is addressed to all of you and particularly Mr. Hollingsworth.

As you know, we just celebrated the 50th year of the GI Bill of Rights, quite a nice ceremony that we had out there. But on the GI Bill, if you had a recommendation for improving this program, what would it be?

Mr. HOLLINGSWORTH. One of The American Legion's concerns right now for the overall GI Bill is the educational benefits provided for veterans. We feel very strongly that with the advent of the National Service Plan— and by all means we are not against national service—basically the GI Bill is inferior to the National Service Plan, and in our eyes the ultimate form of national service is indeed military service, and we feel that we need to increase those benefits, and we realize also in this time that we may have to increase the contributory factor that takes place there, but we think the bottom line is, it is failing to meet veterans educational costs right now, and it needs to be increased.

Mr. SANGMEISTER. Okay.

Mr. Grandison, the question I would have for you would be the same to Mr. Surratt. You are also concerned about the reduction in employees. Have you talked to the VA about this or members of the Appropriations Committee and made your feelings known?

Mr. GRANDISON. Yes, sir, Mr. Chairman. PVA is getting the message out loud and clear. We are stressing the need to make sure that there is a balance in the FTE's that are being cut. We have communicated with the OMB covering not only veterans benefits but regarding the VHA.

PVA will continue to convey that message. I think the old saying, "An ounce of prevention is worth a pound of cure," is applicable in this case, because if we can do what we can to offset foreclosures, again it benefits the veteran. That is the bottom line.

Mr. SANGMEISTER. Okay.

Do you have any questions?

Mr. JONES. No, thank you.

Mr. SANGMEISTER. We have been joined by Mr. Kreidler from the State of Washington.

We have the veterans organizations before us on the Home Loan Guaranty Program. Do you have any questions that you would like to ask any of them?

Mr. KREIDLER. I'll pass Mr. Chairman.

Mr. SANGMEISTER. You will pass for now. Okay.

I believe that is all we have got. Thank you, gentlemen and Ms. Schwartz.

Mr. GRANDISON. Thank you, Mr. Chairman.

Mr. SANGMEISTER. The next panel will be Master Sergeant Michael Cline, executive director for the Enlisted Association of the National Guard of the United States; MG Roger Sandler, retired, executive director of the Reserve Officers Association; and Mr. Larry Rhea, deputy director of legislative affairs for the Non Commissioned Officers Association.

Gentlemen, thank you for your interest in being here today. We appreciate that very much, and we will start with Sergeant Cline.

STATEMENTS OF MSGT MICHAEL CLINE, (RET.), EXECUTIVE DIRECTOR, ENLISTED ASSOCIATION OF THE NATIONAL GUARD OF THE UNITED STATED; AND LARRY RHEA, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, NONCOMMISSIONED OFFICERS ASSOCIATION

STATEMENT OF MSGT MICHAEL CLINE, (RET.)

Sergeant CLINE. Thank you, sir. Good morning, Mr. Chairman, distinguished members of the subcommittee.

I would like to thank you for inviting us here to present our views on behalf of the enlisted members of the Enlisted Association of the National Guard of the United States to your committee.

Mr. Chairman, as you are aware, just 2 short years ago H.R. 939, the VA Home Loan Guaranty Program for the National Guard and Reserve members, started its march on its way to becoming Public Law 102–547. Without the support of this distinguished subcommittee, that legislation would never have gotten out of this building. On behalf of the more than 450,000 enlisted men and women of the National Guard, we would like to thank you for the contribution that you have made to enhance our quality of life.

In 1994, Mr. Chairman, 3,120 new home loans were made to National Guardsmen and Reservists, 1.3 percent of the total home loans that were made in 1994. As you are aware, Public Law 102–547 provided the VA Home Loan Guaranty loans for Guard and Reserve members who had 6 or more years of National Guard duty and had not served the required 24 months of active duty. To receive these benefits, Guardsmen and Reservists had to pay a premium on the Home Loan Guaranty Program. This premium on the program has helped ensure the future of the VA Home Loan Program by generated additional revenues to the VA.

Mr. Chairman, like the veterans groups that preceded us, we also are concerned about the staffing levels of VA. As the work load increases and the staff decreases, it is going to be hard pushed, and

we support maintaining that staff level at its current rate or increasing it as the work load increases.

Since the different aspects of the VA staffing and that have already been talked about, I would like to just move into the VA proposed legislation.

Mr. SANGMEISTER. Sure.

Sergeant CLINE. Under section 1(a), providing home loan guaranty eligibility for Reservists discharged because of service-connected eligibility, Mr. Chairman, our organization believes that this provision should definitely be included in the law whereby a Guard member or Reservist who is incapacitated and will be unable to complete his career to obtain the 6-year eligibility should not be penalized because they were injured in the line of duty.

Under section 1(b) of the proposed legislation, loan guaranty eligibility for surviving spouses of Reservists who died on active duty in our naval or air service, again, Mr. Chairman, common sense applies here. We need to take care of these families. These people are giving up, and, as we have heard from our veterans organizations, increased reliance is being made on the Guard and Reserve for the future defense of our Nation.

We support both provisions on the refinancing of the energy efficiency homes and also the ability to refinance the adjustable rate mortgages.

One thing, Mr. Chairman, that we must keep in mind, the population of our country is increasing, demands on energy are increasing by the day. Therefore, we must become energy efficient in our daily needs and to include our homes, so anything we can do we must to preserve for the future.

Mr. Chairman, under section 4, the authority to repeal the requirements for manufactured home inspections through elimination of reporting requirements, I personally, Mr. Chairman, have some problems with this. I believe the construction of homes needs to be continually monitored so that the quality of manufacturing does not slip. Too often we have depended on the manufacturer to provide a quality product and find that what was promised and what was paid for did not jibe, and I think we owe it to our veterans to make sure that what we are purchasing is what we ordered, and a little bit of added inspection would not hurt.

Under section 5, we support the VA to accept property notwithstanding overbid. It is our belief that this provision by the Veterans Affairs to assist in property management—our association wholeheartedly supports this.

Section 6, amendment of minimal active duty requirement for the Home Loan Guaranty Program: Mr. Chairman we definitely believe this provision is worthwhile. However, one thing that we would like to see added to this is during the transition drawdown period that National Guard and Reserve members who are paying a premium who may be riffed because of the reduction in force also be included in this group.

Mr. Chairman, in addition, we would like to make the recommendation that the VA and other veterans organizations concur to continue to shore up the VA Home Loan Guaranty Program. In the past 2 years since Public Law 102–547 has been in effect, it

is apparent that the Home Loan Guaranty Program for National Guard and Reserve is meeting with relatively good success.

Another possible recommendation is that the National Guard and Reserve members who have between 2 and 6 years of service be able to buy in the VA Home Loan Guaranty Program at a percentage rate higher than those individuals in the Guard and Reserve who are currently paying a half percent more than the active-duty members at the 6-year level. We would wholeheartedly urge the VA to consider this possibility as a method to raise additional funds that would help improve the staffing. As you are aware, the VA recognizes the National Guard and Reserve as financially stable in the community. National Guard and Reserve duty is normally a second job for the individual, and most of these people have full-time jobs to support their incomes.

Mr. Chairman, that concludes my statement. Again, on behalf of the 450,000 men and women of the National Guard and the 1.2 million men and women who serve in the Reserve component who have benefited from the positive legislation that this committee has generated, I will be happy to answer any questions, sir.

[The prepared statement of Sergeant Cline appears at p. 63.]

Mr. SANGMEISTER. Thank you, Sergeant.

Mr. Rhea.

STATEMENT OF LARRY RHEA

Mr. RHEA. Thank you, Mr. Chairman, and good morning. NCOA certainly thanks you for your invitation to appear and testify this morning regarding the Home Loan Program. We also appreciate the opportunity to review and comment on the chairman's draft legislation that would amend several provisions of title 38 regarding that program.

Mr. Chairman, we don't come here with any burning issues this morning or complaints regarding the Home Loan Program. Overall, NCOA is generally satisfied with what we have seen and what we have heard from our members in regards to the Home Loan Program.

We consider our general satisfaction today as a product of several positive actions that the Congress has taken in recent years that have helped restore viability and stability to the program. Our membership certainly considers the Home Loan Guaranty Program a valuable benefit in recognition of one's service in the armed forces.

NCOA does have three areas that we wish to comment upon prior to addressing your draft bill, Mr. Chairman. NCOA, like the other veterans organizations here this morning, is concerned with staffing levels, particularly in the area of loan servicing. Our only request is simple. Our request is simply that we ask the subcommittee to remain alert to this group of employees and the overall larger effort ongoing to reduce Federal Government employees. Given present economic uncertainties, there is always the attendant likelihood of increased foreclosures, and in such a climate loan servicing will remain critical, in our opinion.

The second issue we would like to comment upon is a restatement again of our opposition to the recommendation of the National Performance Review that would increase fees and down pay-

ments. Any more fee and down payment increases will effectively remove any remaining attractiveness of the program. We would urge the subcommittee to reject the administration's Reinventing Government proposal relating to increased fees and down payments.

The third area, Mr. Chairman, relates to restoration of Home Loan Guaranty entitlement. As reflected in our prepared statement, NCOA believes that this area of the program should be reviewed and consideration given to full restoration of eligibility when the obligation to DVA has been satisfied and when the Department has no further liability on the loan. NCOA would request that the subcommittee take a close look at the restoration of the eligibility requirements.

In regards to your draft legislation, Mr. Chairman, clearly we view section 1(a) and section 1(b) that relates to the Reserve components and to the surviving spouses of those members—we view those as the right thing and the equitable thing to do.

Likewise we consider the last section of your bill that deals with the minimum active duty requirements as again the right thing to do for these individuals that are having their careers terminated through no fault of their own.

The remaining sections of your legislation, Mr. Chairman, we have reviewed those, we have no problems with them, and would support their permanent enactment also.

In closing, Mr. Chairman, the Noncommissioned Officers Association would like to end our remarks in a manner similar to that in which we began our remarks in our prepared statement. Not knowing if another opportunity will present itself during the remaining session of this Congress, we certainly want to publicly express to the distinguished chairman our deep and abiding gratitude for your stewardship of the Housing and Memorial Affairs Subcommittee. You have exercised your leadership as chairman in a manner that gratefully recognizes the sacrifice associated with military service, and NCOA thanks you for that.

But whether as chairman or as a member of the Compensation, Pension, and Insurance Subcommittee or in your larger role as a member of the Veterans' Affairs Committee, you have steadfastly served veterans in an admirable and praiseworthy manner. You will personally be missed, Mr. Chairman, as will your leadership on behalf of veterans. NCOA would just like to publicly extend our heartfelt thanks for a job that we consider to have been exceedingly well done, and you have the association's sincere best wishes.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rhea appears at p. 72.]

Mr. SANGMEISTER. Well, thank you very much for those kind comments, and I will miss the activities here obviously, and one of them of course is serving on this committee and serving as chairman of this subcommittee, but that is another story. But thank you for your thoughts. I appreciate that.

You did mention that regarding the restoration of the Loan Guaranty entitlement, in those instances where a VA loan may have been paid off in full but the veteran has not disposed of the property, I understand that the Senate has recently passed legislation in this regard. Do you support this restored entitlement being

open ended, or should it be limited to the active duty who experience relocation?

Mr. RHEA. We believe that it should be open ended. Certainly it impacts more than just active-duty members, Mr. Chairman. Divorced veterans are not uncommon where the property is in the settlement, is given to the former spouse. Certainly the instances of extended veteran families where the need for another property or a primary residence exists for the veteran, but because of the stipulation that the residence or the property that was secured with the original DVA loan—because of the stipulation that it has to be sold or disposed of, it precludes a lot of veterans from securing a primary place of residence.

Mr. SANGMEISTER. Mr. Rhea, thank you for your well thought out statement as well.

In fiscal year 1994 to date, the VA has only guaranteed 12 manufactured home loans. I appreciate your concern regarding the VA's on-site inspections of manufactured homes as you had in your statement. However, with limited staffing resources, I think the VA staff could be better utilized.

I can assure you that should this subcommittee receive complaints from veterans, that we will look into this matter again. I also appreciate your recommendations regarding expanded entitlement for members of the National Guard and Reserves, and all recommendations will be considered by the subcommittee as I attempt to help to set up next year's legislative agenda.

You are both in accord with the legislation, which I appreciate, and we are going to try to put an all full court press on that.

Any questions that you would have?

Mr. JONES. No questions, thank you, Mr. Chairman.

Mr. SANGMEISTER. Does the gentleman from Washington have any questions?

Mr. KREIDLER. No questions, Mr. Chairman.

Mr. SANGMEISTER. Okay.

Well, I thank you both very much for your comments, and your full statements will be made a part of the record and taken into consideration, and thank you again.

Sergeant CLINE. Thank you, sir.

Mr. RHEA. Thank you.

Mr. SANGMEISTER. Now we will turn to the private sector. Rick Adams, Vice Chairman of the Public Coordinating Committee for the National Association of Realtors.

Mr. Geaton DeCesaris, President of Washington Homes, Inc., Landover, MD, National Association of Home Builders.

And Mr. Ron McCord, president of the American Mortgage and Investment Company, Oklahoma City, OK, on behalf of the Mortgage Bankers Association.

Mr. MCCORD. Yes, sir.

Mr. SANGMEISTER. I presume all of you have been here through at least most of the prior testimony, and we would like to see how the private sector feels things are working. We will start with Mr. Adams.

STATEMENTS OF RICK ADAMS, VICE CHAIRMAN, PUBLIC POLICY COORDINATING COMMITTEE, NATIONAL ASSOCIATION OF REALTORS; GEATON DECESARIS, JR., PRESIDENT, WASHINGTON HOMES, INC., LANDOVER, MD, NATIONAL ASSOCIATION OF HOME BUILDERS; AND RON J. MCCORD, PRESIDENT, AMERICAN MORTGAGE AND INVESTMENT COMPANY, OKLAHOMA CITY, OK, MORTGAGE BANKERS ASSOCIATION

STATEMENT OF RICK ADAMS

Mr. ADAMS. Thank you. Good morning, Mr. Chairman and members of the subcommittee.

My name is Rick Adams, and I'm a realtor from San Antonio, Texas, and vice chairman, as you mentioned, of the National Association of Realtors Public Policy Coordinating Committee. On behalf of our nearly 750,000 members, I do appreciate the opportunity to testify today on the VA Home Loan Guaranty Program.

As we celebrate, as you mentioned, the 50th anniversary of the VA Home Loan Program, I think it is important that we note that the VA program has enabled more than 14 million veterans to purchase homes, certainly a significant milestone in the history of the program and I think a credit to your leadership and efforts as well.

Mr. Chairman, my testimony today will focus on the draft legislation enhancing the VA Home Loan Guaranty Program as well as some general observations pertaining to the recent changes to the program in pending legislation. I would like to state up front that the National Association of Realtors applauds the initiatives that improve the availability and affordability of veterans housing while making the program competitive with other mortgage products that are out there in the field today.

We have long maintained that the Federal housing policy should be modified to reflect market demand and to ensure financial soundness. The provisions contained within your draft legislation will further enhance the viability and accessibility of the VA Home Loan Guaranty Program and build on the efforts of the subcommittee to improve the program.

We strongly support the draft legislation. Specifically, NAR supports the provisions permitting the refinancing of adjustable rate mortgages to fixed rate mortgages and allowing home refinancing loans for energy efficiency improvements.

With regard to refinancing ARMs to fixed rate mortgages, we believe this improvement will allow the veteran borrower to realize long-term interest savings in a potentially volatile interest rate market. Furthermore, we believe this provision will allow the veteran home buyer whose income and equity have increased to reduce his or her monthly debt obligation.

Regarding the proposal allowing home owners to include the cost of energy efficient improvements when refinancing their mortgages, we believe this process will allow consumers to achieve the dual benefit of interest rate reduction and lower utility costs. Clearly, the positive cash flow created by the energy efficiency improvements translate into a savings in utility for the consumers far outweighing the slight additional finance expense.

Mr. Chairman, I believe it is important to note that your provision is an important benefit for both the borrower and the lender.

By lowering both their debt service burden and their utility expenses, home owners would have additional funds to meet their housing obligations which would obviously lessen the potential likelihood for mortgage default.

I would like now to address Public Law 102–547, which is the Veterans Home Loan Program Improvements of 1992. We believe that the changes enacted in the law—namely, extending the eligibility to Reservists of the VA adjustable rate mortgage product and the negotiated interest rates—has reinvigorated the VA's share of the housing market in all segments of the country and stimulated homeownership opportunities not only among the veterans but also among the Reservists, as mentioned earlier by the former panelists.

While the program modifications are generating tremendous interest in the VA Home Loan Program and are resulting in a substantial increase in the VA loan origination volume, I believe it is important to note that the modifications are demonstrations scheduled to expire in the very near future. The National Association of Realtors strongly encourages their adoption as permanent features of the VA Home Loan Program.

Mr. Chairman, NAR conducted a recent survey of 1,178 local boards of realtors State associations and large agencies and lenders to determine an evaluation of the program modifications. Our survey was conducted between June 20 and June 27 of this year. I welcome this opportunity to share some early observations pertaining to the principal program modifications.

As you know, Public Law 102–547 extended the Loan Guaranty benefits for the first time to Reservists under certain conditions. Approximately 43 percent of the respondents to our survey have witnessed an increase in the number of Reservists purchasing homes since they became eligible for the program. Approximately 33 percent of the respondents believe Reservists would not have been able to purchase a home if the VA program was not available to them.

Mr. Chairman, this represents a clear indication that the Reservists eligibility provision is providing an important benefit to many home buyers who were either precluded or limited from homeownership opportunities.

Approximately 43 percent of the respondents to our survey knew of veterans or Reservists who were able to purchase a home by negotiating their mortgage interest rate with a lender. Further, the respondents commented that negotiated interest rates is an invaluable feature for both the veteran buyer and the seller, particularly in areas of the country where the seller is not accustomed to paying the discount points.

I believe this is an important factor because NAR has consistently maintained that the administered rate was disadvantageous to the potential veteran home buyer because it limited the veteran's choices of housing availability and inadvertently restricted the veteran's use of his or her entitlement.

The National Association of Realtors also welcomes the provision establishing an ARM product because it increased the veteran's opportunities for homeownership and facilitated the different borrowing needs of veteran borrowers. Again, our survey pointed out that approximately 50 percent of the respondents are realtor members

that sold homes to veterans or Reservists using the Veterans' Administration ARM product and, again, more importantly, that 33 percent of the respondents believe that the VA ARM product was directly instrumental in the home purchase, with approximately 21 percent of the respondents believing that over half the purchasers would not have been able to buy a home if the VA ARM product was not available to them. Given the recent rise in interest rates, we anticipate greater use of the VA arm as a viable mortgage financing product.

Finally, Mr. Chairman, the National Association of Realtors is especially grateful for the subcommittee leadership in achieving the full committee approval last year of H.R. 949, the legislation increasing the veterans Home Loan Guaranty amount.

As you know, NAR testified before your subcommittee in strong support of the provision and worked closely with the Senate Veterans' Affairs Committee to approve companion legislation, yet this important bill remains pending for Floor consideration. In the interests of veterans seeking homeownership in the high-cost housing markets, NAR encourages expeditious enactment of H.R. 949.

As you know, H.R. 949 would increase the amount a veteran is eligible to borrow from the current $184,000 amount to $203,000. Increasing this guarantee would make the VA Home Loan Program more flexible in terms of reflecting the differences in the housing costs among various areas, broadening the usage of the program not only in terms of savings to borrowers but also in terms of the range of borrowers who would be able to purchase homes under the particular program.

In closing, Mr. Chairman, I just want to thank you and the subcommittee for the opportunity to be here today to testify on the VA Home Loan Guaranty Program, and I would certainly stand ready to answer any questions at your discretion. Thank you very much.

[The prepared statement of Mr. Adams appears at p. 78.]

Mr. SANGMEISTER. Welcome, Mr. DeCesaris. Am I pronouncing your name correctly?

Mr. DECESARIS. DeCesaris is correct, Mr. Chairman.

Mr. SANGMEISTER. Okay. Thank you very much, you may proceed.

STATEMENT OF GEATON DECESARIS, JR.

Mr. DECESARIS. Thank you. Good morning, Chairman Sangmeister and Representative Kreidler.

My name is Geaton DeCesaris, and I am the president and CEO of Washington Homes, Inc. of Landover, MD. I have been a home builder in the Washington, DC metropolitan area for over 20 years. My company has built over 16,000 homes in the Washington, DC metropolitan area, primarily for the first-time home buyer.

Of those 16,000 homes, approximately 6,000 were sold through the VA Home Loan Guaranty Program. In the last 5 years alone out of approximately 4,000 homes we sold, approximately 1,300 were sold through the VA. If it was not for this program, we estimate that one-half or approximately 650 veterans would not have had the opportunity to realize the American dream of homeownership.

It is my privilege today to represent the views of the National Association of Home Builders, representing more than 170,000 member firms. I will address the operation of the VA Home Loan Guaranty Program, the June 3 draft legislation, and, finally, the legislation to increase the Loan Guaranty amount.

On behalf of NAHB, I would like to salute your subcommittee for its effective stewardship of the Home Loan Guaranty Program. I would also like to commend your staff director, Gloria Royce, for her wealth of knowledge and willingness to work with our industry. She is greatly appreciated.

The VA Home Loan Guaranty Program is generally very well operated. However, in some areas of the country like Virginia and even here in Washington, our membership faces slow processing of conditional commitments. We recently had an MCRV take over 3 months to be processed through the system in Washington.

Although refinancings are not expected to continue at their current pace, new loan originations are expected to increase, particularly if legislation to raise the Loan Guaranty amount becomes law. NAHB respectfully urges that staff levels not be further reduced.

NAHB appreciates the opportunity to provide our views on proposed legislation to modernize the Home Loan Program. NAHB is overall supportive of your draft bill. Specifically, we support the bill's aim to expand home loan benefit eligibility to Reservists discharged because of a service-connected disability as well as surviving spouses of Reservists who have died while on active service. This provision is necessary to provide equitable treatment for members of the National Guard and Reserves and their families.

We also support related provisions which would ensure that service persons released from their duties because of a reduction in force are not unfairly denied the home loan benefit.

Regarding refinancings, NAHB also supports the proposal to allow VA the authority to guarantee home refinancing loans for energy efficient improvements. NAHB has consistently been a supporter of energy efficient mortgages and long recognized the financial advantages gained by purchasers of homes with lower energy costs.

NAHB approves of the provision to allow the VA to refinance ARMs to fixed rate mortgages even if the fixed rate is currently higher than the adjustable rate. Veterans should be allowed to choose the financing mechanisms which they prefer.

NAHB also supports the draft provision to repeal the 30-year-old requirement for a statement from local officials regarding water and sewage systems. This creates an unnecessary burden on all parties. Existing local, State, and Federal laws adequately review individual water and sewage disposal systems as an alternative to community and public systems.

In addition, NAHB respectfully urges you to make permanent the successful pilot programs created by the Veterans Home Loan Program Amendments of 1992, such as the adjustable rate mortgage program and expanded entitlement program. As interest rates increase, allowing the veteran to choose between loan programs is only equitable. My personal experience shows that our VA loans have increased from 28 percent of our total volume to 33 percent since the amendments have been made.

NAHB applauds you for your sponsorship and successful House passage of H.R. 949, legislation to increase the Home Loan Guaranty amount from $46,000 to $50,750. This important improvement is needed to effectively increase VA guaranteed home loan limits from the existing ceiling of $184,000 to $203,000. H.R. 949 is essential to ensure that all eligible veterans are able to take advantage of their home loan benefit even if they live in a higher cost area.

Although this bill and its companion legislation in the Senate were both passed last year, conference committee action and final passage of this legislation has not occurred. It is my understanding that the present impasse between House and Senate is not in any way related to this provision.

On behalf of NAHB, I respectfully urge you to resolve the differences as soon as possible and send this much needed legislation to the White House this summer.

In conclusion, I commend you and your committee for your strong commitment to providing our deserving veterans with the American dream. Thank you, and I would be pleased to answer any questions you may have.

[The prepared statement of Mr. DeCesaris appears at p. 83.]

Mr. SANGMEISTER. Thank you.

Mr. McCord.

STATEMENT OF RON J. MCCORD

Mr. MCCORD. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Ron McCord, president of the American Mortgage Investment Company of Oklahoma City, OK, and currently serving as chairman of the Legislative Committee of the Mortgage Bankers Association of America. Accompanying me today are Michael J. Ferrell, MBA legislative counsel; and Burton C. Wood, MBA senior staff vice president.

MBA appreciates the opportunity to testify at this oversight hearing on the VA Home Loan Guaranty Program and on the draft bill enhancing the program as well as our proposals to improve the program. This hearing occurs at the most appropriate and historic time when we have just celebrated on June 22 the 50th anniversary of the Servicemen's Readjustment Act which created the VA Home Loan Guaranty Program. Under the program, the VA has guaranteed loans on over 14 million homes totaling in excess of $432 billion.

The mortgage banking industry is proud of the role it has played in making homeownership possible under the program for this country's veterans from World War II as well as from the Korean, Vietnam, and Persian Gulf Wars.

Mortgage bankers have consistently originated the vast majority of loans made under the program. In 1993, $40 billion of VA loan originations were made, of which 87 percent or some $35 billion were made by mortgage companies. We look forward to continuing this central role in the future.

We have examined the draft bill you have submitted, Mr. Chairman, and we are pleased to support the provisions that extend the same program eligibility to Reservists that veterans' surviving spouses have. We also strongly support the provisions authorizing

the refinancing of adjustable rate mortgages to fixed rate mortgages.

Further, we support the provision authorizing the VA to accept a property in certain overbid situations and the amendment of the minimum active duty service requirement in connection with a reduction in force or early discharge at the Government's decision.

Last year both the House and Senate approved an identical increase in the VA Home Loan Guaranty Program from $46,000 to $50,750.

We are concerned that the delay in raising the limits combined with the recent jump in mortgage interest rates has resulted in pricing approximately 12,000 veteran families out of the market. We urge prompt action on the guaranty increase.

Congress has now authorized two mortgage guaranty products under the VA insurance program, the traditional fixed rate mortgage and more recently approved 1-year adjustable rate mortgage. For over 5 years the conventional market has successfully offered two-step mortgages that have lower initial rates than fixed rate mortgages and less frequent rate adjustments than 1-year ARMs. The veteran home buyer would be the clear beneficiary of these proven mortgage products. MBA recommends, therefore, that Congress give the VA the authority to originate the two-step mortgage.

Under the VA Home Loan Guaranty Program, the VA by law is required to approve and to rotate the assignment of residential loan appraisers to VA home loan cases. We believe this requirement is obsolete and should be eliminated.

All residential appraisers now must meet State established appraisal standards required by FIRREA. This mitigates against the need for a statutory restriction. Indeed, FHA is in the process of implementing appraiser selection procedures as approved in the 1990 Housing Act which will rely on the FIRREA appraiser qualification provisions.

The elimination of the VA appraisal provisions would eliminate many of the loan application processing delays that currently arise under the VA program. MBA therefore urges Congress to amend the Act to permit lenders to select their appraisers.

This concludes my testimony. MBA appreciates the opportunity to testify today, and if I might, on a personal note, I would like to, on behalf of myself along with Mike Ferrell, Burton Wood, and the others from the Mortgage Bankers Association, express our appreciation for your outstanding leadership and stewardship of the subcommittee and the outstanding legislative record that you have achieved.

Thank you.

[The prepared statement of Mr. McCord appears at p. 86.]

Mr. SANGMEISTER. Thank you.

It seems from all of your testimony that things are going rather well.

H.R. 949 which passed the House last fall contains a provision to increase VA's loan guaranty from $46,000 to $50,750. This would increase no-downpayment limits from $184,000 to $203,000. Since the Senate has incorporated a similar provision in one of their bills, I anticipate that an increased guaranty will be effective later this year. Since most mortgage bankers sell their loans to GNMA, have

you been in touch with GNMA regarding their increasing their loan limits?

Mr. McCORD. I have not personally talked with Ginnie Mae, but we would certainly encourage and hope that they would go along with that increase so that that would be an effective market for us in the secondary market.

Mr. SANGMEISTER. Maybe it will happen without any problem at all, but you probably ought to be doing that. It has been quite a number of years since I was practicing law and closing real estate deals. However, the brokers used to say, "You know, your client qualifies for a VA loan, but we don't want to go through all the red tape so, we want a conventional loan."

Is that attitude prevalent today? Or if you have a person who definitely qualifies for a VA loan, do you push it?

Mr. ADAMS. Actually, with a few exceptions the appraisal process being one right now—actually, it is probably the most obsolete in the process.

The VA program and the modifications over the years, much of which has been enacted in legislation that you have pushed and provided, have put that program on fairly even grounds on the process side to other programs and have made it viable.

Like I said, we are constantly striving for other changes and modifications that will continue to keep it competitive as the other programs evolve as well, and, again, having been involved in the real estate side for 13 years, a long enough period of time that I have seen exactly what you have said, that that was, I think, a prevalent attitude 7, 8, 9 years ago, but the modifications that have evolved, I think, have put that program on even grounds.

Several other refinements need to be done, but, like I said, I don't think it is as prevalent a problem any more.

Mr. SANGMEISTER. So the turnaround on a VA loan approval is within reasonable limits. Obviously, it is going to take more time than a conventional.

Does anyone else here have a comment on that?

Mr. DeCESARIS. Yes, Mr. Chairman, I would like to comment on that. We operate actually in the Mid-Atlantic Region from Philadelphia to Richmond, and we are also in North Carolina and Pittsburgh.

On a personal note, we find that the Washington regional office is a much longer process to deal with than either the Baltimore, Richmond, or North Carolina offices, for example, and it is quite burdensome for our operation to deal with the VA when it comes to appraisal issues, and we have met with the VA on that, and I understand they are working on that, and we appreciate all the assistance that they have given us in the past and look forward to continuing that. But we would like to continue that communication going forward to see if we can't work on the appraisal side.

Mr. SANGMEISTER. We need some improvement in the Washington office, is what you are saying.

Mr. DeCESARIS. Yes, Mr. Chairman.

Mr. SANGMEISTER. Okay.

Mr. McCORD. Well, I would just like to add that the process is slower than the conventional market, and to make the necessary changes in the appraisal area would benefit the program, I think,

immensely and encourage veterans to pursue the program for home lending purposes.

Mr. SANGMEISTER. You all seem to be supportive of the legislation I am proposing to try to improve things. But do any one of you have anything that, if you were sitting where I am sitting here, you would say, well, this has really got to be a change that we ought to be making in the law?

Mr. ADAMS. Just one, Mr. Chairman. We really think—the entire association that I represent thinks that maybe reconsideration of the second use funding fee increase is something that really should be considered. Several reasons, probably the most important being that that borrower that is using his VA benefits the second time around probably represents one of the lowest risk borrowers to the program, and the higher funding fee requirement probably discourages that borrower in a lot of instances to go into another type of financing, and, again, I think that in itself probably doesn't serve either the revolving fund well or that veteran borrower. So we would certainly like that to maybe be considered and revisited.

Mr. SANGMEISTER. Yes, it will have to be. We were proposing that, as you probably know, and then of course in reconciliation that got taken away from us. But you are absolutely right on what you say on that.

Mr. ADAMS. And especially coming from San Antonio with such a strong military heritage, I mean we see that quite a bit.

Mr. SANGMEISTER. Okay.

Does minority have any questions you would like to ask?

Mr. JONES. No questions at this time, Mr. Chairman.

Mr. SANGMEISTER. No questions at this time. Okay.

Well, I think that pretty well puts it together. Thank you very much for taking the time to come here today so we can get your perspective on matters, which is very important, and we will be proceeding accordingly.

Mr. ADAMS. Thank you, Mr. Chairman.

Mr. MCCORD. Thank you.

Mr. DECESARIS. Thank you very much.

Mr. SANGMEISTER. That terminates the testimony for today, and the committee is adjourned.

[Whereupon, at 11:04 a.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF RAYMOND H. AVENT

DEPUTY UNDER SECRETARY FOR BENEFITS

DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

HOUSE OF REPRESENTATIVES

JUNE 30, 1994

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the operation of the Department of Veterans Affairs Loan Guaranty Program. In your invitation letter, you specifically requested testimony on originations, loan servicing, property management, staffing levels, timeliness, and loan asset sales. You also requested testimony on proposed legislation to enhance this program.

CURRENT ACTIVITY

Mr. Chairman, I would first like to bring you up-to-date on the current activity of the Loan Guaranty Program. During the past year, mortgage interest rates reached levels as low as they have been in 20 years. In an effort to ensure that veterans with active VA loans were aware that they could refinance their current loans to lower interest rates, VA mailed a letter to approximately 1.8 million veterans who had active VA loans at interest rates of 8.5 percent or higher. The letter informed the veterans that VA refinancing loans were available to reduce the interest rate on their current loans with little or no expense and urged them to consider refinancing to lower the rate.

As a result of the low mortgage interest rates and recent program improvements, the number of VA-guaranteed home loans made this year has increased significantly. In fact, the 156,534 loans guaranteed during the second quarter of FY 1994 is the largest number for any quarter in the past 7 fiscal years. For FY 1994 year-to-date through May, we have guaranteed 406,243 loans (worth $37.3 billion) as compared to 228,247 loans for the same period last

year. At this rate, VA will guarantee over 600,000 loans this fiscal year. This would rank as the second largest yearly volume in VA history, second only to the 640,000 loans guaranteed in 1947. Over half (52 percent) of the loans guaranteed were interest rate reduction loans, for a total through May of 212,234, worth $19 billion.

CERTIFICATES OF REASONABLE VALUE

In the Construction and Valuation area of the Loan Guaranty Program, even with the unprecedented loan volume, we have been able to process Certificates of Reasonable Value (CRV's) on a very timely basis nationwide. For FY 94 through May, 90 percent of all CRV's were issued within 20 days of the request, which is the established timeliness standard.

LENDER APPRAISAL PROCESSING PROGRAM

I would also like to update the Subcommittee on our Lender Appraisal Processing Program (LAPP). Our third annual report to Congress on LAPP which covered the 12-month period from April 1, 1993, through March 31, 1994, shows a significant increase in lender participation. During that period, VA guaranteed 27,477 loans in which the lender made a determination of reasonable value for the property which secures the loan. This is a dramatic improvement compared with the 7,374 LAPP loans guaranteed during the 12-month period ending March 31, 1993, and suggests that lender participation will continue to increase. We believe LAPP is providing its principal benefit to veterans, that of speedier loan closings.

DEFAULTS AND FORECLOSURES

Mr. Chairman, I am pleased to report that the trend in defaults and foreclosures is downward. Defaults reported during the first half of FY 1994 (66,693) were down 13 percent from those reported in the same period in FY 1993 (76,711) and down 21 percent from those reported in the same period in FY 1992 (84,175). Foreclosures for the first half of FY 1994 (12,155) were down 10 percent from those reported in the same period in FY 1993 (13,513) and

were down 28 percent from those reported in FY 1992 (16,880). Defaults pending decreased from 113,654 at the end of FY 1992 to 110,792 at the end of FY 1993. The number of defaults reported in those years declined from 153,389 to 142,190.

Even as defaults trend lower, we continue to emphasize our program to provide delinquent veteran borrowers with personal supplemental loan servicing. These efforts assist veterans to retain home ownership and mitigate VA's program losses through a reduced number of loan terminations and claim payments. Program losses are also reduced when veterans cooperate with VA in resolving insoluble defaults through lower-cost alternatives to foreclosure, such as a private sale or voluntary conveyance of their property.

VBA's index of Foreclosure Avoidance Through Servicing measures the extent to which foreclosures would have been greater had an alternative to foreclosure not occurred. The index measures items such as: successful VA interventions, refunding, compromise claims, and deeds in lieu of foreclosure. The measurement indicators clearly show that foreclosure avoidance efforts assist veterans and are cost-effective. To encourage field stations to improve their supplemental servicing, we established Departmental goals to improve performance measured by the index and periodically publish comparative results for regional office use.

For the first half of FY 1994, our foreclosure avoidance index shows that approximately 29 percent more foreclosures would have occurred had VA regional offices not intervened with loan holders on behalf of veterans or pursued alternatives to foreclosure with veterans.

As a direct result of our efforts in assisting veterans with alternatives to foreclosure, we realized savings of nearly $78 million in FY 1993 and nearly $38 million for the first half of FY 1994.

To further increase the number of cases in which an alternative to foreclosure is found, on December 1, 1993, VBA established a test program allowing loan servicers to approve compromise sale offers and voluntary conveyances.

VBA completed 1,323 compromise claims during FY 1993. This occurs when a property is worth less than the mortgage debt, and payment of the difference by VA as a compromise claim lets the veteran complete a private sale. The test program allows servicers to process compromise sale offers based on VA-established criteria. This eliminates the delays inherent in obtaining VA's prior approval in each case and will result in more foreclosures being avoided.

During FY 1993, VBA accepted 1,906 voluntary conveyances on insolvent VA-guaranteed home loans. When VA accepts a voluntary conveyance, liquidation expenses are reduced. By allowing loan servicers to pursue and accept voluntary conveyances on behalf of VA, it is expected that more will be completed, also saving the Government additional costs of foreclosure.

ACQUIRED PROPERTIES

Mr. Chairman, VA's inventory of properties reached an all time high of 25,172 in March 1988. Since that time, we have focused on a steady, measured reduction in the inventory. We have acquired approximately 2,342 fewer properties during the first 8 months of Fiscal Year 1994 than we acquired during the same period in FY 1993. Consistent sales efforts by our regional offices have reduced the inventory to 11,921 properties on hand as of the end of May, 1994 (nearly 1,000 fewer properties than on hand the same time a year ago). Property sales thus far in Fiscal Year 1994 have generated over $1.017 billion in revenues for the revolving funds.

Our present sales goals call for the inventory at the end of the fiscal year to be no higher than the total on hand as of the end of the last fiscal year, or 11,283. The inventory is being turned over constantly and properties on hand are going through the repair and sales process about as quickly as can reasonably be expected. A secondary goal is that the number of properties on hand for over 12 months be 10 percent less than the 666 such properties on hand as of the end of Fiscal Year 1993. This additional focus on selling older properties is intended to continue the reduction from the over 12-month inventory of more than 3,800 properties which we had only 6 years ago.

HOMELESS VETERANS

Now let me turn to our efforts to assist the homeless. The Homeless Veterans Comprehensive Service Programs Act of 1992 (Public Law 102-590) amended section 3735, title 38, United States Code, to provide authority until December 31, 1995, for using VA-acquired properties to shelter homeless veterans and their families. This program was intended to help homeless veterans and their families at little cost to VA, by making "hard-to-sell" properties available for their use.

Under the program, local government agencies and nonprofit organizations, including veterans' service organizations, working on behalf of homeless persons, can purchase VA-acquired properties at discounts ranging from 20 to 50 percent. To date, 32 properties have been sold to homeless providers under the program and another 2 are being used by a VA medical center for a compensated work therapy program. Purchasers include the American Legion, the American GI Forum, the Jewish War Veterans, and other veterans' groups.

Public Law 102-590 also provided authority for VA to lease properties with an option to purchase and to donate certain properties. The law also authorized VA to establish credit standards for the sale of properties with VA-provided financing to local government agencies and nonprofit organizations working on behalf of homeless persons.

In March 1993, we implemented a test program to lease 50 properties to homeless providers. Locations of the properties to be leased were selected by VA field offices based on their experience with the local populations of homeless veterans, local homeless providers, the availability and suitability of properties in the VA inventory, and VA staffing resources to monitor the activities of the providers as well as to monitor the properties under lease.

Under the homeless leasing program, properties may be leased to organizations working on behalf of homeless persons for 1 year at a rent of $1. The leases may be renewed for up to two additional lease terms of 1 year each

and providers may exercise the option to purchase the property. To date, leases have been executed for 26 of the 50 properties which were allocated for the test program. One property which was initially leased has subsequently been sold to the homeless provider to whom it was leased.

VA regional offices have initiated a variety of outreach efforts to promote the homeless program and continue to routinely notify homeless providers and other interested parties about the program.

LOAN ASSET SALES

Mr. Chairman, you asked that our testimony address loan asset sales. A major success in that area is the "Vinnie Mac" securities program which was launched in June 1992. Sales under the program have been continued for Fiscal Years 1993 and 1994, as authorized by Public Law 102-547. This law specifically permits VA to directly guarantee payment of principal and interest on mortgage securities backed by vendee loans which are sold prior to December 31, 1995.

A new issuing conduit, "Vendee Mortgage Trust," was created for the Vinnie Mac program to distinguish the guaranteed certificate sales from prior VA vendee loan securitizations through American Housing Trusts. The program nickname, Vinnie Mac, was adopted to establish market recognition for the guaranteed Real Estate Mortgage Investment Conduit (REMIC) securities as an Agency security comparable to those guaranteed by the Government National Mortgage Association (Ginnie Mae) which are backed by the full faith and credit of the United States of America.

Seven VA-guaranteed REMICs have been issued to date through the Vinnie Mac program: two 1992 sales totaling $834,396,563 of vendee loans, three 1993 sales totaling $1,593,996,517 of vendee loans, and two sales so far in 1994 totaling $970,881,862 of vendee loans.

Post-sale analyses of the Vinnie Mac offerings indicate that VA has received significantly better prices for guaranteed Vinnie Mac mortgage

securities than those obtainable for comparable nonguaranteed securities issued through American Housing Trusts. Total increased proceeds to VA on the $3.4 billion of Vinnie Mac sales to date are estimated to be more than $55 million.

LENDER MONITORING

Mr. Chairman, I would now like to discuss the progress and achievements of the Lender Monitoring Unit. The Monitoring Unit was created in September 1989 to ensure a higher level of compliance by lenders with the laws, regulations, and policies governing the origination and servicing of VA-guaranteed loans. The first origination lender audit was conducted by the Unit in March 1990, and the first servicing lender audit was conducted in November 1991. As of June 9, 1994, the Unit has completed 629 on-site reviews of lenders and servicers, of which 491 were origination audits and 138 were servicing audits.

Based on a total of 341 final audit reports released to lenders and servicers to date, VA has:

- recovered losses in the amount of $834,615;
- accepted indemnification agreements in the amount of $2,397,359; and
- denied liability on loans with potential claim and acquisition costs totaling $644,940, for a total savings to the Government of over $3.8 million.

STAFFING

My next area of discussion is in response to your request for information on Loan Guaranty staffing. The Loan Guaranty Program had a total staffing level of 2,033 FTE for Fiscal Year 1994 through May. This is 9 FTE lower than the 2,042 FTE estimated for FY 1994 in the President's FY 1995 Budget. Approximately 42 percent of these employees are involved with origination of new guaranteed loans. The remaining 58 percent are involved with servicing delinquent guaranteed and portfolio loans, payment of lenders' claims due to

foreclosure, and management and disposition of acquired property. The FY 1995 amended request for Loan Guaranty of 1,942 FTE represents a decrease of 4.5 percent in current program employment. This is 100 FTE less than the original request of 2,042 FTE. This reduction reflects fewer refinancing loan originations due to rising long-term interest rates as well as the continuing improvement in the level of defaults reported by lenders.

DRAFT LEGISLATION

Mr. Chairman, you also requested VA's views on a draft bill to make various amendments to the VA housing loan guaranty program.

Section 1 of the draft bill would make two modifications to the current law regarding the eligibility of Reservists for VA loans. Persons not otherwise eligible for housing loan benefits who have completed at least 6 years in the Selected Reserve, including the National Guard, were made eligible for VA housing loan benefits by section 2 of the Veterans Home Loan Program Amendments of 1992, Public Law 102-547. Section 1(a) of the draft bill would grant loan benefits to Reservists who were discharged or released from the Reserves before completing 6 years of service because of a service-connected disability. Section 1(b) of the bill would also grant these benefits to the surviving spouses of Reservists who died from a service-connected cause incurred during reserve training. Our preliminary estimate indicates that VA would guarantee an additional 165 loans per fiscal year, with a 5-year cost of approximately $1.1 million.

VA strongly favors these amendments if their costs are fully offset. Current law waives minimum service requirements for housing loan benefits for veterans discharged or released from active duty for a service-connected disability. The law also grants loan entitlement to surviving spouses of veterans with qualifying active duty who died from a service-connected disability. Equity dictates that similar treatment be given to Reservists who are killed, injured, or die from an injury or illness incurred during their weekend drills or 2-week annual training.

Section 2 of the draft bill would repeal section 3704(e) of title 38, United States Code, which prohibits VA from guaranteeing loans for newly constructed residences in areas not served by public or community water and sewerage systems where local officials certify that the establishment of such systems is feasible. Since 1965, when this requirement was enacted, conditions have changed significantly. VA believes that Federal, State and local laws now adequately cover the subject of individual water and sewage disposal systems as an alternative to public systems. For the most part, the certification requirement is a paperwork exercise. Section 3704(e) places a burden on local officials, program participants, and VA without materially benefiting veterans. Accordingly, Mr. Chairman, VA favors repealing this requirement.

Section 3(a) of the draft bill would authorize VA to include in interest rate reduction refinancing loans an additional amount for energy efficiency improvements. We believe this provision needs more study. Therefore, VA cannot support this proposal at this time.

Section 9 of the Veterans Home Loan Program Amendments of 1992 authorized VA to guarantee loans for the acquisition of a property which include up to an additional $6,000 for energy efficiency improvements. These extra amounts for energy improvements may cause the loan in some cases to exceed the appraised value of the property. Because this authority is new and only a relatively few such loans have been recently guaranteed, VA has not had the opportunity to evaluate this program. While VA supports the concept of energy efficient mortgages, we believe further expansion of this authority should be delayed until both VA and private lenders have had an opportunity to fully evaluate how this concept is working in practice.

Section 3(b) of the draft bill would correct a problem that has arisen in connection with refinancing Adjustable Rate Mortgages (ARMs). Until recently, Mr. Chairman, a VA loan bore interest at a fixed rate throughout its term. Section 3 of the Veterans Home Loan Program Amendments of 1992 authorized a 3-year demonstration program for ARMs. Under the law, the interest rate on an ARM may increase or decrease up to 1 percentage point per year, with a possible ceiling of 5 percentage points above the initial contract interest rate.

Current law permits a veteran to refinance an existing VA loan with a new VA loan at a lower interest rate. These loans, referred to as interest rate reduction refinancing loans (IRRRLs), are made with no additional charge to the veteran's entitlement and at little or no cost to the veteran.

A difficulty arises in cases involving veterans who wish to refinance existing VA-guaranteed ARMs with fixed-rate mortgages using the IRRRL program. It often occurs that the current interest rate on an ARM is less than the rate available on a fixed-rate mortgage. During periods of low interest rates, it may be beneficial over the long term for the veteran to refinance an ARM with a fixed-rate loan, even though the short-term cost may be higher. Current law prevents the veteran from doing this and the draft bill would correct this inequity by permitting veterans to refinance existing VA ARMs to convert them to fixed-rate loans whenever the veteran considers it advantageous to do so. Accordingly, VA favors this amendment.

Section 4 of the draft bill would provide that any manufactured home properly displaying a certificate of conformity with all applicable Federal manufactured home construction and safety standards would be eligible for purchase with VA financing. This section would also repeal the requirement that VA inspect the manufacturing process of manufactured homes and conduct on-site inspections of manufactured homes purchased with VA financing. VA favors these amendments.

When the Congress enacted the VA manufactured home loan program in 1970, there were no comprehensive regulations insuring the safety and fitness of manufactured housing. Four years later, however, the Congress enacted the National Manufactured Housing Construction and Safety Standards Act of 1974. That Act required the Secretary of Housing and Urban Development, in consultation with the Consumer Product Safety Commission, to establish manufactured home construction and safety standards. Units are required to have permanently affixed to them a tag or label certifying their compliance with the Federal standards. HUD is authorized to conduct necessary inspections to enforce the Federal standards.

VA believes that the comprehensive scheme established by the 1974 law is sufficient to insure that new manufactured homes purchased by veterans with VA-guaranteed loans will be properly built and suitable for occupancy and use. We believe VA manufactured home plant inspections and on-site visits provide no benefit to veterans, and better use can be made of VA staff time.

Section 5 of the bill would permit VA to accept conveyance of the property from a loan holder notwithstanding the holder's overbid at the liquidation sale. Under the so-called VA no-bid formula, VA determines when it would be cost-effective to acquire the property that secured a VA-guaranteed loan from the private holder following foreclosure. If the net value of the property exceeds the veteran's total indebtedness minus the amount of VA's guaranty, the holder has the election to convey the property to VA if the holder acquires the property at the liquidation sale for an amount that does not exceed the lesser of net value or total indebtedness. The lesser of net value or total indebtedness is sometimes called the "upset price."

On occasion, due to a miscommunication between VA, the loan holder, and the holder's attorney, the holder's bid at the foreclosure sale exceeds the upset price. Under current law, VA's guaranty payment reflects the holder's actual bid, and VA may not accept the property unless the holder's bid was the minimum amount the holder was required to bid under State law. Under the bill, if the holder overbids, the guaranty payment computation will not change. The holder will, however, be permitted to convey the property to VA for the upset price. This is the same amount which VA was prepared to pay for the property had the holder bid the upset price. VA does not believe either the Government or the veteran is prejudiced by a bid in excess of the upset price, and it is still cost-effective for VA to acquire the property for the upset price. Accordingly, VA has no objection to this amendment.

The final section of the bill, Mr. Chairman, would waive the 2-year minimum service requirement for loan guaranty benefits for service members who were released from active duty due to a reduction in force. Chapter 37 of title 38, United States Code, grants loan guaranty entitlement to veterans who have honorably completed either 90 days of service during a period of war or

181 days of non-wartime service. Section 5303A of title 38, however, imposes an additional requirement on persons who first entered active duty after either September 7, 1980, or October 16, 1981. Veterans affected by section 5303A are generally denied VA benefits unless they completed the shorter of 24 months of continuous service or the full period for which they were ordered to active duty. Although section 5303A contains some exceptions, persons released as part of the downsizing of the Armed Forces are generally precluded from qualifying for housing loan benefits unless they have completed 24 months of service.

VA believes it is inequitable to deny loan guaranty benefits to such veterans who have met the minimum service requirements in chapter 37 simply because they failed to serve 24 months when they were released early from active duty through no fault of their own. VA, therefore, favors this amendment. Our preliminary estimate indicates that we will guarantee an additional 2,000 loans per fiscal year as a result of this provision at a 5-year cost of $13.6 million.

Since certain provisions of this bill will increase direct spending, the bill is subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The total estimated 5-year cost of the entire bill is $14.8 million. None of the provisions require additional FTE resources. VA's favoring of certain provisions of this bill is conditioned on the Congress finding offsetting savings.

This completes my testimony, Mr. Chairman. I will be pleased to respond to any questions you or the other members of the Subcommittee have.

STATEMENT OF
RICK SURRATT
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
OF THE
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
JUNE 30, 1994

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.4 million members of the Disabled American Veterans (DAV) and its Women's Auxiliary, I am pleased to present our views on the operation of the Department of Veterans Affairs' (VA) home loan guaranty program and a draft bill for legislation enhancing the loan guaranty program.

At the outset, I would note for the Subcommittee's information that the DAV supports a strong and viable home loan guaranty program. The members of the DAV adopted a resolution to that effect at the annual DAV National Convention. And, all indications are that the loan guaranty program remains strong and viable. Since the program's inception, veterans have taken advantage of its benefits in more than 14.3 million loans with approximately 3.4 million loans outstanding.

Through May of the 1994 fiscal year (FY), there were 406,000 new VA loans with a projection of 600,000 for FY 1994. If this projection is fulfilled, FY 1994 will have had the second highest volume of loans in the history of the program. This represents a substantial increase over the 383,303 loans guaranteed in FY 1993.

The VA mailed approximately 1.6 million letters to persons with VA guaranteed loans advising them of the availability and advantages of Interest Rate Reduction Refinancing Loans. There is no information available yet on responses to this mailing, but indications are that there is a huge volume of refinancing loans with approximately 212,000 refinancing loans out of the 406,000 total new loans through May 1994. These refinancing loans help everyone. The government's potential liability is reduced and veterans' financial burdens and chances of default are lessened.

The rate of default for this year is running about 13 percent lower than last year, and VA attributes this to more than one factor, but partly due to loan servicing. When VA learns that a veteran is delinquent on a guaranteed loan, it initiates contact with the veteran to assist in avoidance of a default. Such interventions resulted in 38 million dollars in

savings for the first half of FY 1994. VA now has 11,921 foreclosed properties on hand, and that has declined from 12,853 properties on hand at this time last year.

Thus, these figures show that the workload for the loan guaranty program is increasing, but that loan servicing is resulting in less defaults, which translates to savings for the government and less loss of homes by veterans. Conversely, inadequate or delayed loan servicing due to inadequate staffing results in more defaults and longer delays in selling the property with more economic loss to the government and veterans.

In the Independent Budget for the Department of Veterans Affairs, presented to Congress by the DAV and other veterans' service organizations, the cost-effectiveness of having sufficient employees to help delinquent veterans avoid default has been noted repeatedly. We are unaware of any disagreement with this position. In view of increasing workload, the Independent Budget includes a recommendation of adding employees for loan servicing with overall increased FTE to 2,180. However, for FY 1995, VA proposes a reduction of its loan guaranty personnel to be absorbed by a projected decreased workload. For FY 1994, VA loan guaranty has 2,042 FTE. VA proposes to reduce this to 1,942 FTE for FY 1995.

With the increasing numbers of veterans obtaining VA guaranteed loans, the recent expansion of eligibility to include certain reservists, and the additional expansion of eligibility proposed in the draft bill under consideration in this subcommittee, a projection of decreasing demand for VA guaranteed loans is a questionable basis for reducing staffing levels. We are informed that VA is already experiencing some backlog in processing loan applications and appraisals. Certainly, it would be unwise to let this situation in loan guaranty deteriorate to a state resembling that now seen in claims adjudication backlog crisis.

The DAV therefore continues to have concerns about adequate staffing levels for the loan guaranty program.

As noted, the draft bill of legislation to enhance the loan guaranty program would expand eligibility for VA guaranteed loans. Section 1(a) would provide for eligibility in the case of a reservist discharged because of a service-connected disability before completing the six years of service now required under section 3701, title 38, United States Code. Section 1(b) would provide eligibility for surviving spouses of reservists who die while on reserve duty. Section 6 would provide eligibility for veterans discharged or released from active duty as a result of a reduction in force before the completion of the 24 months continuous active duty that is otherwise required for veterans who enter service after September 7, 1980.

The DAV supports loan guaranty eligibility for these three classes of beneficiaries. The circumstances of the entitling service in these instances justify eligibility for loan guaranty. While it appears that the surviving spouses of reservists who die while on reserve duty or as a result of service-connected disability are already eligible for home loan guaranty under the plain language in subsections (2), (16), and (24) of section 101, title 38, United States Code, and while it is similarly arguable that reservists discharged because of service-connected disability are also eligible under section 3702(2)(B) of title 38, United States Code, the proposed amendments in section 1(a) and 1(b) of the draft bill will add clarification and resolve any uncertainties.

Section 2 of the draft bill would remove the requirement of certification of the water and sewerage systems. Section 4 would remove inspection requirements for manufactured homes and deem homes meeting Federal manufactured home construction and safety standards as meeting the Secretary's standards. Section 5 allows the holder of a VA guaranteed loan to correct an overbid. This technical amendment is procedural in nature and results in no cost to the government or borrower. The DAV has no opposition to the amendments contained in these sections.

Section 3(a) of the draft bill would provide authority to include loans for energy efficiency improvements with home refinancing loans. Section 3(b) would provide authority to refinance adjustable rate mortgages to fixed rate mortgages. These amendments will improve VA guaranteed loans by providing more options and flexibility for the veteran. The DAV supports the amendments contained in these sections.

In closing, the DAV wishes to thank the Chairman and members of the Subcommittee for your efforts to improve the VA home loan guaranty program and for allowing us to present our views on your draft bill and to participate in the oversight process. This concludes our remarks.

STATEMENT OF
KIMO S. HOLLINGSWORTH, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

JUNE 30, 1994

Mr. Chairman and members of the Subcommittee, The American Legion would like to thank you for your continued leadership and for the opportunity to present our views on legislation that would improve the Home Loan Guaranty benefit for veterans and their spouses. We are grateful that this subcommittee has worked hard to ensure eligible veterans and their families receive the benefits they have earned. It is this type of leadership that has resulted in the success of the home loan program.

Since the inception of the GI Bill, over 14 million veterans have received benefits through the VA's Home Loan Guaranty program. The GI Bill not only educated America's veterans, but also made home ownership a reality. It is evident as we celebrate the 50th anniversary of the GI Bill, that these veterans programs not only benefit veterans, but society as a whole.

Mr. Chairman, we are all aware of the current active military force reductions. During this time of rapid downsizing, the Reserves and National Guard are now fulfilling many missions normally assigned to the active military. Today's reserve units are structured to augment the nation's shrinking active military. The importance of reserve duty is growing daily as world commitments increase and our active force is reduced. This shift in responsibility was clearly evident during the Persian Gulf War.

Also, the rapid downsizing of the military is resulting in many veterans being released from active duty prior to their obligated service time. In many instances, veterans who are discharged at the convenience of the government are released before they meet minimum service requirements to be eligible for veterans benefits. These veterans should not be denied benefits for

circumstances beyond their control. The American Legion believes that this legislation is equitable and deserving for both former members of the reserves and their spouses and veterans who do not meet minimum service requirements because of separation due to downsizing.

Many veterans and lenders who desire to participate in the Home Loan Guaranty program are frustrated by some of the redundancy in the administrative requirements. This legislation would relieve veterans of the requirement to furnish documentation on local sewage systems and also not require inspection reports for manufactured homes. Since current laws already address these issues, they are not necessary and will simplify the home buying process. Not only will this bill simplify the program, it will also greatly enhance the VA's marketability by allowing the government to accept overbids on foreclosures. This is a greatly needed improvement and makes sound business sense.

Finally, this legislation will provide veterans the flexibility to refinance existing loans and/or the ability to "lock in" rates on an adjustable rate mortgage. These provisions are a wise addition to the program. The American Legion believes that these provisions will provide veterans the same types of opportunities available to non-veterans.

Mr. Chairman, once again The American Legion appreciates the opportunity to testify concerning a veterans benefit program that has had a major impact on our society. We believe the recommended changes to this legislation greatly improve the Home Loan Guaranty program. This concludes my testimony.

STATEMENT OF

VIETNAM VETERANS OF AMERICA

Presented By

Linda S. Schwartz, R.N., M.S.N.
Acting Government Relations Director
Chair, VVA Veterans Affairs Committee

Introduction

Chairman Sangmeister, Vietnam Veterans of America, Inc. (VVA) commends you for holding this hearing to evaluate the VA Home Loan Guaranty Program and your draft bill which will enhance use of this program in a number of ways. VVA shares your interest in ensuring that the VA Home Loan Guaranty Program operates as efficiently as possible, in order that it may continue to serve veterans as a readjustment tool. VVA appreciates the openness you have employed in hearing our concerns in the past.

It is worth noting that this program originated from the original "GI Bill". Just last week we celebrated the 50th Anniversary of this historic law. This program continues to help veterans and their families purchase homes. While VVA continues to have concerns about VA's servicing of delinquent loans as well the management of VA's property portfolio, we are pleased to see the program improvements included in this proposed legislation.

Draft Legislation

VVA supports all of the provisions included in the draft legislation before us today. The initiative in Section 1 which would expand eligibility for the Home Loan Guaranty Program to

certain reservists and certain surviving spouses of reservists is an important step to ensure that those citizens who have sacrificed through their military service are able to live comfortable lives and become homeowners. Sections 2 and 4 of the draft bill provide relief from outdated statutes regarding inspections of water and sewerage systems and manufactured homes. VVA recommends passage of both.

VVA is particularly pleased to see the inclusion of the provisions in Section 3 (a) and (b). This would give veterans more flexibility and discretion in refinancing by offering the option to include the costs of energy efficiency improvements. And the veteran borrower could save a great deal in interest costs, by refinancing from an adjustable rate mortgage to a fixed rate mortgage.

After close analysis of Section 5 of the draft legislation VVA feels confident in endorsing these provisions, as they will ensure continuing support of the program from lending institutions. This portion of the legislation was at first rather confusing, but our examination determined that this will not effect the size of the debt established against the veteran, nor will it significantly increase VA's workload. The proposed language will simply improve relations with loan holders and therefore enhance the viability of the Loan Guaranty Program.

As you know, Mr. Chairman, VVA has concerns about VA's practices in assisting veterans with delinquent loans. We have discussed our concerns about the lack of a procedure and qualification by which veterans can get VA assistance in refunding (refinancing) their defaulted loans. While the changes suggested in this section of the draft bill would not alleviate this problem, we do not anticipate that it will exacerbate the problem either.

This language would simply allow VA to acquire property after foreclosure even if the lender has "overbid". Generally, it seems, it is lenders that work with small numbers of VA Home Loan Guarantees and are thus less familiar with the procedures and policies that make the "overbid" mistakes. Under the proposed provisions, VA will not be forced to assume this loss, nor would the veteran be at higher risk of foreclosure.

You will recall, Mr. Chairman, that VVA has also raised concerns about VA's management of its property and loan portfolio, which seems to cost taxpayers hundreds of thousands of dollars. Since the real estate market has improved recently, VA has made a small "profit" when disposing of acquired properties. Therefore it is not expected that VA would loose money in the small number of additional properties it would acquire under the provisions of the draft bill, Section 5.

Simplify Eligibility

VVA also supports the provisions of Section 6 of the draft bill, which would clarify the minimum service requirement for persons released from active-duty because of a reduction in force or an early discharge for the convenience of the government. We would additionally suggest that the Subcommittee consider going a step further to streamline the program eligibility. By removing the varying wartime periods of eligibility and making the criteria more uniform and clear-cut, the program would be much more manageable and could serve more veterans.

One suggested method of doing this would be to restructure the eligibility criteria as follows: each veteran serving on active duty after September 15, 1940, and whose total service is no less than 90 days; each veteran who after September 15, 1940, was discharged or released from active duty for a service-connected disability; for a 7-year period beginning on October 28, 1992, those veterans (reservists) described in section 3701(b)(5) of Title 38.

In general the VA Home Loan Guaranty Program has been very successful in serving the mission set forth in the original GI Bill. The program has allowed many more American veterans to become homeowners, and has done a great deal in its 50 years to build this nation's middle class. Through revenues generated by all levels of government from property taxes and the incomes generated by home building, the VA Home Loan Guaranty Program has more than paid for itself through these secondary societal benefits.

While there may be certain risks of opening loan guaranty eligibility to the general

veteran population, it would seem that the benefits outweigh the risks. New protections should be implemented to ensure that the VA loan guaranty doesn't allow veterans to borrow more than they can truly afford. Clearly, property values have escalated making home ownership more difficult to attain than it was 50 years ago at the program's genesis. With thousands of service personnel leaving the military because of the drawdown, the VA Home Loan Guaranty program is again needed to help our military veterans make successful transitions into the civilian community. Opening and simplifying eligibility would enhance the program's viability, would improve the quality of life for veterans and their families, and could stimulate the nation's economy.

Conclusion

While VVA continues to have concerns about loan servicing and property management and loan sales, Mr. Chairman, we do support the purposes and successes of the VA Home Loan Guaranty Program. The problems with management of the property portfolio and the sometimes unnecessary foreclosures continue to burden the efficiency of the program and disrupt the lives of effected veterans and their families.

VVA has discussed these concerns with you at past meetings and Subcommittee hearings, and thus feels no compulsion to reiterate the details. Regardless of the short-sighted and inflated Congressional Budget Office cost estimates, VVA supports the concepts embodied within H.R. 2331 as viable tools in reducing these problems. We again suggest that you use your oversight authority as Chair of this Subcommittee to investigate these problems and potential solutions. VVA would be very pleased to work with you on these measures.

We commend you, Mr. Chairman, for taking the initiatives you have set forth in this draft legislation. The provisions of this bill represent progress in bringing the VA Home Loan Program up to speed with current service demands, and would simplify various outdated points of the current law.

Mr. Chairman, this concludes our statement.

STATEMENT OF

TERRY GRANDISON, ASSOCIATE LEGISLATIVE DIRECTOR

PARALYZED VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OF THE

HOUSE COMMITTEE ON VETERANS' AFFAIRS

CONCERNING THE

DEPARTMENT OF VETERANS AFFAIRS HOME LOAN GUARANTY PROGRAM

AND

DRAFT LEGISLATION

JUNE 30, 1994

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America (PVA), I wish to thank you for inviting us to participate in this morning's hearing. I will focus my comments today on the Department of Veterans Affairs (VA) Home Loan Guaranty Program and draft legislation submitted to improve the home loan guaranty program.

VA Home Loan Guaranty Program

PVA has consistently expressed solicitude regarding the existence of a viable benefit program to assist veterans in purchasing homes. This concern is magnified for those disabled veterans who use wheelchairs. The housing options of veterans who use wheelchairs are limited to accessible housing, which makes them particularly vulnerable in an economy which has seen the cost of homes and construction more than double over the past decade. VA's Home Loan Guaranty Program has, without question, enabled many paralyzed veterans to become home owners. For that reason, PVA takes a special interest in the well-being of this indispensable benefit program.

VA's Home Loan Guaranty Program offers a fully guaranteed mortgage

loan with a no downpayment requirement. The program also guarantees a certain percentage of the loan to the mortgagor in the event of a foreclosure. Since its inception, this program has enabled over 14 million veterans to purchase and maintain a home. There are approximately 3.48 million loans currently outstanding. These impressive figures illustrate the longstanding success and popularity of the home loan program.

While PVA is generally pleased with the veteran's home loan program, we are troubled about the lack of FTEEs designated to loan servicing and counseling. In FY 1993, approximately 63 percent of loan guaranty employees (1,308) serviced delinquent loans, foreclosures, and property management, **but only 705 FTEEs dealt with loan servicing and counseling**. Intervention by VA service representatives have produced successful alternatives to foreclosures. VA loan service representatives provide counseling to veterans. VA representatives, in some cases, intercede directly with loan holders to obtain a reasonable payment plan for the veteran. In instances where the veteran can not afford to maintain the loan payments, VA representatives encourage the private sale of the home to avoid foreclosure, or voluntary conveyance (deed in lieu of foreclosure). Each of these alternatives is usually less costly than outright foreclosure.

The monetary savings of loan servicing intervention speaks for itself. VA intervention in FY 1993 saved $78 million at an average savings of $15,000 per intervention, and nearly $38 million in savings for the first half of FY 1994. PVA is convinced that additional FTEEs would greatly benefit VA loan-servicing activities. PVA believes these additional FTEEs would be cost-effective, since successful intervention in only two defaulted loans would more than pay for each employee's salary and expenses, as well as return money to VA.

Since the primary beneficiaries of the veteran home loan programs are veterans and not mortgage lenders, every reasonable effort should be expended to prevent foreclosure. Improving VA's loan servicing activities not only helps veterans keep their homes and avoid financial loss, but protects the government's interest by minimizing claim and property acquisition expenditures. **PVA recommends that Congress appropriate funds for 50 additional employees specifically for loan servicing activities, and increase the loan guaranty employee level to 2,180.**

PVA is very pleased with the progress of the VA's Lender Monitor Unit. The VA created the Monitoring Unit in September 1989 to ensure a higher level of compliance by lenders with the laws, regulations, and policies governing the origination and servicing of VA guaranteed loans. The Unit currently has a staff of 22 loan specialists and one Clerk located at four sites: Washington, D.C.; Los Angeles, California; St. Paul, Minnesota; and Nashville, Tennessee. PVA can not overestimate the importance of this oversight and audit activity. In March 1990, the Monitoring Unit completed its first audit. As of June 9, 1994, the Unit has completed 629 on-site reviews of lenders and services.

The loan guaranty service has released 276 origination and 65 service final audits completed by the Monitoring Unit. As a result of these audits VA has:

- recovered losses in the amount of $834,615;
- accepted indemnification agreements in the amount of $2,397,359; and
- denied liability on loans with potential claim and acquisition costs totalling $644,940.

The Monitoring Unit also coordinates Loan Guaranty's review of cases from lender audits conducted by the VA Office of Inspector General (OIG) and the recovery of losses resulting from those

cases. As a result of finalized OIG audits, $1,290,561 has been collected for noncompliance with VA credit standards. Additionally, VA has been absolved of potential liability on $251,366 in loans. While these amounts may seem nominal, the audits do more than recover money, they also function as a significant deterrent to unsound underwriting practices. **PVA recommends that the VA expand and intensify its lender auditing activities.**

Draft Legislation To Improve The Home Loan Guaranty Program

This draft legislation would amend Title 38, United States Code, relating to veterans' housing programs. The following is a section-by-section analysis of this legislation with our comments:

Section 1(a): Would provide loan guaranty eligibility for Reservists discharged because of a service-connected disability.
Comments: PVA agrees with this provision. PVA believes veterans with service-connected disabilities should be entitled to benefits appropriate to the level of their disability regardless of their service.

Section 1 (b): Provides for loan guaranty eligibility for surviving spouses of reservists who died on active service.
Comments: PVA concurs with this section for the reasons expressed in Section 1(a) above.

Section 2: This provision repeals the requirement for a statement from a local official regarding water and sewage systems. This proposal would specifically repeal 38 U.S.C., Section 3704 (e).
Comments: PVA recognizes that some Federal, State, and local laws now adequately cover the subject of individual water and sewage disposal systems as an alternative to public and community systems. Nevertheless, PVA believes that the certificates are still

necessary because many homes utilize septic tank systems. In fact, some rural homes do not have water from established water systems. For these reasons, PVA does not support the repeal of Section 3704 (e) as found in the draft legislation.

Section 3 (a): This provision would grant authority to guaranty home refinancing loans for energy efficient improvements.
Comments: PVA agrees with this proviso.

Section 3 (b): This section would grant authority to refinance adjustable rate mortgages to fixed rate mortgages.
Comments: PVA supports this provision.

Section 4: Would repeal the requirements for manufactured home inspections and elimination of reporting requirements where the home is manufactured under standards established by the Department of Housing and Urban Development.
Comments: PVA has no objections to this provision.

Section 5: Would authorize VA to accept property notwithstanding overbid.
Comments: PVA has no objections to this provision.

Section 6: Amends the minimum active-duty service requirement for loan guaranty benefits. It is intended to clarify the present law.
Comments: PVA has no objections to the proviso.

Mr. Chairman, that concludes my testimony. I would be happy to respond to any questions you may have.

STATEMENT OF
MASTER SERGEANT
MICHAEL P. CLINE (RET)

EXECUTIVE DIRECTOR OF THE
ENLISTED ASSOCIATION OF THE NATIONAL GUARD
OF THE UNITED STATES

BEFORE THE
HOUSE VETERANS' AFFAIRS SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

DEPARTMENT OF VETERANS' AFFAIRS HOME LOAN
GUARANTY PROGRAM

JUNE 1994

Mr. Chairman and distinguished members of the Subcommittee, I want to thank you for inviting us to present views of the Enlisted Association of the National Guard of the United States to the Veterans' Affairs Subcommittee on Housing and Memorial Affairs regarding the VA Home Loan Guaranty Program.

VA Home Loan Guaranty for National Guard/Reservist

As you are aware, just two short years ago, HR939, the VA Home Loan Guaranty Program, for National Guard and Reserve members, started its march on its way to becoming Public Law 102-547. Without the support of this distinguished Subcommittee, that Legislation would have never gotten out of this building. On behalf of the more than 450,000 Enlisted men and women of the National Guard, we would like to thank you for the contribution that you have made to enhance our quality of life. In 1994, 3,120 new home loans were made to National Guardsmen and Reservists. 1.3% of the total 43,099 home loans that were made.

As you are also aware of, Public Law 102-547 provided VA Home Loans for National Guard and Reserve members who had six or more years of National Guard duty but had not served the required 24 months of active duty. To receive this benefit, these Guardsmen and Reservists also had to pay a premium on Home Loan Guaranty. This premium on the program has helped ensure the future of the VA Home Loan Program by generating additional revenues to the VA.

VA Staffing

Mr. Chairman, I would like to address the issue of the staffing levels of the VA. During the current budget crisis, the budget for the Veterans Administration has been reduced, hence the VA employees have less to do the job. The VA has had a long-standing history of providing quality service, and it is our belief that if this trend continues, that quality is going to deteriorate. We owe it to the Veterans Administration to provide them the resources necessary to do an adequate job. We also owe the Veteran the courtesy of being serviced in a manner befitting his/her distinguished service to our Nation by the VA.

The Loan Guaranty Program had a total staffing level of 2,085 full time employees for fiscal year 1993 through May. This is 18 full time employees higher than the 2,067 full time employees estimated for FY 1993 in the President's FY 1994 Budget according to the VA. Approximately 40 percent of these employees are involved with origination of new guaranteed loans. The remaining 60 percent are involved with servicing delinquent guaranteed and portfolio loans, payment of lenders' claims due to foreclosure, and management and disposition of acquired property. For FY 1994, total VBA full time employees would increase by 92 over; FY 1993. The FY 1994 request for Loan Guaranty of 2,042 full time employees represents a decrease of 2 percent in current program employment. This reduction reflects the Department's decision to reallocate staff from Loan Guaranty to Compensation and Pension.

The Loan Guaranty Program had a total staffing level of 2,033 full time employees for fiscal year 1994 through May. This is 9 full time employees lower than the 2,042 full time employees estimated for FY 1994 in the President's FY 1995 Budget. Approximately 42 percent of these employees are involved with origination of new guaranteed loans. The remaining 58 percent are involved with servicing delinquent guaranteed and portfolio loans, payment of lenders' claims due to foreclosure, and management and disposition of acquired property.

Therefore, Mr. Chairman, I whole-heartedly recommend to this Subcommittee that you do whatever possible to maintain the staffing levels of the Veterans Administration. Not only in just

the VA Home Guaranty Loan Division, but in all divisions of the VA.

Supplemental Servicing

In the first half of fiscal year 1994, 66,693 defaults were reported to the VA. During the same period, 49,166 cures were reported and 12,155 loans were terminated. VA field stations reported 89,145 personal supplemental servicing contacts with borrowers, and identified 2,459 defaults which were cured specifically as a result of direct VA intervention. It is estimated that the VA avoided claim payments of nearly $38 million as a result of these successful interventions in the first half of FY 1994.

Foreclosure Avoidance Through Servicing

VA personnel at regional offices continue to emphasize alternatives to foreclosure when speaking to veterans who are delinquent on their VA guaranteed loans. They provide counselling to the veteran, and in appropriate cases, allow VA loan service representatives to intercede directly with loan holders to obtain reasonable repayment plans on behalf of veterans. If a loan holder cannot extend additional forbearance, and they believe the case warrants additional consideration, the VA will refund (buy) the loan from the holder and the veteran will make future payments to VA. If the veteran's situation reveals that he has little, if any, chance of maintaining the loans payments, our representatives encourage a private sale of the home to avoid foreclosure, and if necessary, the VA will consider paying a claim for the difference between the sale price and the loan indebtedness. They also review each default for the possibility of approving a deed en lieu of foreclosure. Each of these alternatives is usually less costly than foreclosure.

In assisting veterans with alternatives to foreclosure and reducing program costs, the VA servicing efforts showed savings of nearly $78 million in fiscal year 1993, and nearly $38 million for the first half of FY 1994.

Foreclosure Avoidance Through Servicing (FATS) was established to measure the extent to which

foreclosures would have been greater had an alternative to foreclosure not occurred. Each year, a VBA goal is established as an overall target for Loan Guaranty Service rather than each station individually. The established FATS goal for fiscal year 1993 was 23.49 percent, the FY 1994 goal would have increased to 24.66 percent; representing a further improvement of 5 percent. VBA is currently performing well above this level. Because of this, the overall VBA goal of 28.84 percent has been established, which is 5 percent above the final FY 1993 ratio of 27.47 percent. Ultimately, it is believed VBA can attain a nationwide FATS ratio in the 40 to 50 percent range.

VA Foreclosures

In 1993 the VA foreclosed on 26,914 properties; more than 141,569 defaults were processed, and it took, on average, 13.3 months to foreclose on a VA home. Mr. Chairman, it took an average high of 31 months, to a low average of 8.2 months to proceed through the foreclosure process, depending on State laws. The average age of the loan at default was 71 months, or 5.9 years into the loan.

HISTORY OF ACQUISITIONS, SALES, INVENTORY & REVENUE

End of FY	Properties Acquired	Properties Sold	Properties On Hand	Revenue (millions)
1990	36,048	36,304	16,227	$1,628
1991	32,883	36,126	12,951	$1,673
1992	33,824	33,110	13,755	$1,728
1993	27,960	30,457	11,283	$1,769

Adjustable Rate Mortgages

From November 1992 through March 1994, VA guaranteed 30,054 adjustable rate mortgages, which were 5.5% of the total loans guaranteed during that period.

PROPOSED LEGISLATION

Mr. Chairman, I would now like to comment on various portions of the draft legislation that this Subcommittee is considering introducing.

Under Section 1A: providing loan guaranteed eligibility for Reservists discharged because of a service-connected eligibility, Title 38 of U.S. Code, Section 3702, provides loan guaranty eligibility for Veterans who are discharged from active duty due to a service-connected disability. This proposal grants would also provide eligibility for Reservists. Mr. Chairman, our organization believes that this provision should definitely be included in Law, whereby a Guard member or Reservist, who is incapacitated and will be unable to complete his career to obtain the six-year eligibility and should not be penalized because they were injured in the line of duty.

Under Section 1B: of the proposed legislation, Loan Guaranty eligibility for surviving spouses of Reservists who died on active duty, Naval or Air service. The definition of Veteran in Title 38, United States Code Section 3701, includes that the surviving spouse, of any veteran who died in the active military, Naval or Air service, or who died from a service-connected disability. This proposal would grant similar eligibility to the surviving spouses of Reservists who died while on Reserve duty or as a result of service-connected disabilities. Again, Mr. Chairman, we believe that any time a Guard member or Reservist, who is performing any mission, who is either incapacitated or dies while performing that duty, whether it be Active or Reserve duty, their spouses should be eligible to participate in VA Home Loan Guaranty Program.

Under Section 3A: to provide authority to guarantee home loan refinancing for energy efficient improvements. This will permit Veterans to simultaneously include energy efficient improvements and interest rate reduction refinancing loans. Mr. Chairman, as our population expands, it becomes more and more necessary, each day, for us to be energy-conservationists. We need to preserve our resources so that future generations can carry on the American way of life. We totally support the authority on the refinancing of loans.

Under Section 3B: the authority to refinance adjustable rate mortgages to fixed-rate mortgages under the Provision of Title 38 of the U.S. Code Section 3710, the VA Guaranteed loans to assist veterans, in refinancing reducing their mortgage interest rates through a streamline process minimizing costs to Veterans. As does often occur, the current interest rate on an adjustable rate mortgage is less than the rate on a fixed rate mortgage. This proposal will permit Veterans to convert from adjustable rate mortgages to fixed rate mortgages. I see that this will provide added protection to our Veterans as inflation has begun to climb, interest rates have begun to climb. Therefore adjustable rates are going to climb and this would give those Veterans the opportunity to stabilize their monthly housing payments.

Under Section 4: on the authority to repeal the requirements for manufactured homes inspections, to elimination of reporting requirements. This would require manufactured homes bearing a seal indicating that it was built in compliance with Federal Manufactured Homes Construction and Safety Standards established by the Department of Housing and Urban Development may be purchased with their VA Home Loan Guaranty. Mr. Chairman, I personally have some problems with this. I believe the construction of homes needs to be continually monitored so that the quality of manufacturing does not slip. Too often we have been dependent on the manufacturers to provide a quality product and found that what was promised and what was paid for did not jibe.

Under Section 5: that would permit the VA to accept property not withstanding over-bid. It is our belief that should this provision be required by the Department of Veterans Affairs to assist in property management, our Association would wholeheartedly support this provision.

Section 6: Amendment of Minimal Active Duty Service requirement for loan Guaranty benefits. This will also amend Title 38 of the U.S. Code, Section 5303 to clarify an exception to the amended service required for loan guaranteed benefits available to persons who failed to meet the twenty-four month minimum active duty service requirements because of a Reduction-in-Force or an early discharge for the convenience of the Government. Mr. Chairman, we definitely

believe that this provision is worthwhile. However, one thing that we would like to see added to this is that during this transition/draw-down period the National Guard and Reserve members who are paying a premium who may be rift because of the Reduction-in-Force also be included in this group.

Recommended Change

In addition, Mr. Chairman, we would like to make the recommendation, should the VA and other veteran organizations concur, to continue to shore-up the VA Home Loan Guaranty Program. In the past two years, since Public law 102-547 has been in effect, it is apparent that the Home Loan Guaranty Program for the National Guard and Reserve is meeting with relatively good success. Another possible recommendation is that National Guard and Reserve members who have between two and six years of service, be permitted to buy into the VA home loan Guaranty Program at a half percent higher rate than those individuals in the Guard and Reserve who are currently paying a half percent more than the active duty members at the six-year level. We would wholeheartedly urge the VA to consider this possibility as a method to raise additional funds that could help improve the staffing. As you are aware, the VA recognizes the National Guard and Reserve members as more financially stable in the community. National Guard and Reserve duty is normally the second job of the individual with most of these people having full time jobs to support their income needs.

Mr. Chairman, that concludes my statement. Again I would like to thank the Subcommittee for all it has done on behalf of, not only the roughly 450,000 men and women of the National Guard, but of the more than 1.2 million people of the Reserve component who have benefitted from the positive legislation that this committee has generated. I would be happy to answer any questions you might have at this time.

Statement of
Major General Roger W. Sandler, AUS, (Ret.)
Executive Director
Reserve Officers Association of the United States
for the
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
United States House of Representatives
June 30, 1994

Mr. Chairman and Members of the Committee,

As Executive Director of the Reserve Officers Association of the United States, representing one hundred thousand Reserve officers and other members of the uniformed services, I am pleased to have this opportunity to comment on the legislation proposed to enhance the veterans' loan guaranty program.

The Reserve Officers Association is pleased to see that the Committee is working to achieve some degree of equity between the Regular and Reserve components of the Armed Forces on the issue of guaranteeing eligibility for housing loans. There is no cogent reason why Reservists discharged for service-connected disabilities should be denied the same benefits available to their Regular counterparts. The key issue is the service-connected nature of the disability. If service men and women are injured in the line of duty, eligibility for appropriate benefits should apply regardless of component.

I understand that the language of this proposed legislation is intended to deal with, and be limited to, the same group of Reservists covered by the Montgomery G.I. Bill, those citizen-soldiers assigned to the Selected Reserve. The Committee's desire to deal with a clearly definable group is entirely understandable and recognized as a pragmatic approach to extending benefits to a fully deserving constituency.

However, when we consider the issue of equity, I believe that we must also consider that there are Reservists, Active-Duty veterans, who are not in the Selected Reserve. These Reservists train, frequently only for retirement points, and are also exposed to the possibility of injury. They should also be eligible, in all fairness, in equity, for the same benefits as their counterparts in the Regular components and in the Selected Reserve. These are the members of the Individual Ready Reserve, or the IRR as it is called. IRR members are not assigned to units of the Selected Reserve, and thus, would not be eligible for the benefits that this draft bill proposes in the name of equity. What we are seeking is to level the playing field and provide the same benefits to all qualified Reservists, who having been injured in the line of duty, are subsequently separated from the service. These same benefits that are afforded to former service members of the Selected Reserve should in equity be available to all qualified members of the Ready Reserve who find themselves in a similar situations.

In the Army Reserve alone, which has the largest Individual Ready Reserve, there are nearly 450,000 trained service members who are eligible for mobilization and form the largest trained manpower pool in the Department of Defense. Many of these IRR soldiers, who had previously served on Active Duty, were mobilized during Operation Desert Storm and served with great distinction, sharing skills that were critically needed in the war effort. Today, having returned to the IRR, they would not be entitled to the same protections that would be afforded to their Selected Reserve counterparts under this proposed bill. We believe that this inequity can and should be corrected here and now while the bill is still in its draft form.

All of this having been said, let me reiterate that our Association is most pleased with the provisions of the proposed legislation. We believe that extending the eligibility for the home loan programs to disabled Reservists and to their surviving spouses as well as enhancing the ability of program participants to avail themselves of options normally

found in the commercial loan market makes good sense for the national economy and the individual home owner. Moreover, as a result of the positive message it sends to prospective recruits as well as serving members of our Reserve components, it strongly supports the national defense.

I thank the Committee for the opportunity of presenting the Association's views on this subject. I also thank the Committee for its support of the Reservists of our Armed Forces. I hope that in the near future, it will be possible to extend these benefits to all of our qualified and deserving Reservists

Non Commissioned Officers Association of the United States of America

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STATEMENT OF

LARRY D. RHEA

DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS AFFAIRS

U. S. HOUSE OF REPRESENTATIVES

ON

VA HOME LOAN GUARANTY PROGRAM

JUNE 30, 1994

Chartered by the United States Congress

Mr. Chairman, the Non Commissioned Officers Association of the USA (NCOA) sincerely appreciates the opportunity to comment on the Veterans Administration Home Loan Guaranty Program and the Association thanks the distinguished Chairman for holding this hearing. The comments presented in our testimony represent the views of NCOA's 160,000 members.

KUDOS TO THE CHAIRMAN

It was just over one year ago, in March 1993, that NCOA appeared before this Subcommittee and extended the Association's congratulations to the gentleman from the 11th District of Illinois upon your assuming the Chairmanship of this important Subcommittee. Not knowing if another opportunity will present itself during the remainder of the 103rd Congress, NCOA considers it fitting today to express to the distinguished Chairman our deep and abiding gratitude for your stewardship of the Housing and Memorial Affairs Subcommittee of the House Committee on Veterans Affairs.

Mr. Chairman, while some other Subcommittees might garner a higher profile and visibility than Housing and Memorial Affairs, that does not, in NCOA's view, diminish the importance of the Subcommittee and of your accomplishments as Chairman. As much as any other Subcommittee, the issues within the jurisdiction of Housing and Memorial Affairs are at the very heart of the Nation's expression of dignity, respect and honor for service in the Armed Forces. You have exercised your leadership as Chairman in a manner that gratefully recognizes the sacrifice associated with military service and NCOA thanks you for that.

NCOA also appreciates your distinguished service as a member of the Compensation, Pension and Insurance Subcommittee and in your larger role as a member of the House Committee on Veterans Affairs. Whether as Chairman or member, you have steadfastly served veterans in an admirable and praiseworthy manner. For your leadership and service, the entire membership of NCOA extends its heartfelt gratitude. The members of the Association extend every best wish to you in the future. You personally will be missed Mr. Chairman as will your compassionate leadership.

HOME LOAN GUARANTY PROGRAM

NCOA remains generally satisfied with the home loan guaranty program. The program is among the better managed, arguably the best managed, of the many programs, benefits and services administered by Veterans Affairs. That statement could not have been made a few years ago. It could not be made today were it not for the intervention of Congress and several positive actions that restored viability and stability to the program. The home loan guaranty program continues to provide a valuable benefit to many veterans who would not otherwise qualify for home ownership. This valuable benefit program to veterans must be preserved.

NCOA's general satisfaction with the program notwithstanding, there are three areas of the program that NCOA is compelled to address: (1) staffing levels; (2) increased fees; and, (3) restoration of eligibility.

NCOA urges the subcommittee to remain alert to the employee staffing levels within VA that are responsible for loan servicing. The concerted effort to reduce federal employees government-wide has the potential to reverse the positive trends the home loan guarantee program has experienced in recent years.

The employees responsible for loan servicing are probably one of only a few government-wide that, figuratively speaking, pay their own way. It has been stated that two loans saved from foreclosure more than compensates for a loan servicing employees salary. It follows that less people in servicing will increase foreclosures. Given the present uncertainties regarding the economic future, there is more than ample cause to be concerned about an increased number of foreclosures. NCOA requests that the Subcommittee pay particular attention to loan servicing employee levels. Efforts to downsize the federal government cannot be allowed to destroy past gains and the positive outlook of the VA home loan guaranty program.

NCOA is compelled to again state its opposition to the recommendation of the National Performance Review that would increase fees charged to veteran participants in the loan guaranty

program. Mr. Chairman, increasing VA home loan fees will only drive the more financially qualified veteran away. Veterans could be easily lured away from the VA program by commercial lenders.

Placing larger fees and down payment requirements on reinstated benefits also does a major disservice to active duty servicemembers. Reinstated benefits were created, in part, to assist servicemembers in the sale of one house and the purchase of another as they transfer from one duty station to another. Unlike their civilian counterparts, military personnel receive no federal assistance in the sale or purchase of a residence when transferring pursuant to military orders. Therefore, they should not have to bear the added hardship of facing increased fees and down payment in the veteran home loan program. NCOA urges the Subcommittee to reject the Administration's proposal in this regard.

As you are aware Mr. Chairman, current law provides that veterans may have their home loan guaranty entitlement restored if: (1) the veteran sells the home which was obtained with the DVA guaranteed loan, and, (2) the DVA is relieved of liability on the loan - normally accomplished by paying off the loan or the loan is assumed by an eligible veteran who is able and willing to substitute entitlement for that used by the original veteran buyer.

Large numbers of veterans, with DVA guaranteed home loans, have taken advantage of the low home mortgage interest rates. Like other home owners who obtained loans at a higher rate of interest, veterans took advantage of low interest rates in order to reduce their monthly obligation or their long term debt. In either case for veterans, the original mortgage (secured through the DVA) is paid in full and DVA is relieved of liability on the original loan.

Although the DVA loan has been satisfied and no future liability to the DVA exists, the veteran is not entitled currently to full restoration of loan guaranty entitlement since the veteran did not actually sell the home that was obtained with the DVA guaranteed loan. This restriction has an even greater disparate impact on divorced veterans and extended veterans families, both of which are not uncommon. Under these circumstances, when the obligation to DVA has been

fulfilled and DVA has no further liability, NCOA believes that the veteran should be entitled to full restoration of DVA home loan guaranty entitlement to purchase a principal residence. NCOA urges the Subcommittee to so consider such a change to the restoration of loan guaranty entitlement.

THE CHAIRMAN'S DRAFT BILL

NCOA appreciates the opportunity to review and analyze the Chairman's draft bill that would amend several provisions of Title 38 pertaining to the home loan program.

NCOA views those provisions of the draft bill [Section 1(a) and 1(b)] relating to reservists and their surviving spouses as establishing equity with their active duty counterparts. NCOA supports these sections of the draft legislation.

NCOA also supports the remaining sections of the draft bill, namely:

Section 2 - Repeal of requirement for a statement of local officials regarding water and sewerage systems.

Section 3(a) - Authority to guaranty home refinancing loans for energy efficiency improvements.

Section 3(b) - Authority to refinance adjustable rate mortgages to fixed rate mortgages.

Section 4 - Authority to repeal the requirement for manufactured home inspections and elimination of reporting requirements.

Section 5 - Authorize VA to accept property notwithstanding overbid.

Section 6 - Amendment of minimum active-duty service requirement for loan guaranty

benefits.

CONCLUSION

The home loan guaranty program is a valuable and needed benefit for veterans as evidenced by the enormous participation in the program since its inception. NCOA is grateful to the Chairman and members of this Subcommittee for your efforts to sustain this valuable program.

Thank you.

TESTIMONY OF
THE NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS
on the
VA HOME LOAN GUARANTY PROGRAM

JUNE 30, 1994

INTRODUCTION

Mr. Chairman, Members of the Subcommittee, my name is Rick Adams. I am a REALTOR from San Antonio, Texas and currently serve as the Vice-Chairman of the Public Policy Coordinating Committee. On behalf of the nearly 750,000 members of the NATIONAL ASSOCIATION OF REALTORS® , I appreciate the opportunity to testify today regarding various legislative proposals enhancing the VA Home Loan Guaranty Program.

Mr. Chairman, as you know, the NATIONAL ASSOCIATION OF REALTORS® represents 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® has been a strong supporter of, and major participant in, the VA Home Loan Guaranty Program and we wholeheartedly welcome the opportunity to work with the Subcommittee to ensure housing availability and accessibility for the men and women who serve our country.

At the outset, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® commends you for your leadership in revitalizing the VA Home Loan Guaranty Program and making significant improvements to ensure that the program fulfills its objective of helping veterans buy and remain in their homes. As we celebrate the 50th anniversary of the VA Home Loan Guaranty Program, it is important to note that the VA home loan program has enabled more than 14 million veterans to purchase homes, a significant milestone in the history of the program.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® applauds the continuing commitment of the Subcommittee to promote affordable housing opportunities for our nation's veterans and we stand ready to work with the Subcommittee to enhance the program to create and expand homeownership opportunities. The VA Home Loan Guaranty Program is an important route for many veterans wishing to realize the American dream of homeownership and

affordable housing and the NATIONAL ASSOCIATION OF REALTORS® is working diligently with the Department of Veterans Affairs to ensure a productive and beneficial national housing program.

Mr. Chairman, our testimony will focus on draft legislation enhancing the VA Home Loan Guaranty Program, oversight of the program, and pending legislative measures.

DRAFT LEGISLATION ENHANCING THE VA HOME LOAN GUARANTY PROGRAM

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® applauds initiatives that improve the availability and affordability of veterans' housing while making the program competitive with other mortgage products. The NATIONAL ASSOCIATION OF REALTORS® has long maintained that federal housing policies should be modified to reflect market demand and to ensure financial soundness.

The NATIONAL ASSOCIATION OF REALTORS® believes provisions contained within your draft legislation will further enhance the viability and accessibility of the VA Home Loan Guaranty Program and build on the efforts of the Subcommittee improving the program. More specifically, the NATIONAL ASSOCIATION OF REALTORS® supports the provisions permitting the refinancing of adjustable rate mortgages to fixed rate mortgages and allowing home refinancing loans for energy efficiency improvements.

With regard to refinancing ARMs to fixed rate mortgages, we believe this improvement will allow the veteran borrower to realize a long-term interest rate savings in a potentially volatile interest rate market. Further, this provision will allow the veteran homebuyer, whose income and equity have increased, to reduce his or her monthly debt burden.

The NATIONAL ASSOCIATION OF REALTORS® also supports the proposal allowing homeowners to include the cost of energy efficient improvements when refinancing their mortgage. This process would allow consumers to achieve the dual benefits of an interest rate reduction and lower utility costs.

The NATIONAL ASSOCIATION OF REALTORS® has long standing policy supporting the inclusion of cost effective energy efficiency improvements into the mortgage loan. The positive cash flow created by energy efficiency improvements translate into savings on utility bills for the consumer clearly outweighing an added monthly finance expense.

The provision contained in the draft legislation is an important benefit for both the borrower and the lender. By lowering both their debt service burden and their utility expenses, homeowners would have additional funds to meet their housing obligations -- lessening the potential likelihood of mortgage default. It is also important to note that energy

efficient improvements help preserve valuable natural resources, a goal that has long been a national priority.

PUBLIC LAW 102-547, THE VETERANS HOME LOAN PROGRAM IMPROVEMENTS OF 1992

Mr. Chairman, on behalf of the nearly 750,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I would like to express our appreciation for the Subcommittee's and the Congress' approval of major modifications to the VA Home Loan Guaranty Program that included: (1) extending program eligibility to reservists; (2) establishing a VA adjustable rate mortgage product; and (3) permitting negotiated interest rates.

The NATIONAL ASSOCIATION OF REALTORS® believes the changes enacted under P.L.102-547 are reinvigorating VA's share of the housing market in all segments of the country and stimulating homeownership opportunities not only among veterans but also among reservists. During consideration of P.L.102-547, the NATIONAL ASSOCIATION OF REALTORS® maintained that the program modifications would result in an increase in VA loan origination volume and bolster the financial condition of the DVA Guaranty and Indemnity Fund, and we strongly encourage their adoption as permanent features of the VA home loan program.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® conducted a recent survey of 1,178 local Boards of REALTORS®, State Associations of REALTORS®, and Large Agencies/Lenders to determine an evaluation of the program modifications. The survey was conducted between June 20, 1994 and June 27, 1994 and we have received approximately 250 responses with more coming in. I welcome the opportunity to share some early observations on the following key provisions.

1. Reservists' Eligibility for DVA Home Loan Guaranty Program

Mr. Chairman, as you know, P.L.102-547 extended loan guaranty benefits, for the first time, to reservists under certain conditions. Individuals who have completed six years of service in the nation's reserve forces are eligible. A funding fee of 2.75 percent is required, and can be reduced to 2.25 percent with a 5 percent downpayment or 2 percent with a 10 percent downpayment.

As anticipated, the NATIONAL ASSOCIATION OF REALTORS® has experienced a substantial increase in the volume of VA loan originations because of this important change. Approximately 43 percent of the respondents to our survey have witnessed an increase in the number of reservists purchasing homes since they became eligible for the program. More importantly, approximately 33 percent of the respondents believe reservists would not have able to purchase a home if the VA home loan program were not available to them. Thus, the provision extending eligibility to

reservists is providing an important benefit to many homebuyers who were either precluded or limited from homeownership opportunities.

2. DVA Negotiated Interest Rate

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® welcomed the decision of the Subcommittee and Congress to change from an administered to a negotiated interest rate in which the veteran is now on a level playing field with other home purchasers. While we realized the change to a negotiated interest rate represented a major turning point in the history of VA financing and constituted a major revision to a long-standing basic provision of the home loan program, we believe this important modification has expanded homeownership opportunities for the veteran by allowing the borrower to negotiate with lenders and sellers for the most favorable rate and terms available.

In fact, in response to our survey, approximately 43 percent of the respondents knew of veterans or reservists who were able to purchase a home by negotiating their mortgage interest rate with a lender. Further, the respondents commented that negotiated interest rates is an invaluable feature for both the veteran buyer and seller particularly in areas of the country where the seller is not accustomed to paying points.

Mr. Chairman, the latter point is an important factor because the NATIONAL ASSOCIATION OF REALTORS® has consistently maintained that the administered rate was disadvantageous to the potential veteran home buyer because it limited the veteran's choices of housing availability and inadvertently restricted the veteran from using his or her entitlement.

3. Adjustable Rate Mortgage (ARM) Program

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® welcomed the provision establishing an ARM product for our nation's veterans because it has increased the veteran's opportunities for homeownership and has facilitated the different borrowing needs of veteran borrowers. Additionally, we especially appreciated the Subcommittee's leadership in encouraging the DVA to model its product after the FHA ARM which is the most popular adjustable rate product on the market today because of its advantageous consumer features.

In response to our survey, approximately 50 percent of the respondents had sold homes to veterans or reservists using a VA ARM. More importantly, 33 percent of the respondents believe that the VA ARM product was directly instrumental in the home purchase with approximately 21 percent believing that over half the purchasers would not have been able to buy a home if the VA ARM product were not available. With the recent rise in

interest rates, many of the respondents anticipate greater use of the VA ARM as a viable mortgage financing product.

H.R.949, LEGISLATION INCREASING THE VA HOME LOAN GUARANTY MAXIMUM

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is particularly grateful for the Subcommittee's leadership in achieving full Committee approval last year of legislation increasing the amount in VA home loan guaranty. As you know, the Association testified before your Subcommittee in strong support of the initiative and we encourage its expeditious enactment.

H.R.949 would increase the amount a veteran is eligible to borrow -- from $184,000 to $203,000 -- and provide welcome relief to qualified veteran buyers in high-priced areas of the country who previously had difficulty obtaining VA loans. The NATIONAL ASSOCIATION OF REALTORS® believes increasing the guaranty will make the VA home loan program more flexible in terms of reflecting differences in housing costs among various areas. This will help broaden usage of the program not only in terms of serving borrowers in more areas but also in terms of the range of borrowers who would purchase homes that could qualify under the program.

CONCLUSION

In closing, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® thanks you and the Subcommittee for the opportunity to testify on draft legislation enhancing the VA Home Loan Guaranty Program and oversight of existing legislative provisions. We look forward to working with you further in the revitalization of the program, and we share your commitment to the preservation and effective operation of the program in behalf of our nation's veterans.

STATEMENT OF THE

NATIONAL ASSOCIATION OF HOME BUILDERS

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

U.S HOUSE OF REPRESENTATIVES

on

OVERSIGHT OF THE DEPARTMENT OF VETERANS AFFAIRS HOME LOAN GUARANTY PROGRAM

June 30, 1994

Mr. Chairman and Members of the Subcommittee:

Thank you for allowing us to present the views of the National Association of Home Builders' (NAHB) 170,000 member firms, representing over eight million employees. It is our privilege to submit a statement outlining our views on the oversight of the Veterans Affairs (VA) Home Loan Guaranty Program.

As requested, our testimony will also express our position on draft legislation affecting the Home Loan Guaranty Program. In addition, we will express our support for H.R. 949, legislation to increase the VA home loan guaranty amount.

BACKGROUND

Fifty years ago the Department of Veterans Affairs guaranteed its first home loan on a two-story row house in Washington, D.C. The home was guaranteed for $7,500 at a 4% interest rate. Since that time the landmark GI bill, signed by President Franklin D. Roosevelt in 1944, has provided millions of veterans the opportunity to buy a home with no downpayment. Late last year, the Department of Veterans Affairs provided its 14 millionth recipient with a VA-guaranteed home loan.

The National Association of Home Builders heartily commends the Subcommittee for its strong oversight of this successful program. Your guidance and stewardship have made it possible for the VA Home Loan Guaranty Program to reach this important anniversary.

NAHB applauds you for your foresight and ability to adjust the program to today's environment, as evidenced by the passage of The Veterans Home Loan Program Amendments of 1992 (Public Law 102-547). The creation of an adjustable rate mortgage pilot program, expansion of entitlement to members of the National Guard and Reserves, and numerous other programmatic changes have greatly improved and modernized the existing home loan guaranty program. We urge that these important modifications be made permanent.

OVERVIEW

OVERSIGHT OF THE VETERANS AFFAIRS HOME LOAN GUARANTY PROGRAM

Overall, NAHB commends Congress and the Administration for the effective operation of the VA Home Loan Guaranty Program. However, we continue to have major concerns with existing staff levels. The Department of Veterans Affairs proposed Fiscal Year 1995 budget estimates 2,042 full-time equivalency (FTE) employees for Fiscal Year 1994. Approximately 40% of these employees perform new guaranteed loan originations. The remaining are responsible for servicing, management and disposition.

In some areas of the country, like California, home builders continue to experience a lack of timeliness in processing applications for conditional commitments. Decreased staffing levels would only serve to aggravate such situations. Although refinancings are not expected to continue at the current rate, new loan originations will increase if legislation to raise the home loan guaranty amount becomes public law. NAHB must respectfully oppose any decrease in staffing which would negatively affect the administration of the home loan program.

DRAFT LEGISLATION TO AMEND VETERANS HOUSING PROGRAMS

NAHB welcomes the opportunity to review the June 3, 1994 discussion draft which would seek to amend title 38, United States Code, relating to veterans housing programs. NAHB is generally supportive of the provisions contained in the draft legislation.

Eligibility

NAHB supports provisions to permit home loan guaranty eligibility for reservists discharged because of a service-connected disability and surviving spouses of reservists who died while in active military, naval or air service.

The Veterans Home Loan Program Amendments of 1992 expanded entitlement to the home loan guaranty benefit to members of the National Guard and Reserves having served at least six years. This provision would waive the six-year requirement if the reservist was discharged or released because of a service-connected disability.

Current statute waives minimum service requirements for active-duty veterans discharged or released due to a service-connected disability. Such program adjustments are necessary to provide equitable treatment for Members of the National Guard and Reserves and their families.

Public and Community Water and Sewerage Systems

NAHB supports the proposal to repeal the requirement for a statement of local officials regarding water and sewerage systems. Section 3704 of title 38, United States Code, prohibits the VA Department from guaranteeing home loans for new residences in areas not served by community or public water and sewage disposal systems if local officials certify that the establishment of such systems is feasible.

NAHB believes this thirty-year old requirement is no longer needed and places an unfair burden on all involved parties. Existing local, state and federal laws adequately review individual water and sewage disposal systems as an alternative to community and public systems.

Refinancing Loans

NAHB supports the provision which would allow the VA Department the authority to guaranty home refinancing loans for energy efficiency improvements. This would allow veterans

to simultaneously include energy efficiency improvements in interest rate reduction refinancing loans.

Further, NAHB policy supports the establishment of policies and procedures that make it advantageous for builders to build, and buyers to buy, energy efficient housing. This is to be accomplished through more liberal underwriting criteria, increased mortgage amounts and appraisal guidelines that recognize the financial advantages to the purchasers of homes with lower energy costs.

NAHB also supports the provision to allow the VA Department the authority to refinance adjustable rate mortgages to fixed rate mortgages, even if the fixed rate is currently higher than the adjustable rate. Current law prohibits this practice. The veteran should be allowed to refinance, even if in the short term it is not an interest rate reduction.

Minimum Active-Duty Service Requirement

In many cases current law requires that a veteran must meet a twenty-four month minimum active-duty service requirement in order to be entitled to the home loan guaranty benefit. NAHB supports the proposal which would waive this requirement if the serviceperson failed to meet it because of a reduction in force or an early discharge for the convenience of the government.

This provision would ensure that servicepersons released from their duties through no fault of their own are not unfairly denied the home loan guaranty benefit.

LEGISLATION TO INCREASE VA GUARANTEED HOME LOAN LIMITS

NAHB strongly supports legislation to increase the amount of the loan guaranty for loans for the purchase or construction of homes (H.R. 949), as introduced by Chairman Sangmeister on February 17, 1993.

This legislation would increase the Veterans Affairs Home Loan guaranty from current law of $46,000 to $50,750. Consequently, this change in guaranty would increase VA guaranteed home loan limits from the existing ceiling of $184,000 to $203,000.

Such an improvement is needed to ensure that the VA home loan program remains a viable one in today's market. Currently, many eligible veterans are unable to take advantage of VA home loan benefits due to housing costs in high-cost areas. This increase would help worthy veterans living in high-cost areas utilize an entitlement they have earned.

Fannie Mae and Freddie Mac purchase loans up to $203,150 on the secondary market. Final passage of H.R. 949 would broaden program participation by ensuring an accurate reflection of our nation's housing market.

NAHB commends the Subcommittee for its leadership in the passage of H.R. 949 by the full House of Representatives on September 21, 1993. It is our understanding that the impasse preventing conference committee action is not caused by controversy over the increased loan guarantee provision. We respectfully urge you to resolve the differences as soon as possible and send this much needed legislation to the White House in an expeditious manner.

CONCLUSION

In conclusion, we commend you for your strong commitment to providing veterans the opportunity to own a home and achieve the American dream. We very much appreciate your Subcommittee's ready willingness to consider the views of the National Association of Home Builders, and look forward to continuing to work in partnership with you and your highly dedicated staff.

Mortgage Bankers Association of America

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The National Association
of Real Estate Finance

STATEMENT OF

RON J. McCORD, CMB

PRESIDENT

AMERICAN MORTGAGE & INVESTMENT COMPANY

OKLAHOMA CITY, OKLAHOMA

ON BEHALF OF THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
United States House of Representatives

Oversight Hearing on the Veterans
Home Loan Guaranty Program

June 30, 1994

Mr. Chairman and Members of the Subcommittee, I am Ron J. McCord. I am President of the American Mortgage & Investment Company of Oklahoma City, Oklahoma, and am currently serving as Chairman of the Legislative Committee of the Mortgage Bankers Association of America (MBA).[1] Accompanying me today are Michael J. Ferrell, MBA Legislative Counsel, and Burton C. Wood, MBA Senior Staff Vice President.

MBA appreciates the opportunity to testify at this oversight hearing on the VA Home Loan Guaranty Program; on the draft bill enhancing the program; and on our proposals with respect to certain features of the program.

This hearing occurs at a most appropriate and historic time when we have just celebrated, on June 22, the 50th anniversary of the "Servicemen's Readjustment Act," more popularly known as the "GI Bill of Rights," which created the VA Home Loan Guaranty Program. Under the program the VA has guaranteed loans on over 14 million homes, in totalling excess of $432 billion.

[1]MBA is the national association representing exclusively the real estate finance industry. 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 prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of over 2,900 companies includes all elements of real estate finance: mortgage companies; savings and loan associations; commercial banks; savings banks; life insurance companies; state housing finance agencies; and others in the mortgage lending field.

The mortgage banking industry is proud of the role it has played in making home ownership possible under the program for this country's veterans from World War II, as well as from the Korean and Vietnam wars.

Mortgage bankers have consistently originated the vast majority of the loans made under the program. In 1993, $40 billion of VA loan originations were made, of which 87 percent or some $35 billion were made by mortgage companies. We look forward to continuing this central role in the future.

DRAFT BILL

We have examined the draft bill you have submitted, Mr. Chairman, and are pleased to support the provisions that extend the same program eligibility to reservists that veterans have with respect to disability connected discharges and that surviving spouses have with respect to veterans who died while on active duty or as a result of a service connected disability.

We also strongly support the provisions authorizing the refinancing of adjustable rate mortgages (ARMs) to fixed rate mortgages.

Further, we support the provision authorizing the VA to accept a property in certain overbid situations, and the amendment of the minimum active duty service requirement in connection with a reduction-in-force or early discharge at the government's decision.

VA LOAN GUARANTY AMOUNT INCREASE

Last year, both the House and Senate approved an identical increase in the VA home loan guaranty amount from $46,000 to $50,750 (HR 949 and S 1510). We are concerned that the delay in raising the limits is adversely affecting veterans' use of the program. These bills recognize the increasing cost of housing for veteran homebuyers. This increase would expand homeownership opportunities in high cost areas where the current guaranty ceiling has the effect of preventing veterans from using their entitlement. In addition, VA default and claim data clearly show that default/foreclosure rates decline as the size of the mortgage increases. We urge prompt action on the guaranty increase.

"TWO STEP" MORTGAGES

Congress has now authorized two mortgage guaranty products under the VA insurance program: the traditional fixed rate mortgage and the more recently approved one-year adjustable rate mortgage (ARM). The mortgage market has now developed a variety of "two step" mortgages that have lower initial rates than fixed rate mortgages and less frequent rate adjustments than one-year ARMs. The payment stays the same, for example, for the first five or seven years and is then adjusted to a market rate for the remainder of the term of the mortgage. The veteran homebuyer would be the clear beneficiary of this mortgage product, which is commonly available to conventional homebuyers. MBA recommends, therefore, that Congress give the VA authority to originate "two step" mortgages.

LENDER SELECTION OF APPRAISERS

Under the VA Home Loan Guaranty Program, the VA, by law, is required to approve and to rotate the assignment of residential loan appraisers to VA home loan cases. We believe this requirement is obsolete and should be eliminated. First, the mortgage lender must deal with that assigned appraiser without regard to the quality of the appraiser's work or the appraiser's workload.

Second, the "Financial Institutions Reform, Recovery and Enforcement Act of 1989" (FIRREA) established a nationwide requirement that, by January 1, 1993, all residential appraisers must meet state-established appraisal standards with respect to education and experience. This mitigates against the need for the statutory restriction. Indeed, FHA is in the process of implementing appraiser selection procedures, as approved in the 1990 Housing Act, which will rely on the FIRREA appraiser qualification provisions.

Third, the elimination of the VA appraisal provisions would eliminate many of the loan application processing delays that currently arise under the VA program. This would enable VA to use staff resources for other critical functions, and veterans would benefit from more expeditious processing of their loan applications.

MBA, therefore, urges Congress to amend the Act to permit lenders to select appraisers, so long as they meet state appraiser certification requirements, as established under FIRREA.

That concludes my testimony. MBA appreciates the opportunity to testify today. I will be pleased to furnish any additional needed information.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSES

Chairman Sangmeister to Department of Veterans Affairs

POST-HEARING QUESTION SUBMITTED BY THE HONORABLE GEORGE E. SANGMEISTER, CHAIRMAN SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS COMMITTEE ON VETERANS' AFFAIRS

HEARING ON THE VA HOME LOAN GUARANTY PROGRAM

JUNE 30, 1994

Question: It is my understanding that the Veterans Administration does not allow lay closers to charge a closing, escrow or settlement fee on veteran buyers even in jurisdictions where all or part of this expense is customarily a buyer obligation. Since this policy does not have a statutory basis and often results in cost shifting and the refusal by qualified closers to handle VA transactions, will the Veterans Administration consider changing its position on this issue?

Answer: Under VA regulations at 38 CFR 36.4312, lenders making VA guaranteed loans may charge veteran borrowers reasonable and customary fees for specific items including appraisal fees, recording fees, credit reports, taxes and assessments, hazard insurance, surveys (if required), title examinations and title insurance, and such other items as may be authorized in advance by the Under Secretary for Benefits as proper local variances. In addition to these specifically named items, lenders may charge the veteran a 1% loan origination fee in lieu of all other charges relating to the costs of origination. Fees other than those authorized by VA regulations, including closing, escrow or settlement fees, cannot be paid by the veteran buyer.

VA is not aware of any difficulty getting VA guaranteed loans closed under the current regulations governing charges and fees. No changes to the regulations are planned at this time.

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