H.R. 949, H.R. 951, AND H.R. 950

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS
OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

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HEARING ON H.R. 949, H.R. 951, AND H.R. 950

THURSDAY, MARCH 4, 1993

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

The subcommittee met, pursuant to call, at 9:30 a.m., in room 334, Cannon House Office Building, Hon. George E. Sangmeister (chairman of the subcommittee) presiding.

Present: Representatives Sangmeister, Bishop, Kreidler, Burton and Buyer.

OPENING STATEMENT OF CHAIRMAN SANGMEISTER

Mr. SANGMEISTER. Good morning, everyone. It is 9:30, and having arrived, we like to be as punctual as we can in these hearings, so the subcommittee will be in order.

Today is my first hearing as Chairman of the Subcommittee on Housing and Memorial Affairs, as I am sure you are all aware, and I am particularly pleased to be focusing on two areas within my subcommittee's jurisdiction, the VA's Home Loan Guaranty Program and the National Cemetery System.

I have already met with some of the individuals who have run these programs, and have been impressed by their professionalism and their expertise. I am also looking forward to working with the members of the subcommittee. I believe this will be a productive year.

I have sent the Members a letter outlining a tentative hearing schedule for the next 6 months and welcome your input. I don't know how much we will be able to get done legislatively because of our budget constraints this year; however, I think that the current atmosphere and the President's initiatives set the stage for thoughtful innovation. I want to challenge each of you to give me your suggestions and recommendations for improving the programs while conforming with the budgetary constraints.

At the request of one of the veterans' organizations, we will not be marking up H.R. 950 this morning as scheduled, but rather will include its consideration as part of our overall legislative hearing agenda today.

H.R. 950 would authorize mortgage payment assistance up to $10,000 in order to avoid foreclosure of home loans guaranteed by the Department of Veterans Affairs and, thus, preclude homelessness. Information obtained during previous subcommittee hearings, as well as GAO reports, reveals that prompt personal attention by the VA loan servicing personnel and lenders to veterans whose

loans are delinquent can help prevent that foreclosure. Such supplemental loan servicing efforts by the VA resulted in savings of over $130 million in the last 2 years.

However, there are times when more than just personal attention is needed. This legislation would authorize monetary assistance to veterans who are or have recently been either unemployed or underemployed and, as a result, have fallen behind in their mortgage payments.

The VA currently has the authority to pay the lender the unpaid balance of the loan plus accrued interest and receive assignment of the loan. This is called refunding. In fiscal year 1992, VA purchased 920 loans from lenders and restructured the loan terms with these veterans. Since the average VA loan in fiscal year 1992 was approximately $86,000, this means the VA may have spent close to $80 million to repurchase these loans to help these 920 veterans.

Based on this assumption, the VA could help as many as 8,000 veterans without asking for increased appropriations. As we are all aware during these fiscally troubled times, the VA has needed $3 billion in appropriations for the loan guaranty program since 1984.

This proposal was recommended by the General Accounting Office in their own 1989 report entitled "Increased Use of Alternatives to Foreclosure Could Reduce the VA's Losses." I am also pleased to state that the Congressional Budget Office has estimated that enactment of this bill will save a million dollars per year.

H.R. 949 would increase the VA home loan guaranty from $46,000 to $50,750. This change in guaranty will increase no-down-payment VA-guaranteed home loan limits from $184,000 up to $203,000.

Since Fannie Mae and Freddie Mac recently announced effective January 1 of this year they would purchase loans up to $203,150 on the secondary market, it is believed this proposed change to title 38 would keep the VA up to date with changes in the market. It is assumed that Ginnie Mae, which purchases the majority of the VA loans, will adopt a similar policy if this legislation is enacted.

H.R. 951, another bill under consideration this morning, would make two improvements in the operation of State veterans' cemeteries. The first would change the criteria for the payment of the $150 plot allowance currently payable to States for certain veterans interred in State veterans' cemeteries and payment would be authorized to States for any veteran eligible for burial in a national cemetery but interred in a State veterans' cemetery.

Under current law, States only receive payments for veterans interred having wartime service. By amending the law, States would receive payment for both wartime and peacetime veterans. The one-time payment would help defray the cost of cemetery maintenance and operations. Several States have indicated that without a change in the law, they will consider restricting burial in State veterans' cemeteries to wartime veterans. Others have explored the option of charging a user fee for the burial of veterans not eligible to receive the current $150 plot allowance.

The second enhancement to the State cemetery grants program would increase the Federal/State share from 50–50 to a 65–35 per-

cent split consistent with the formula employed in providing grants to States for construction of State nursing home facilities.

While many States support and participate in the State cemetery grant program, it has come to my attention that a number of State legislatures have been unwilling to fund 50 percent of the monies needed to expand existing or establish new State veterans' cemeteries.

While the legislation does not seek increased appropriations, increasing the Federal share to 65 percent of the total grant is a cost-effective way to encourage more States to participate in the program. Both improvements will strengthen the State cemetery grant program and help reduce the burden on the National Cemetery System.

We will recognize the gentleman from Indiana, Mr. Buyer, for any opening statement he would like to make.

OPENING STATEMENT OF HON. STEVE BUYER

Mr. BUYER. Yes, thank you, Mr. Chairman.

First of all, as a freshman and new member of the committee, I look forward to working with you on behalf of America's veterans. That is one of the real reasons I am on the Veterans' Affairs Committee, and that I selected and chose to serve on this committee.

Mr. SANGMEISTER. Well, thank you for that.

Mr. BUYER. And not only to work with you and other members of the committee, but also, even in your own opening statement, you talk about the preclusion of homelessness. You have an advocate and not an adversary here when there are so many of our veterans on the street and who are a large percentage of the homeless, and that is something we cannot tolerate at all.

I look forward in being a partner with you in that pursuit, and also the proper recognition of our veterans is extremely important and sensitive to me.

You did catch my attention also when you mentioned about the restriction of cemeteries only for those who are wartime veterans. Well, even though I am a veteran of the Persian Gulf War, I don't like to make a distinction between veterans who served in time of war and those who served in time of peace. I know the ones who served in times of peace are those who prepared those of us to be successful in times of war. So I don't think distinction should be made in that regard and I look forward to working with you, Mr. Chairman.

Mr. SANGMEISTER. Thank you very much.

Okay, the gentleman from Washington, Mr. Kreidler, do you have any opening statement of any kind you would like to make.

Mr. KREIDLER. I pass, Mr. Chairman.

Mr. SANGMEISTER. You pass, okay.

In that case, we will call forward the first panel for this morning, Mr. Harold Gracey, who is Chief of Staff of the Veterans Benefits Administration. Accompanying him are Mr. J. Gary Hickman, Director of Compensation, Pension and Insurance; Keith Pedigo, Director of the Loan Guaranty Service; and Roger Rapp, who is the Acting Director of the National Cemetery System.

Good morning, gentlemen. Welcome to the subcommittee. We are happy to have you all here. Mr. Gracey, please proceed.

STATEMENT OF HAROLD F. GRACEY, CHIEF OF STAFF, VETERANS BENEFITS ADMINISTRATION, ACCOMPANIED BY J. GARY HICKMAN, DIRECTOR, COMPENSATION, PENSION AND INSURANCE; R. KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE; ROGER R. RAPP, ACTING DIRECTOR, NATIONAL CEMETERY SYSTEM

Mr. GRACEY. Thank you.

Good morning, Mr. Chairman, and members of the subcommittee. We have submitted a formal statement which, with your approval, I would like to incorporate into the record and, with your indulgence, I have a short summary statement which I would like to present.

Mr. SANGMEISTER. You may proceed.

Mr. GRACEY. I am pleased to be here today to present the views of the Department of Veterans Affairs concerning several bills now pending before your subcommittee. I would like to introduce my colleagues, Mr. Roger Rapp, Acting Director of the National Cemetery System; Mr. Gary Hickman, Director of Compensation and Pension Service within our Veterans Benefits Administration; and Mr. Keith Pedigo, Director of the Loan Guaranty Service.

This morning the subcommittee was scheduled to mark up H.R. 950, a bill that would authorize a new mortgage payment assistance program and make two technical amendments. Mr. Chairman, we believe a new Federal assistance program based on making direct loans to seriously delinquent borrowers is not warranted and would drain resources from VA's loan guaranty funds.

We believe there will be very few veterans who are 6 months delinquent on their existing guaranteed loans who would also be viewed by VA as being good credit risks and, thus, eligible for a new direct loan under H.R. 950.

As you mentioned, VA already has authority to assist veterans in temporary financial distress and makes every reasonable effort to work with the veteran and the loan holder to prevent foreclosure, when possible. Also, VA's refunding program, which provides discretionary authority to purchase the defaulted loan from the mortgage holder, provides a similar type of relief to qualified veterans. VA automatically considers every defaulted loan for refunding before the loan is foreclosed.

Mr. Chairman, H.R. 950 would also make technical amendments to two provisions enacted last year as part of Public Law 102–547. One concerns the financing of discount points on interest rate reduction loans; the other concerns the date of the interest rate adjustment for adjustable rate mortgage loans. We favor enactment of both of those amendments.

Mr. Chairman, you requested VA's comments on H.R. 949, which increases the maximum home loan guaranty from $46,000 to $50,750. With the current maximum guaranteed amount of $46,000, lenders are willing to make VA-guaranteed loans with no downpayment for up to $184,000. The maximum guaranty proposed would support a no downpayment loan of $203,000.

We believe in today's market a no-downpayment loan of up to $184,000 is still a good deal for veterans. For fiscal year 1992, 82.6 percent of all VA purchase loans were obtained with no downpayment. The average loan amount, as you mentioned earlier, was $86,337, and only 2 percent of the loans guaranteed in fiscal 1992 were for amounts over $180,000. Therefore, we do not support an increase in the VA maximum guaranty.

You also requested our comments on two proposals related to State veterans' cemeteries. Section 1 of H.R. 951 would expand eligibility for the $150 plot allowance for all veterans eligible for burial in a national cemetery who are interred without charge in a State veterans' cemetery. We oppose section 1.

VA is currently authorized to pay the States, or their political subdivisions, a plot allowance to help defray the cost of certain qualified veterans in State, county, and municipal veterans cemeteries. The proposed bill would expand plot-allowance eligibility to include all peacetime veterans buried in State veterans' cemeteries regardless of whether they were receiving VA benefits or were discharged for service-connected disability.

This proposal would increase the cost of providing this benefit and would unfairly discriminate against peacetime veterans buried in private cemeteries, who are not eligible for a plot allowance, and would exacerbate the existing disparity in plot allowance eligibility criteria between veterans buried in State and private cemeteries. This, in turn, we expect will generate calls for expansion of eligibility criteria for veterans interred in private cemeteries. For these reasons, and because of the fiscal constraints upon us, we cannot support this proposal.

With regard to modification of the cemetery grants formula, Mr. Chairman, VA is now authorized to provide the States matching grants of up to 50 percent. Section 2 of H.R. 951 would increase VA's share for projects under this program to 65 percent. VA also opposes enactment of this measure.

The present State cemetery grants program is an effective partnership for meeting the burial needs of our Nation's veterans. The estimated cost of implementing this proposal would be an additional $1,320,000 over each of the next 5 years and, in our view, this would be an imprudent shift of financial responsibility from the States.

Mr. Chairman, I thank you, and my colleagues and I are ready to take any questions you might have.

[The prepared statement of Mr. Gracey appears on p. 51.]

Mr. SANGMEISTER. All right, thank you.

I would like to acknowledge the attendance of Mr. Bishop, the gentleman from Georgia. Thank you very much for being here.

Mr. BISHOP. Thank you very much. I will pass at the moment.

Mr. SANGMEISTER. You stated in your testimony that there would be very few veterans who are 6 months' delinquent who would be viewed by the VA as being good credit risks and who would merit the extension of a new direct loan.

Don't you think it is desirable to save the credit and the home of those veterans even if you don't think there would be that many?

Mr. GRACEY. We do think it is worthwhile and we work very hard to try to save veterans their homes. We simply don't know

how many people would fit that situation who would not be served by our other tools and we believe that working harder with the other tools available to us would be a more prudent approach.

Mr. SANGMEISTER. Doesn't this give you another tool to work with?

Mr. GRACEY. Yes, it does, but it gives us a tool which we believe would have some cost, and we believe it would be more costly than the tools we are using. And we are, unfortunately, in the quandary of not supporting things that cost more.

Mr. SANGMEISTER. What procedure occurs when a veteran is in default on his loan? When do you get involved and try to save that loan? At what point do you consider refunding?

Mr. GRACEY. I would like to let my expert, Mr. Pedigo, address that.

Mr. SANGMEISTER. Fine.

Mr. PEDIGO. Mr. Sangmeister, it is our policy to not let any loan go to foreclosure without being considered first for refunding. When we are notified by the lender that they are no longer willing to indulge a seriously delinquent veteran, we review that case in an effort to make several determinations that might allow us to refund the loan.

What we look for on the loan that we would refund would be a case where the veteran has cooperated with the lender and with the VA during the delinquency of the loan. We look for a case where the veteran either presently has the capability of resuming some level of reasonable mortgage payment or at some point in the near future will have that capability.

We also look at the value of the property and compare that to what is owed on the loan in an effort to determine if it would be cost effective for the VA to refund the loan. If we can make positive determinations on all of those variables, then we will buy that loan back from the lender, put it on our books, and, in most cases, we will reduce the interest rate anywhere from one-half percent up to 3 percent below the current VA rate in an effort to find the level of loan payment that the veteran can handle in a comfortable manner.

Mr. SANGMEISTER. I think Mr. Gracey stated that there was a cost connected with the way we are proposing this legislation. Wouldn't it be more economical to use the $10,000 in the way of a loan rather than to refund the entire amount?

Mr. PEDIGO. In order to give you a good answer on that, Congressman, it would be necessary for us to do a complete cost analysis of that mortgage assistance bill and compare it with the cost effectiveness of a refunding program. We have not done that at this point but we would be happy to do so and submit our findings for the record.

Mr. SANGMEISTER. It is my understanding this is not the first time, through this committee or in the Congress, that this type of legislation has been proposed. Perhaps you have done prior analysis or an earlier version of the bill. I would like you to furnish your findings to the committee.

(Subsequently, the Department of Veterans Affairs furnished the following information:)

For purposes of budgeting under credit reform, money spent on supplemental lending rather than refunding does not free up other funds for more supplemental loans. Since, however, sufficient funds are already appropriated to cover the present value of the Government subsidy on existing GI loans, these funds are available for any activity which reduces program costs and the related subsidy amounts. We believe it is more effective to continue to invest this money in refunding because, given our ability to re-amortize and lower the interest rate on a refunded loan, refunding provides the veteran with a greater benefit and is more likely to be successful than a supplemental loan.

Assuming 30,000 foreclosures in FY 1994 (slightly fewer than the 30,779 which occurred in FY 1992), we project that 1,458 loans would qualify for assistance under H.R. 950. This corresponds to the number of loans which we project would otherwise qualify for intervention action by VA in an effort to facilitate reinstatement but, despite the intervention, would wind up being foreclosed.

The average expenditure to reinstate a loan under H.R. 950 is estimated to be 8 monthly payments of $644.80 ($520 P&I + $100 T&I + 24.80 late charge) plus 4 monthly half-payments of $310 (until the veteran is scheduled to resume paying full installments), for a total of $6,398.

The estimated foreclosure rate for the loans which are reinstated instead of foreclosed is 50% (the average foreclosure rate on refunded loans is 40%, and we assume these accounts will not perform as well since they represent cases which our field stations would not otherwise consider qualified for refunding).

If 729 GI loans are reinstated, avoid future foreclosure, and the borrowers repay the H.R. 950 supplemental loans (and assuming, for sake of simplicity, that the arbitrage between the interest on the loans and the Treasury cost of funds covers VA's collection costs), savings due to these reinstatements will be $16,727 (average claim paid) plus $1,700 (average loss on resale of acquired property) = $18,427 per loan, for a total of $13,433,2183.

If the other 729 reinstated GI loans go into default and are foreclosed after the H.R. 950 supplemental loan funds are expended (and assuming the loss due to the future foreclosure equals the loss to VA if they were foreclosed in FY 1994), the additional loss incurred by the Government will be the $4,664,142 loaned plus $279,89 cost of funds on the loans during the fiscal year, for a total of $4,804,066.

In conclusion, assuming a 50% success rate, the present value of the savings under H.R. 950 could be as high as $8,629,217. ($13,433,283 - $4,804,066) If, however, no reinstatements under H.R. 950 were permanent, VA would incur an additional loss in the amount of the money loaned plus interest; i.e., as much as $9,608,132.

A wide range of variables affects the H.R. 950 proposal. The timing of future foreclosures on loans that are reinstated impacts costs. The likelihood of a high success rate is questionable, since we are dealing with loans which are currently not considered candidates for refunding assistance. Borrowers qualifying for the program will generally have no equity and the supplemental loan will worsen their equity position; thus, even in successful cases, VA may have to forgive all or part of supplemental loans in order to permit future sale of the property. For these reasons, it is not possible to provide a more precise cost estimate than to state our belief that H.R. 950 could range from an annual savings of $8.6 million to a cost of $9.6 million expressed in FY 1994 dollars.

Mr. GRACEY. If I could mention one other consideration in addition to cost.

Mr. SANGMEISTER. Sure.

Mr. GRACEY. Since many of our home loans are no-downpayment loans, by extending the amount of credit available to the veteran beyond what is already mortgaged, we are in some sense taking a risk that the veteran will go further into debt and will not be able to recover.

Mr. SANGMEISTER. So when you refund to the lender and take over the loan, you put that on your books. And I am not quite sure, what do you do with the interest rate?

Mr. PEDIGO. We have administratively determined that we can lower the interest rate by up to 3 percent and, in most cases, in the last 2 to 3 years we have done just that.

The reason we adopted this policy is that when we started putting a lot of emphasis on refundings in 1989, we realized that in

many instances veterans could not resume making the payments at the interest rate that the original loan carried but, with some reduction in that rate, might be able to.

Mr. SANGMEISTER. Mr. Bishop.

Mr. BISHOP. Thank you.

From what I am hearing, it seems as if your concerns are more fiscal concerns than they are concern for the veterans. It is my understanding that the program, as it was designed, was really in order to save the department money in the long run. The cost of foreclosures actually exceed what would be spent out if this legislation were passed; is that not true?

Mr. GRACEY. The cost of foreclosures is very high, and that is why we do everything we can to avoid foreclosure. But the more imminent reason we do that is to keep veterans in their homes because we believe that is a very important goal. We are here to serve veterans.

While the conversation often turns to fiscal issues these days, the issue of refunding and loan servicing and everything we do to avoid foreclosure is, of course, fiscal, but primarily focused to trying to keep veterans in their homes.

Mr. BISHOP. I apologize coming in in the middle of things, but it seemed as if you were a little bit unhappy with the way that this legislation was pointed. Did I misunderstand that?

Mr. GRACEY. I am not unhappy with the notion of trying to do everything we can to keep veterans in their homes. These days we often find ourselves confronted with making tough fiscal choices, and we think we have other cost-effective ways of keeping veterans in their homes, therefore, we don't support adding this other program or tool.

Mr. BISHOP. The other alternatives that you were speaking of, what are they that are more effective than this?

Mr. GRACEY. Refunding is potentially one. In a refunding, we become the lender and reduce the interest rate to allow the veteran to continue making payments.

Keith, there are four or five other alternatives.

Mr. PEDIGO. Yes. Mr. Bishop, maybe before listing some of the other alternatives, it might be useful if I put our whole servicing undertaking in some perspective.

Mr. BISHOP. That would be helpful.

Mr. PEDIGO. Before a loan gets to the stage where we would ever consider it for refunding, the lender has performed fairly active servicing on the account in an effort to bring it current. When it becomes 3 months' delinquent, we require that lending institution to notify us that the veteran is delinquent on his payments. At that point we begin our own aggressive efforts to assist the veteran to bring that loan current.

Our requirements are to first contact every veteran who is seriously delinquent to provide personal counseling. In that counseling session, we determine what the cause of the default is, we try to determine the current employment situation of the veteran, and we discuss the various alternatives that might be available to that veteran to bring that account current.

If we are unsuccessful in those efforts and the lender decides that they are going to foreclose on that mortgage, then we begin

exploring some of the alternatives to foreclosure. One of those alternatives is refunding. Another alternative is a deed in lieu of foreclosure.

A deed in lieu of foreclosure is a situation where the veteran can simply deed the property back to the lender or the VA and it reduces the cost of terminating the loan for the veteran and for the government.

A third tool that we use is what we call a compromise sale, or a pre-foreclosure sale as is the more common term used in the industry. That is where the veteran tries to sell the home but, because the amount owed is greater than the market value of the home, he cannot do that. We tell the veteran to go ahead and sell that home for whatever the market value of that property is and then we will pay the lender the difference between what is owed and what he or she sells the property for.

We try to allow the veteran to avail himself of those various alternatives to foreclosure. If we are not successful, then the lender will go ahead and foreclose on that particular mortgage.

Mr. BISHOP. The last two options that you suggested are really volunteer foreclosures. It is divestiture in any way you look at it so, really, the veteran is homeless. It seems like the only option you have is the very first one.

Mr. PEDIGO. The veteran is not necessarily homeless. He may not be able to continue living in the home he is in, but, in most instances, we believe that veterans are able to secure other forms of housing after they vacate the security for their VA loan.

Mr. BISHOP. And you have documented that?

Mr. PEDIGO. No, we have not documented that.

Mr. BISHOP. So that is a theory.

Mr. PEDIGO. That is our belief, and it could probably be documented, but, in most cases, we firmly believe that veterans are not put out in the street as a result of losing their VA homes.

Mr. BISHOP. I am not one to be difficult and to quarrel with you, and if you will indulge me just a minute, Mr. Chairman.

Mr. SANGMEISTER. Certainly will, go ahead.

Mr. BISHOP. I have, in a previous life, been involved with a homeless task force in the State of Georgia, and one of the findings that we found out was that a large number of our homeless population are veterans, and many times they have been victims of VA foreclosures.

I certainly think that it might be worthwhile, at some point, to try to do some follow-up to see what happens to the veterans that are foreclosed on, because I submit to you in all likelihood they do end up homeless.

Mr. GRACEY. I would volunteer, again, that we will go back, do a detailed analysis of the comparison of the cost of this through our other tools, and furnish that to the committee.

Mr. SANGMEISTER. Mr. Kreidler, do you have any questions?

Mr. KREIDLER. Thank you, Mr. Chairman.

I would like to ask a question. It kind of moves away from the line of discussion we have at the present and moves over to the cemetery issue, if I might.

Mr. SANGMEISTER. Sure, go right ahead.

Mr. KREIDLER. Earlier this week I met with members of the VFW from the State of Washington who expressed support for VA's selection of the Bothell site for a national cemetery, a new one in the Seattle area. They are, however, concerned that the site acquisition and the actual construction and eventual opening could be delayed because of limited resources.

Could you tell me what is the current status of the proposed new national cemetery for Seattle and would you support time frames for reaching expected—to milestones in construction and opening process?

Mr. GRACEY. Mr. Rapp.

Mr. RAPP. Good morning, Mr. Chairman. Before I start, I would like to offer that the employees of the National Cemetery System look forward to working with you in your new position as Chairman of the Subcommittee.

Mr. SANGMEISTER. Thank you.

Mr. RAPP. We will try to give the best answers and in as much as detail as we possibly can.

With regard to the Seattle site, yes; we do have a site picked. We are working with the current owner, which is the State of Washington, on negotiating a settlement. Part of that process includes doing an appraisal and a variety of surveys and site definitions. This process is ongoing. We have contracted with an appraiser to start the actual appraisal process regarding the time frame and milestones for the eventual development of the cemetery.

In fiscal year 1991, approximately $2,400,000 was appropriated for the purchase of the land and to do the scoping and master planning for the project. On Monday, February 22, we announced in the Commerce Business Daily an advertisement soliciting an Architect/Engineer firm to do the scoping of that project. To date, though, that is the extent of where the funding would take us.

The next steps would involve having monies appropriated to do the design work, and then from that, after the design is completed, having monies in the appropriations process available for construction.

If we proceed with the scope work as intended, to keep on a time frame that the veterans' community had been made aware of a few years ago, that time frame was targeted for opening the cemetery around May of 1996. The 1994 appropriations would have to have design money in order to meet that time frame, followed on in 1995 with funds appropriated for construction.

I would echo Mr. Gracey's previous comments, about the tight fiscal constraints, and, in all candor, I am not sure what the 1994 package will include. We are still in that process internally within the VA.

Mr. KREIDLER. If I might continue, Mr. Chairman, I would just like to offer that I certainly would like to encourage the full consideration of that site in the State of Washington. There is a real need in that area of the State, in the State of Washington, for a facility, and I would hope that it would be part of your recommendation.

Thank you, Mr. Chairman.

Mr. SANGMEISTER. I want to go back to H.R. 950 for just a second. Mr. Pedigo, I think these questions are probably best directed to you.

We have been contacted by the Vietnam Veterans of America and they state that the delinquent VA guaranty mortgages were foreclosed upon 98.2 percent of the time. Do you agree with that; is that accurate, 98.2 percent?

Mr. PEDIGO. No, that is grossly inaccurate, Mr. Chairman. In fact, in fiscal year 1992, 79 percent of the mortgages that were reported to us as being delinquent were cured either through lender efforts, VA efforts or by efforts initiated by the veteran.

So I don't quite understand where the VVA got that figure but it is in no way accurate.

Mr. SANGMEISTER. They also state there is a higher VA foreclosure rate compared to FHA and the Farmers Home loan program. It has been my understanding that historically the VA's foreclosure rate has been slightly lower. Has that changed?

Mr. PEDIGO. No, sir, your understanding is correct. Our foreclosure rate over the years has been consistently less than the Federal Housing Administration. I cannot speak to our foreclosure rate versus the Farmers Home Administration, but, of course, their program is much smaller than either VA or FHA.

Mr. SANGMEISTER. Okay, we will move to the cemetery legislation that we have before you.

A little background that I would like to get and, Mr. Rapp, this will be directed to you. A State director has written the committee to indicate that when the State cemetery grant program was established by Public Law 95-476, the States believed they would receive, and, in fact, they did receive the $150 plot allowance payment for every veteran eligible for interment in a National Cemetery but that was buried in a State veterans' cemetery.

Is this the case, and why and when did the criteria change in restricting payments to the States?

Mr. RAPP. Generally, when the law established the State grant program for veterans' cemeteries, the intention was that for every veteran who was buried in a State cemetery, they would receive the $150 plot allowance, and that money would be used to help them with the operations of those cemeteries.

In the Budget Reconciliation Act of 1990, there were further restrictions and definitions on that plot allowance program—it is administered by the Veterans Benefits Administration—and that narrowed the number of veterans buried in State cemeteries that would actually receive the $150. From the States' point of view, that served as a way of hurting their ability to recoup the costs associated with conducting that burial.

Generally, that is what has happened. That would be my summary on that.

Mr. SANGMEISTER. So it was the 1990 Budget Reconciliation Act, you think, that required the change?

Mr. RAPP. Yes.

Mr. SANGMEISTER. Okay.

Mr. GRACEY. Let us talk a little more to the general issue of plot allowance, if we could, Mr. Chairman, because I think we can clarify or at least set a framework for further discussion.

Mr. SANGMEISTER. Sure.

Mr. GRACEY. We pay plot allowances to families of veterans who are buried in private cemeteries as well as State cemeteries. In

fact, the vast majority of plot allowance payments are for veterans buried in private cemeteries. The percentage is less than 10 percent of the——

Mr. SANGMEISTER. Let me get that straight. You are paying more plot allowances to private cemeteries than to State cemeteries?

Mr. GRACEY. To survivors of veterans who are buried in private cemeteries.

Another difference is we pay directly to the State when veterans are buried in the State cemeteries. But there is already a disparity between the rules in favor of veterans interred in State cemeteries as opposed to private cemeteries, and our position is simply to try to keep that disparity from getting any worse.

Mr. Hickman might be able to talk about the details of what we do.

Mr. SANGMEISTER. Mr. Hickman.

Mr. HICKMAN. Let me give a few figures for you in comparison. In fiscal year 1990, before the Omnibus Budget Reconciliation Act, we paid 316,436 plot allowances, and primarily those were for veterans buried in private cemeteries. That particular provision excluded wartime veterans from receiving a plot allowance, or their families from receiving plot allowances in the future, unless they were receiving VA benefits, either compensation or pension. However, that provision did not apply to wartime veterans buried in State cemeteries.

The basic distinction that we are trying to make this morning is if you are buried in a private cemetery today and if you are a wartime veteran and not receiving compensation or pension benefits, you do not qualify. If you are buried in a State cemetery and you are a wartime veteran, you would qualify whether or not you are receiving compensation or pension benefits.

Mr. GRACEY. To further elucidate, if I could, last year, fiscal year 1992, we paid approximately 88,000 plot allowances, of which the maximum for veterans buried in State cemeteries could have been 6,000, which I believe is the number of veterans buried in State cemeteries. So less than 10 percent is what we are talking about here this morning.

Mr. SANGMEISTER. Okay.

We have also heard from the States that the current administrative procedures for processing the requests by the States for payment of the plot allowances produces duplicate paperwork, causes delays, and is addressed on an individual case-by-case request for payment.

I don't know whether that allegation holds up or not, but if it does, do you have any plans to streamline and improve the processing of requests for the States, and wouldn't it be advantageous to permit States to batch requests for payments on a monthly or quarterly basis?

This is a procedure statement in which you deal with the States. Do you want to comment?

Mr. GRACEY. Yes, I will start and perhaps turn it over to Mr. Hickman to continue.

We approach plot allowance as an individual benefit; that being we make an individual determination of eligibility. In the vast number of cases, more than 82,000 out of the 88,000 last year, we

make the payment to the survivors of the veteran or the funeral home from which the veteran was buried. The other, up to 6,000, we pay to the States.

On average, we processed those payments in 30 days last year. And so while there is some delay and while it is probably worthwhile to have discussions always about streamlining, there is no massive delay that we are aware of, except perhaps on a case-to-case basis. What we are simply doing is handling the 6,000 like we handle the other 82,000.

But we will be glad to work with the Cemetery System to talk about ways we might improve our processing.

Mr. SANGMEISTER. The State called it to our attention and we are just calling it to yours.

Mr. GRACEY. Okay.

Mr. SANGMEISTER. Mr. Bishop, do you have any questions you would like to ask?

Mr. BISHOP. The VA's bureaucracy and processing delays have led a few states to request that the payment of a plot allowance for veterans that are buried in State veterans' cemeteries be relocated from burial benefits, which is 38 U.S.C., Chapter 23, administered by the National Cemetery System under 38 U.S.C., Chapter 24. The States support this option.

As their current central point of contact with VA is the NCS, State Cemetery Grants Service, and not the DVA regional offices, would you support such a proposal and delineate its pros and cons?

Mr. GRACEY. I would like to abstain from either supporting or not supporting the proposal and go back to what I said a few minutes ago, which is I will be glad to talk to Mr. Rapp and my other colleagues in the Cemetery System about what changes we could make. But it falls back to my earlier discussion, which is while that is true for those 6,000 plot allowances, or maximum of 6,000 plot allowances that we pay to States for veterans interred in State veterans' cemeteries, the 82,000, the vast majority of plot allowances which we pay to survivors of veterans or funeral homes from which veterans are buried, are handled by us as an individual benefit like we do compensation, pension, and all the other benefits.

And so where we are now, frankly, is going with the weight of the process, 82,000 versus 6,000. But we would be glad to discuss it, as I said a minute ago, to see if we can make some improvements.

Mr. BISHOP. I guess what I really wanted to hear from you, and maybe I was not real clear on it, is the pros and the cons of either or both, I should say.

Mr. GRACEY. Well, we are sitting here as two representatives from two different parts of the Department of Veterans Affairs and we are, I am sure, not going to have exactly the same opinion on the pros and the cons. But I would yield to Roger to give his opinion.

I think actually it is a conversation we should have back at VA and let the Secretary hear your concerns and come down on one side or the other.

Mr. BISHOP. Well, without taking a side, what are the strengths and weaknesses of the various proposals on both sides, as you see it from your perspective?

Mr. RAPP. I will offer a comment, and I share Mr. Gracey's definition of two parts of the VA. We are trying to work closely together on this, and we will strive to work even closer.

One of the dilemmas is that, frankly, the dollars for the plot allowance program are administered by Mr. Gracey's administration, Veterans Benefits Administration, yet the funding for the State cemetery grant program, which improves and constructs State cemeteries, is administered by our program, the National Cemetery System. We are, on the plot allowance, piggybacking, if you will, the broader benefit administered by VBA.

I think we are aware of some of the comments that the State directors and others have made to you and the Chairman, and my hope is that Harold and I, and the leadership of the VA, can work out a situation where we can get a fairly quick response to the States to get that money out there quickly to help them to pay their bills as quickly as possible. I am trusting that we can work this situation out.

Mr. GRACEY. I concur in that, Mr. Bishop.

Frankly, where we are now is, we, the Veterans Benefits Administration, are in the business of adjudicating claims and making payments in the amount of about $18 billion for a variety of programs through 60 offices and 12,000 field employees. Paying money is our business, more predominantly than it is in the National Cemetery System.

But I agree with Roger 100 percent, and I believe the thrust of your question, and that of the State directors, is we owe the veterans of this country to work together to get the monies out the best way we can as fast as we can, and we will work together to do that.

Mr. SANGMEISTER. I have one more question and then we will wind up your testimony. The opposition that you indicated in your remarks to the Federal share of a 65–35 percent split is obviously based on increased costs, but it is my understanding that the funds have been available to make grants to the States requesting dollars.

Now, if the VA did not receive an increase in appropriations, would the department support increasing the Federal share to a 65–35 split even if it meant making fewer annual grants but at the same time influencing more States to participate in the future years?

Mr. RAPP. Yes. I would like to offer that when our agency position was put together, our major concern was an increase in cost. The question, as you define it, would be one that I would answer yes.

We would look at our unobligated balance, which we do have in our State grant program, and that would be available without any additional dollars added to it. We would support making the larger grants with existing resources and, frankly, I think it would be better for us as a grants administrator to have grants in an approved, unfunded status than to have dollars sitting waiting to be applied for.

If we were to find a way of supporting the 65–35, consistent with the Administration's concerns about not increasing costs, then I would say it might invite a number of States who have considered a State veterans' cemetery, have even had it within their State leg-

islature, but they are facing the same fiscal constraints the rest of us are and they have found that they could not support going ahead at the 50–50 level.

If it was 65–35, frankly, for all I know the State of Georgia might consider the Milledgeville Cemetery again at that higher percentage.

Mr. SANGMEISTER. Okay.

Are there any questions the Minority would like to state at this time? Having no members here, if staff would like to go right ahead.

Ms. COGGIN. Thank you, Mr. Chairman. We have no questions at this time.

Mr. SANGMEISTER. Anything further? If not, thank you very much for attending.

Mr. GRACEY. Thank you, Mr. Chairman.

Mr. SANGMEISTER. The next panel we would call up would be Mr. Herbert Tasker, who is President of the Mortgage Bankers Association and Chief Executive Officer and Chairman of the Board of All Pacific Mortgage Company in Concord, California; Mr. Alfred Austin, representing the National Association of Realtors and Chairman of the Realtors Residential Financial Subcommittee; and Mr. Jerry J. Brown from the National Concrete Burial Vault Association, who is their Executive Director.

If you three gentlemen would come forward, we welcome all of you here this morning. Thank you for taking the time to come over and give us your viewpoints and your thoughts on what is pending before the committee. While there is no particular order Mr. Tasker, we would start with you, if you would like to proceed.

STATEMENT OF HERBERT B. TASKER, PRESIDENT, MORTGAGE BANKERS ASSOCIATION, AND CHIEF EXECUTIVE OFFICER, CHAIRMAN OF THE BOARD, ALL PACIFIC MORTGAGE CO.

Mr. TASKER. Thank you, Mr. Chairman. We have submitted, the Mortgage Bankers Association, has submitted written testimony and we would like it admitted into the record.

Mr. SANGMEISTER. All written testimony will be made a part of the record.

Mr. TASKER. Thank you.

Mr. Chairman and members of the subcommittee, my name is Herbert B. Tasker. I am Chief Executive Officer and Chairman of the Board of All Pacific Mortgage Company in Concord, California. I appear today before you as President of the Mortgage Bankers Association of America, the trade association of real estate finance. We greatly appreciate the opportunity to testify on the VA Home Loan Guaranty Program—on several features and various administrative and legislative proposals affecting it.

In my written statement, I have set forth MBA's support for the President's efforts to restore financial soundness to the national economy. That support, however, expresses our concern on two specific proposals in the Administration's plan.

The first would make permanent the current provision with respect to the no-bid formula, applicable to the foreclosure on a VA loan. As you know, when there is a default and a foreclosure on a

VA loan, the VA applies a statutory no-bid formula. This formula is used by the VA to determine whether the VA will specify an amount for the lender to bid at a foreclosure and acceptance conveyance of the property if the lender is the successful bidder, or will only pay the lender the amount of the guaranty and turn the property over to the lender, a no-bid, for disposition. Lenders lose approximately $10,000 on each no-bid.

Prior to last year's VA appropriations bill, the VA no-bid formula took into account only the loss on the particular property involved in the foreclosure. Last year, the formula was revised for 1 year only to take into account the average loss on all VA foreclosures. This greatly increases the number of no-bids, resulting in a huge increase in the lender's losses. The Administration proposes to make permanent the current 1-year modification to the formula. MBA opposes this proposal.

The second proposal of the Administration which concerns us is to raise the current VA funding fee from one quarter percent to 2 percent. We feel this provision is narrowly targeted to veteran homebuyers and will impact unfairly on what has long been thought to be an entitlement program in exchange for national military service.

On a more positive note, we strongly support your bill, H.R. 949, Mr. Chairman. It would increase the VA loan guaranty amount from $46,000 to $50,750. Just as the program provisions you adopted last year to permit a negotiated VA interest rate, a VA adjustable rate mortgage program, a reduction in the VA funding fee for interest rate reduction loans to half a percent, and extension of the Lender Appraisal Processing Program through December 1995, and a program extension to certain reservists will help keep the program viable, so will an increase in the loan guaranty amount.

We respectfully urge this subcommittee and the Congress to modify the current program requirement that the VA must approve and rotate the assignment of residential loan appraisers to home loan cases. The modification we seek would permit lenders to select appraisers so long as they meet the State appraiser certification requirements as established under FIRREA. The FIRREA appraiser certifications have, in effect, rendered the VA current appraiser selection system unnecessary.

And finally, although it is not specifically the subject of this hearing, we would urge a modernization of the Soldiers' and Sailors' Civil Relief Act, with its current 6 percent interest cap. Lenders suffered tremendous losses with respect to mortgages of reservists called to active duty during operation Desert Storm/Shield and the application of the cap.

The staff of this subcommittee, as well as the full committee, have been most cooperative in beginning to explore possible relief under the act's provisions, and we are hopeful that Congress will seek solutions to the problem caused by the act in the near future.

Thank you for the opportunity to appear today. We would be pleased to furnish any additional information that you may need, Mr. Chairman.

[The prepared statement of Mr. Tasker appears on p. 58.]

Mr. SANGMEISTER. Before we go to questions, let us take everybody's testimony. Mr. Austin.

Mr. AUSTIN. Thank you and good morning.

Mr. SANGMEISTER. Before proceeding, I would like to recognize that the Ranking Minority Member of this subcommittee, Mr. Dan Burton, is here. Dan, I appreciate your being here this morning.

Mr. BURTON. Thank you, Mr. Chairman. I would just like to say that I enjoyed working with your predecessor, Harley Staggers, and I am sure I will enjoy that same relationship with you as well, and, if it is all right with you, Mr. Chairman, I will submit my statement for the record.

Mr. SANGMEISTER. Without objection, it will be put in the record.

[The statement of Hon. Dan Burton appears on p. 49.]

Mr. Austin.

STATEMENT OF ALFRED AUSTIN, CHAIRMAN, REALTORS RESIDENTIAL FINANCE SUBCOMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Mr. AUSTIN. Good morning.

Mr. Chairman, members of the committee, my name is Al Austin. I am a realtor from Brunswick, Maine, and I serve as the Chairman of the National Association of Realtors' Residential Finance Subcommittee.

On behalf of the members of the National Association of Realtors, I would like to thank you and the members of the subcommittee for your commitment to promoting affordable housing opportunities for our Nation's veterans. We welcome this opportunity to testify regarding legislative proposals which make changes to the VA Home Loan Guaranty Program.

Our testimony will focus on the following pending legislative measures which are the subject of this hearing. First, H.R. 949, which would increase the amount of loan guaranty for loans for the purchase or construction of homes; and, second, H.R. 950, which would establish a loan program to refinance delinquent indebtedness.

The National Association of Realtors applauds your commitment to promote and maintain homeownership for our Nation's veterans. The association continues to believe in the viability of the Home Loan Guaranty Program and pledges its support to work with this subcommittee to ensure that the program continues to fulfill its objectives of helping veterans buy and remain in their homes.

As to the legislative proposals. First, to increase the VA home loan guaranty maximum, that being specifically H.R. 949, the National Association of Realtors supports initiatives increasing the VA guaranty maximum from its present level of $46,000. We believe this change will allow buyers to obtain loans for up to $203,000 and provide welcome relief to qualified buyers in high-priced areas who previously had difficulty obtaining VA loans.

The National Association of Realtors also believes the guaranty increase will provide a much needed economic boost to high cost housing markets bruised by the economic recession. The loan guaranty, also known as the veterans entitlement, is the amount available to veterans on home loans originated under the loan guaranty program. This guaranty enables veterans to obtain a loan without

a downpayment, making it an attractive marketable feature of the home loan program.

However, to ensure that the home loan program remains attractive and competitive with other mortgage products, the value of the guaranty must continuously reflect the housing market. The National Association of Realtors believes increasing the guaranty will make the VA home loan program more flexibility in terms of reflecting differences in housing costs among various areas. This will help broaden the usage of the program not only in terms of servicing more borrowers in more areas, but also in terms of the range of borrowers that would qualify under the program.

DVA stats demonstrate that higher principal amount mortgages have lower claim rates and, as the loan amount increases, the foreclosure rate decreases considerably. Thus, increasing the guaranty will improve the quality of the total VA home loan originations. The effect of the increased guaranty will solidify financially the Guaranty Indemnity Fund because of a more diversified loan portfolio.

With interest rates at their lowest levels in years, and the recent changes initiated by your subcommittee and approved by Congress to revitalize the program, the National Association of Realtors believes H.R. 949 will help reinvigorate VA's share of the housing market in all segments of the country and ensure the program meets it stated objectives of fulfilling the housing needs of all qualified veterans.

Second. To establish the mortgage foreclosure payment assistance program, that being specifically H.R. 950. The National Association of Realtors supports initiatives to help avoid foreclosure of DVA home loans. It is our belief that veterans should, when faced with default and foreclosure, be provided every possible opportunity to maintain their homes.

The National Association of Realtors recognizes that current economic conditions are creating instances of unemployment and underemployment for our Nation's veterans and we appreciate the subcommittee's forthrightness to address the potential housing problems that may result. However, the National Association of Realtors is concerned that the proposal establishing a mortgage foreclosure payment assistance program duplicates DVA's servicing program and may create financial and administrative burdens to the lending industry.

Currently, the Department of Veterans Affairs provides a servicing program for defaulting loans in which the DVA works with the borrower and the servicer from the time the default is reported. DVA evaluates available information to determine whether the defaults may be cured, and pursues an appropriate remedy based on the facts in the case utilizing several approaches, including the provision of financial guidance.

The National Association of Realtors is also concerned that extending further financial assistance could exacerbate total repayment ability and provide a disincentive on the part of the borrower to act responsibly and meet his or her mortgage obligations. We are concerned that the amount of accumulated debt may exceed the homeowner's desire to repay and could result in his or her eventually walking away from the property.

Under section 2, financing of discount points, the National Association of Realtors supports this provision making technical corrections to Public Law 102-547, the Veterans Home Loan Program Amendments of 1992, allowing the financing of discount points on interest rate reduction refinancings of VA-guaranteed loans.

This provision will now allow veteran borrowers to finance the loan discount points and realize the savings from lower interest rates. The National Association of Realtors believes this technical correction will enhance homeownership opportunities for our Nation's veterans.

In conclusion, the National Association of Realtors appreciates the opportunity to testify at these hearings on issues affecting veterans' homeownership opportunities and we stand ready to work with the subcommittee on developing veterans' housing legislation that is efficient, fair and cost effective.

The National Association of Realtors is a strong supporter of and a major participant in the DVA Home Loan Guaranty Program and we pledge our continued support to ensure the program meets its stated objectives of fulfilling the housing needs of our Nation's veterans.

Thank you very much.

[The prepared statement of Mr. Austin appears on p 65.]

Mr. SANGMEISTER. Mr. Brown.

STATEMENT OF JERRY J. BROWN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF REALTORS

Mr. BROWN. Thank you.

Chairman Sangmeister and members of the subcommittee, my name is Jerry J. Brown, and I am here today on behalf of the National Concrete Burial Vault Association, the NCBVA. I serve as the Executive Director of NCBVA, and I want to thank you for the opportunity to present the views of our association at today's hearing. As always, we appreciate the invitations to testify before the subcommittee on matters relating to veterans.

Founded in 1930, the NCBVA is the primary industry voice for the manufacturers of concrete burial vaults and other outer burial receptacles. Many of our member companies supply grave liners under contracts awarded by the National Cemetery System, NCS, in connection with the NCS grave liner program which was mandated pursuant to section 504 of Public Law 101-237.

The NCBVA would like to offer its general support of the legislation, which is the subject of today's hearing. We feel that the enactment of these legislative proposals into public law is an appropriate way to show our country's appreciation for our veterans' service and sacrifice. We are, however, mindful of the expenditures.

Over the past few years, we have seen veterans' benefits erode, particularly with the enactment of the Omnibus Budget Reconciliation Act of 1990, Public Law 101-508. The concepts of making a contribution and sacrifice to help put this country back on its feet is nothing new to the veteran and his or her family.

Mr. Chairman, the NCBVA supports H.R. 951, legislation that provides for the payment of the cemetery plot allowance for veterans eligible for burial in a national cemetery but interred in a

State veterans cemetery. The bill also increases Federal aid to States veterans' cemeteries from 50 percent to 65 percent. Indeed, Mr. Chairman, the NCBVA would not only like to see the plot allowance given to veterans interred in State veterans' cemeteries, but all veterans. It must be remembered that the vast majority of veterans are buried today in public, private, or denominational cemeteries and not in the National Cemetery System.

While we support these proposals, and in particular the cemetery plot allowance, we realize that there are costs associated with these legislative proposals and funding may be hard to come by, particularly when we consider the budget constraints under which this subcommittee and the Veterans Administration operate. One area where we believe costs can be shifted relates to the NCS grave liner program.

As you know, section 504 of Public Law 101-237 states that effective January 1, 1990, the government must provide a grave liner for each new grave in an open cemetery within the National Cemetery System in which remains are interred in a casket, if next of kin has not previously procured an outer burial receptacle.

In past testimony before this committee, the NCBVA has expressed its support for the grave liner requirement because it makes good economic sense in terms of grave liners protecting the casket from the compressive, dynamic impact and lateral forces and pressures of interment and preventing grave sinkages, thus eliminating costly grave restoration for the National Cemetery System. We do not think, however, that it is necessarily the responsibility of the Federal Government to supply the cost of grave liners during this period of fiscal constraints.

Eliminating the free government provided grave liner program, which is currently being funded under pensions and benefits, while maintaining the grave liner requirement would, among other things, correct an imbalance in veterans' death benefits, free funds for use elsewhere in other veterans' programs, such as guaranteed home loans, health care, VA hospitals and education, and help maintain our Nation's national cemeteries.

We would be pleased to provide the subcommittee with additional information regarding this proposal.

Mr. Chairman, this concludes my remarks. Again, I want to thank you and the members of this subcommittee for the opportunity to present our views on these important matters, and we would be happy to answer any questions that you might have. Thank you very much.

[The prepared statement of Mr. Brown appears on p. 69.]

Mr. SANGMEISTER. I thank you. I think we will take the questions in the order of the testimony.

Mr. Tasker, originally, you know, H.R. 950 was scheduled for a markup here this morning, but we pulled it at the request of the Vietnam Veterans of America (VVA). I am not sure if everyone was prepared to testify on that particular bill, but I want to get the Mortgage Bankers Association's position.

Have you formulated a position on H.R. 950?

Mr. TASKER. Well, we were generally in favor of the veteran having a chance to make his payments and stay in his house. The problem that is created by it is where it takes 6 months to resolve

the issue. Under the present system, we can start the resolution of the problem at the end of 90 days.

This would be costly to the industry. One of our concerns—and mortgage bankers, let me point out, make over 80 percent of the VA loans, so that we are vitally concerned about the VA program and how it works.

But what has happened to us recently is that some of our members have pulled out of the program because of the cost of no bids. They could not fund the cost of the no-bid process. And so anything that raises the cost further, which this would do by extending it out to 6 months, tends to push more of our members out of the VA business and, thereby, making the program less viable. That is my concern.

Mr. SANGMEISTER. Well, of course, the 6 months is not yet in concrete either. What would you suggest?

Mr. TASKER. I think, first of all, and it is interesting, because 10 years ago loan servicing was a cut-and-dried process. When the veteran or any buyer became delinquent in 90 days, you just started the foreclosure process. We don't do that anymore, not in any case. Not in conventional loans, nor in VA loans.

Our servicing staffs are much more sensitive to try to seek out solutions to the problems rather than throw the veteran out of the house or throw any buyer out of their house. If we sense there is an ability, such as a temporary loss of a job or some problem that we can overcome or exercise forbearance, we try to exercise that forbearance to get that person back on a positive basis and start their repayment process.

I think the Veterans Administration, which we must notify when the property goes 90 days delinquent, also starts the process. So I think there is a more thoughtful process. Loan servicing used to be a cut-and-dried computer-run system and it no longer is. Under CRA, under the HMDA process, we have become much more sensitive to the problems. And where we can see there is an ability of the veteran over some period of time to restart their payments, we are much more likely to try and work out a forbearance program.

But to mandate that it goes to 6 months, you are going to mandate in some cases where the veteran doesn't intend to start their payments up again, and you are going to stretch this process out and it is going to create more cost to the lender and it will create more cost to the government. So I think this is not a good idea. You know when it is 90 days back, then you start an in-depth process.

We have been working when they go 30 days delinquent to try to figure out what the problem is. We have been talking personally to the veterans. So by the time it is 90 days, we have either instituted a forbearance or we have come to see it is not possible and then it goes through the VA process. So I think to leave process the way it is makes more sense.

Mr. SANGMEISTER. In the legislation we tried to leave as much discretion as possible to the VA. In fact, one of the veterans' organizations thinks we left too much discretion.

Mr. TASKER. I understand.

Mr. SANGMEISTER. If a veteran wanted relief under this act on a loan, and it was turned down by the VA, VVA believes the veteran

should have the ability to appeal the VA's refusal. I would be interested in hearing your concern about procedural tie-ups.

Mr. TASKER. Two years. I think if that goes through, that you will find many more lenders will drop out of the program. Ultimately, that will hurt the veteran.

I come from a company in California, that in the past was 95 percent government loans, and our concern—and we are down to about 23 percent government loans as of this date, but we are still a big lender in the VA program. And I hate to see more lenders pull out of that program.

Mr. SANGMEISTER. Mr. Burton, do you have any questions of Mr. Tasker?

Mr. BURTON. Well, I was in the real estate business before I came to Congress and I share a lot of your concerns. It would be a shame to see a large part of the lending market get out of the veterans' programs, so I agree with you.

I was looking at the cost of the three bills that we are talking about today, and I know that you are not discussing all of them right now, but with the budgetary constraints that we are looking at and the proposed budget cuts that both President Clinton is probably ultimately going to propose and what we are going to be proposing on the Republican side, I would say a lot of these bills are going to be in jeopardy simply because this is the wrong time to be asking for additional spending.

But, in any event, I do agree with what you said. Thank you.

Mr. SANGMEISTER. I would say that we were hoping that this particular piece of legislation would actually save funds rather than expend them. In fact, we had figures up to a million a year would be saved by giving this alternative to the veteran rather than going through the procedures presently established.

Mr. BURTON. Would you yield, Mr. Chairman?

Mr. SANGMEISTER. Surely, be happy to.

Mr. BURTON. It is my understanding, from what you said, that if you extended that and set it in concrete for 6 months——

Mr. SANGMEISTER. If you would yield back. Yes, the way the legislation is presently drafted I think he is right and I agree with you. But, like I say, the 6 months could be looked at. I think it has to be changed. I agree with the contention.

Mr. BURTON. That was my concern.

Mr. TASKER. I am a veteran myself and have used my VA benefit, so that tunes me in even further to what this is all about.

Mr. SANGMEISTER. Mr. Bishop.

Mr. BISHOP. It seems as if what we are talking about is some form of compromise here. Seems to me that you have got very valid concerns, and I think you have to have the market there, you have to have the lenders participating, but, at the same time, with the bad economic situation that we have been experiencing, the veterans need a little relief, too.

So perhaps adjusting the 6 months; making that period a little shorter within which you get to work with the veteran and try to provide some additional assistance and benefits, it might not be such a strain on lenders that they will drop out but provide some assistance to the veterans.

I kind of think we ought to, if at all possible, look at making some adjustments in favor of the veteran but certainly not so punitive that it would discourage lenders.

Mr. TASKER. I think that is a hard thing to do, because this, in some ways, becomes a subjective judgment. But if everybody in the spirit of it is trying to figure out if the veteran will get back on his or her feet to exercise forbearance, that is the key to how this works rather than locking things in concrete.

Mr. BISHOP. Of course, as you know, it varies according to locale and it varies according to lenders and it varies according to the particular offices that are servicing the loan. In some particular locations, if there is a fairly good relationship and it is subjective, the veteran may get a lot of help and consideration. But in some other areas, where there is no good relationship, there may be bad blood or anxieties, you may not get, he or she may not get that kind of consideration. I think there is the need for some standards.

Mr. TASKER. I think that is right, but I think, overall, if you look at CRA requirements and you look at the new HMDA rulings, you will find that lenders, by and large, as a broad spectrum, are much more understanding and sympathetic with people that have problems. So I agree with you; there needs to be give and take on it.

Mr. SANGMEISTER. Mr. Burton.

Mr. BURTON. I had one more question. With the problems that we have had with the savings and loan and the Resolution Trust Corporation having a huge quantity of properties that they have literally foreclosed on and have to dispose of, I can see why the real estate lending institutions around the country certainly do not want to be anxious to foreclose and have a lot of properties. A lot of properties are depressed, so I think that you are right.

I just wonder, is there any time limit that you would think we should put in concrete or should we just leave it alone?

Mr. TASKER. I would almost be inclined to have you leave it alone. That would be optimum for us, because we feel the system is fair as it presently stands. So I would be disinclined to agree.

But I would tell you this. Even on a foreclosure we lose money. We lose over $2,000 on a foreclosure, so there is no rhyme nor reason why we want to take a foreclosure.

Mr. BURTON. I used to sell foreclosed properties and VA's were foreclosed on occasion. Is one of the reasons that they are being more flexible with veterans who get behind in their payments because there is such a huge quantity of properties that have been foreclosed on and they see the problems with those foreclosures?

Mr. TASKER. I think, yes, that definitely affects it.

Mr. BURTON. So the law of supply and demand, in effect, will dictate whether or not there will be more strict enforcement, and right now, since you have an overabundance, they would be a lot less likely to be involved in foreclosing. So what you are saying is you don't think this is really necessary right now?

Mr. TASKER. I agree.

Mr. BURTON. Oh, thank you.

Mr. SANGMEISTER. Shifting over to Mr. Austin.

Looking over your prepared testimony and the remarks you made this morning, I don't quite understand your reservations concerning H.R. 950. The mortgage servicing program, as you well

know, requires a variety of remedies in their application. One of those remedies, of course, is refunding the entire loan, a provision to which I have heard no objection.

Why isn't it more practical to provide for refinancing on the delinquency instead of refunding the entire loan, and how can this be considered duplicative of any existing provision of law?

Mr. AUSTIN. I think the National Association of Realtor's position, based on H.R. 950, is the fact of duplication of some of the systems that are currently available in the market, and I think that basically is our underlying concern. We think that the servicing available to the veteran right now is probably adequate, and we see this probably as duplication.

Mr. SANGMEISTER. Mr. Bishop, do you have any questions?

Mr. BISHOP. Yes, I was just a little bit unclear. Your answer was a little bit vague to me as to why the market already covers this and why this is unnecessary.

Mr. AUSTIN. I would just tell you that it has been apparent to me this morning, listening to the testimony, that the level of sensitivity in the whole delivery system and the commitment folks have made to keeping people in housing, it seems that collectively there is a real awareness of the fact that we need to start communicating very early on in the process to try to ascertain whether or not there is an option to keep the veteran, for instance, in the house, and whether or not each and every one of their loans can be salvaged.

The concern, I think, for the accrual of additional debt on these fairly—typically highly—leveraged VA loans, I think, is probably the other concern. But I guess what I think I have heard consistently is that with the relationship we have with the VA and with the other participants in the industry, we think there is a real effort underway to keep folks in housing and to try to do that with counseling and things, and look at keeping the person in the home as the first choice. Then, if it is not going to work, if the loan is going underwater and no likelihood of recovery, dealing with that in a proper fashion.

Mr. BISHOP. I am trying to distill what you are saying. Could I distill into what you are saying: this is some additional paperwork, another set of hurdles and hoops that you would have to jump through if this legislation were passed that you don't have to do now, and you would rather not have to be bothered?

Mr. AUSTIN. Not realistically. I think we have to make a real effort to make sure we have just as many menu options available to deal with this issue. The economy has been difficult for a number of years, and I think folks have made a pretty noble gesture to do the best they can to keep their mortgage loans and things current.

I think as long as we continue to work together, recognizing the economy is not strengthening as rapidly as a lot of us would choose, I think if we consistently stay at the table together, there is a high likelihood there are enough efforts underway.

I guess, to be specific, we would look at it as probably duplication of an effort; that the VA has made a real strong commitment to this, in cooperation with the Mortgage Bankers Association and the lenders.

Mr. BISHOP. In terms of cost, would it cost you more money; would you have to hire additional people to implement this?

Mr. AUSTIN. I would be talking from the Realtors' side. Not from the Realtor community side, no, we wouldn't see it as duplication from our side, but we see it typically as a pass-through back from the DVA and to the lender, of course, to service and maintain that portfolio.

I may be stealing some thunder here, but it wouldn't impact on us beneficially. It wouldn't impact the realtors, as a practicing realtor in this field, no.

Mr. BISHOP. But for lenders, it would increase the cost?

Mr. TASKER. Yes, it would, definitely. There would be holding costs and an increase in foreclosure costs and the likelihood that you really have a problem that is not going to go away. It extends the problem, makes it bigger and makes it more likely to force it into a no-bid, which would cost the lender and the government more money. That is the problem.

Mr. SANGMEISTER. Any further questions to Mr. Austin?

Okay.

Mr. Brown, you advocate that the National Concrete Burial Vault Association supports retaining the grave liner requirement as mandated by law, because it makes good economic sense. Eliminating the free government-provided grave liner would provide the government with savings that you suggest could be used for other VA programs.

Can you briefly comment on and indicate a savings estimate, as well as provide the subcommittee with additional written information for the record on that?

Mr. BROWN. Yes, sir, I would be happy to.

In terms of the National Concrete Burial Vault's posture relative to the savings that could be realized by abolishing the government-furnished grave liner program, I believe in fiscal year 1992, the amount of the capital expenditure for government grave liners was in the area of $3 million.

It is the position of the NCBVA—incidentally, sir, responding to a request that Chairman Staggers made in a hearing in, I believe it was 1991, of people testifying at that time, Chairman Staggers' question was: Could you come back with some ideas where dollars could be saved in the area of NCS, the National Cemetery System? And ironically, your challenge to us today to, I guess, make suggestions and recommendations for improving the programs while conforming with budgetary constraints, it seems to be ironically tied together.

This is the position of NCBVA and it is not a dichotomy. NCBVA has been working very closely with NCS since 1984, at which time we presented facts and figures relative to the fiscal feasibility and cost effectiveness of requiring some form of permanent outer burial receptacle to eliminate the costly grave restoration and maintenance. Working hand-in-hand with NCS at that time, NCBVA ultimately brought forth the Clark Ripono report of, I believe, 1988, and the Public Law 101-237 was enacted.

We feel that abolishing the free grave liner program would free up a considerable amount of money.

Mr. SANGMEISTER. I certainly don't want you submitting anything that you may have submitted previously to this committee. Any additional figures you would have to update the information we would like to have. Okay?

Mr. BROWN. Sure, be happy to.

Mr. SANGMEISTER. Any more questions for Mr. Brown?

Okay. That concludes testimony of this panel.

We thank you all for coming. You have been very helpful on all the bills that are before us, and we will take all your remarks into consideration.

The last panel we have consists of the veterans' organizations. We have Mr. Joseph Violante, from the Disabled American Veterans; Mr. Richard Johnson, Non Commissioned Officers Association; and Mr. Dennis Cullinan, from the Veterans of Foreign Wars; Mr. Clifton Dupree from the Paralyzed Veterans of America, and Mr. Paul Egan from the Vietnam Veterans of America.

Mr. Richard Schultz of the DAV is here. He is here, I understand, to introduce us to Mr. Violante.

Okay, Mr. Schultz, would you go ahead?

Mr. SCHULTZ. Thank you, Mr. Chairman.

I appreciate the opportunity to introduce Mr. Violante, to the committee. This is Joe's first appearance before any of the committees on the House or Senate Veterans' Affairs Committees.

Joe is a disabled veteran and was appointed as our legislative counsel in 1992. He is a New Jersey native. He joined the Marine Corps in 1969, and served with the Second Battalion, Fourth Marines, in Vietnam. He was discharged in 1972, at the rank of sergeant.

He attended the University of New Mexico and received a Bachelor's Degree in History and Political Science. Joe received his law degree from the University of La Verne in California, and as an attorney has practiced law in Thousand Oaks, California, before moving to Washington, DC, to work as a staff attorney for the Department of Veterans Affairs, Board of Veterans' Appeals, in 1985.

Joe joined the DAV's professional staff as a staff counsel, Judicial Appeals Representative, at the Court of Veterans Appeals in 1990, before being appointed to his current position. Joe currently Chairs a Veterans' Appeals Committee of the Federal Circuit Bar Association and he is Vice Chair to the Veterans' Benefits Committee of the American Bar Association, and is an at-large member of the Board of Governors of the Veterans' Law Committee of the Federal Bar Association.

I appreciate this opportunity to introduce Joe, and I will now turn it over to him so he can present our testimony.

Thank you, Mr. Chairman.

Mr. SANGMEISTER. Thank you very much for coming and making that introduction.

STATEMENTS OF JOSEPH A. VIOLANTE, LEGISLATIVE COUNSEL, DISABLED AMERICAN VETERANS; RICHARD W. JOHNSON, EXECUTIVE DIRECTOR, GOVERNMENT AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION; DENNIS M. CULLINAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS; CLIFTON E. DUPREE, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; AND PAUL S. EGAN, EXECUTIVE DIRECTOR, VIETNAM VETERANS OF AMERICA

Mr. SANGMEISTER. Welcome to the committee. And with that introduction, we will start with you.

Mr. VIOLANTE. Thank you, Mr. Chairman.

Mr. SANGMEISTER. We have three bills before the committee, and if you can reference each one as you speak, you may proceed.

Mr. VIOLANTE. Yes, sir, thank you.

If there are no objections, I am prepared to submit my formal testimony for the record and summarize oral remarks for the subcommittee.

Mr. SANGMEISTER. With no objection, they will be made a part of the record.

STATEMENT OF JOSEPH A. VIOLANTE

Mr. VIOLANTE. Thank you. On behalf of the 1.4 million Americans of Disabled American Veterans and its Women's Auxiliary, I wish to thank you for this opportunity to present our views relative to the Department of Veterans Affairs Loan Guaranty Program and National Cemetery System.

At the outset, Mr. Chairman, I would like to congratulate you on your recent election as Chairman of this subcommittee. The DAV applauds you and the Members of this subcommittee for your outstanding advocacy on behalf of America's veterans. Clearly, action taken by this subcommittee has materially affected the lives of America's veterans in a most meaningful way.

Mr. Chairman, DAV supports the concepts of H.R. 950, a bill introduced by you, which provide mortgage payment assistance to avoid foreclosure of home loan guaranty under title 38. This is certainly a worthy goal, and as mandated by our delegates, DAV continues to support a strong and viable VA Home Loan Guaranty Program.

Having made that statement, Mr. Chairman, I would like to express some concerns with the specific language of the bill.

First of all, as we have heard today, the 6-month delinquency period is too long. Assistance should be made available as soon as a problem can be identified. Secondly, paragraph (a)(2)(C) is too restrictive in nature.

Mr. SANGMEISTER. Would you repeat the paragraph number?

Mr. VIOLANTE. That was (a)(2)(C). It appears to tie the hands of the VA in cases where a veteran, through no fault of his own, and without a reduction in income, finds himself in default on his mortgage due to a medical emergency or some other emergency which depletes his savings and forces him into default on his loan. Provisions should be made to include these otherwise eligible veterans in the program.

Finally, to give the Secretary total discretion in this matter, without any review or oversight of his decisions, clearly is not in the best interest of veterans, particularly in light of this morning's testimony by the VA. The power to make discretionary decisions should only be extended to questions which cannot have a correct answer. This certainly is not one of these cases, since these loans benefit not only the VA and the veteran but the community at large.

Mr. Chairman, H.R. 949, also introduced by you, would amend title 38, United States Code, Section 3703, to increase the amount of loan guaranty for loans for the purchase or construction of homes from $46,000 to $50,750. This would allow eligible veterans to purchase a home up to $203,000, without being requested to make a downpayment.

Mr. Chairman, as stated earlier, DAV continues to support a strong and viable Home Loan Guaranty Program available to all eligible veterans. While we have no specific mandate to increase no-downpayment VA Guaranty Home Loan limits, we certainly support this subcommittee's efforts to increase these limits.

H.R. 951, also introduced by you, Mr. Chairman, amends Section 2303 of title 38 United States Code to provide for the payment of the current $150 plot allowance for any veteran interred in a State veterans' cemetery or a section of a cemetery owned by a State, or by an agency or political subdivision of that State who is otherwise eligible for burial in a national cemetery.

While we have no national convention mandate regarding this proposed change, we do have a mandate to support legislation that would authorize VA nonservice-connected burial benefits, entitlements to survivors, of all wartime veterans. While our mandate does not speak to the particular issue before us today, it certainly recognizes the need to provide burial benefits to eligible veterans. DAV does not oppose this bill.

Additionally, DAV continues to support legislation to request at least one national cemetery in every State. DAV national convention delegates have taken a position to support legislation to provide for at least one open national cemetery in each State to ensure that all veterans may be buried in a national cemetery reasonably close to their homes.

Mr. Chairman, there are steps that can be taken to ease the NSC burden. For example, there are States that have special State cemetery provisions for veterans. This is not the same as having your final resting place in a national cemetery. However, pending the advent of an open national cemetery in every State, we support the NCS State Cemetery Grants Program.

We currently have the authority, or rather VA currently has the authority, to make grants providing up to 50 percent of the cost associated with the development, expansion or improvement of State-owned veterans' cemeteries. By the proposed amendment of title 38, Section 2408, (b)(1) and (2), the Federal share is increased to 65 percent of the total grant and reduces the State's share to 35 percent.

DAV believes that this increase grant to the States will encourage more States to participate in the program. The potential for increased State participation in this program, pending the advent of

an open national cemetery in every State, will provide a final resting place relatively close to a veteran's home and family.

This concludes our statement, Mr. Chairman. Again, thank you very much for inviting us to participate in these important proceedings.

[The prepared statement of Mr. Violante appears on p. 82.]

Mr. SANGMEISTER. Thank you.

I think we will take testimony from everybody first before we get into any general questions.

Let us go to Mr. Johnson.

STATEMENT OF RICHARD W. JOHNSON

Mr. JOHNSON. Thank you, Mr. Chairman.

The Non Commissioned Officers Association joins in congratulating you on being elected to the Chair of the subcommittee and we look forward to working with you in that capacity.

Mr. SANGMEISTER. Thank you.

Mr. JOHNSON. I have some very brief remarks.

NCOA is here this morning to support all three pieces of legislation. I will not attempt to redefine them for the committee. We are particularly pleased, however, at the efforts put forth in H.R. 951, which would increase the VA's contribution to construction of State-owned veterans' cemeteries, and we are very grateful for the committee's action on H.R. 949 to keep the current Loan Guaranty Program current and competitive in the real estate market.

With regard to H.R. 950, we are also very grateful this bill has been reintroduced in this Congress. We are hopeful that it will receive greater consideration on the other side of the Hill than it has in past years. We believe that allowing the Secretary discretionary authority to assist veterans who have a temporary default in a mortgage to retain that mortgage through a small loan is a very fine idea.

Our only recommendation with regard to H.R. 950 is to remove the 6-month delinquency requirement. If there is, in fact, a delinquency, and it becomes apparent earlier, the reason for the delinquency is apparent earlier, and it is possible to assist the veteran earlier in resolving the problems associated with that loan. We see no reason to make the Secretary wait 6 months before intervening. All that does is accumulate debt.

Finally, NCOA feels compelled to comment on Mr. Clinton's vision for America proposal to increase the points charged on veterans' home loans and the points charged on the reuse and downpayment requirement imposed on home loans for reuse under the Clinton economic package.

Mr. Chairman, NCOA believes that these proposals of the President unfairly target veterans in their attempt to raise revenue. In addition, they are particularly unfair to active members in the armed forces.

In 1976, when the reuse of the home loan was authorized under law, it was done to accommodate members in the Armed Forces moving from station to station, selling one house at one military base and purchasing a home at another military installation. Since that time, the purpose has not changed considerably, but to now

impose a 2.5 percent loan fee, and a 10 percent downpayment requirement, would work to the tremendous disservice of active-duty military personnel.

We hope that if the committee does, in fact, agree to the changes proposed by the President, that the committee will at least carve out an exception for the active-duty military person to be able to sell a house at one location and buy a house at another without having to pay the 2.5 percent fee, the 10 percent downpayment, and allow that at least to go into the first home after retirement or separation from service as well as moves made on active duty.

That concludes my statement.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Johnson appears on p. 85.]

Mr. SANGMEISTER. Thank you.

STATEMENT OF DENNIS M. CULLINAN

Mr. CULLINAN. Thank you, Mr. Chairman.

I will begin my brief remarks by extending the warm regards and congratulations of the VFW in your assuming the Chair of this important subcommittee. We look forward to working with you.

On behalf of the 2.9 million members of the Veterans' of Foreign Wars and its Ladies Auxiliary, I wish to thank you for having invited us to take part in this morning's important legislative hearing. The VFW has been and continues to be a strong supporter of the VA Home Loan Program. It is a highly-successful and essential veterans' benefit. The VA program has proven to be of immeasurable value to both veterans as well as the national economy.

The VFW similarly supports veterans State and National cemetery systems. We thank and commend the subcommittee for all that it has undertaken through the years to achieve their continuing and improved operation.

Mr. Chairman, the first bill I will take up today is H.R. 949, and this would up the guaranty to $203,000 for a VA guaranteed loan. This is a good idea. It is in keeping with the rising cost of housing in the marketplace and especially in the high-rent districts such as our Nation's capital.

Oftentimes when an individual, a veteran, moves into this area, they have sufficient income to afford their own home but simply cannot afford a downpayment. So we see upping the guaranty level to be highly appropriate, especially in these instances.

Also under discussion today is H.R. 950. This would provide mortgage assistance to certain veterans who have fallen upon economic hard times. Once again we strongly support this regulative proposal. We have supported it in concept for years now. It just makes sense to keep a veteran and his or her family in their own home and, in fact, it will save VA money in the long-term.

Also, the VFW agrees with others who have testified here today that perhaps it is a good idea to get rid of the 6-month limit; that there will, in fact, be times when the loan could be better made earlier on. But other than that, we think it is a terrific bill.

The last bill I will discuss here is H.R. 951. One section would provide a $150 plot allowance to all veterans interred in cemeteries, and, once again, we support it by power of

VFW resolution. And I would say, too, it would again make this $150 plot allowance a benefit that is provided to all of America's veterans. And it does this, it supports the State cemetery system for not too much money, so we think it is a good idea.

Also, H.R. 951 would change the funding formula from 50–Federal—State. It makes sense. Monies have gone unused in the program because the States are unable to come up with their share. We again point to the fact that State cemeteries provide ready access to veterans and their families, and that it saves the National Cemetery System money and, most importantly, it affords veterans and their families ready accessibility to a veteran burial.

That concludes my statement.

[The prepared statement of Mr. Cullinan appears on p. 88.]

Mr. SANGMEISTER. Thank you.

Mr. Dupree.

STATEMENT OF CLIFTON E. DUPREE

Mr. DUPREE. On behalf of the Paralyzed Veterans of America, PVA, I want to congratulate you on your chairmanship. I also want to begin by conveying the gratitude for the time and effort you and your committee staff have devoted to these programs.

The existence of a viable benefit program to help veterans in purchasing homes is extremely important to the members of our organization. Limited to accessible housing, individuals using wheelchairs are especially vulnerable to shifts in national housing markets; however, the Department of Veterans Affairs, VA Home Loan Guaranty Program, has, without question, enabled many paralyzed veterans to become homeowners.

We support legislation that would simplify refunding and support the increase in no downpayments of fully-funded mortgage loans from $184,000 to $203,000.

PVA supports legislation in the fiscal year 1994 Independent Budget for Veterans Affairs, requesting funds from 113 FTEEs, including 50 for the home loan servicing activities. This FTEE increase would decrease the possibility of veteran home loan defaults.

For example, in fiscal year 1992, successful direct interventions of 5,029 properties resulted in an estimated $69 million in program savings, which was not discussed by the VA this morning. During the first quarter of fiscal year 1993, successful intervention on 1,183 properties has an already estimated savings of $6 million.

PVA appreciates this opportunity to present our views concerning proposed changes to the operation of the VA's National Cemetery System. A rapidly-aging veterans' population calls for expansion and improvement of the cemetery system.

Mr. Chairman, the fiscal year 1994 Independent Budget requests an appropriation of $80 million and funding for 55 additional FTEEs. This increase will not fund all NCS equipment and maintenance needs, nor will it fund the optimal number of employees. However, it will enable the NCS to move toward its goals of meeting the burial needs of American veterans and their families.

PVA continues to support mandatory spending for all costs associated with providing entitlements. This includes the cost of requiring sufficient cemetery space, constructing cemeteries and main-

taining them properly, and we support a proposed increased funding formula for State cemetery grant programs from 50–50 to 65–35.

Improvements in the State Cemetery Grants Program are necessary if we are to provide the needed burial space for future veterans. PVA continues to advocate for location of a VA cemetery in every State and national cemetery within reasonable driving distance of each major veterans' population center; as a rapidly-aging veterans population is cause for expansion and improvement in the National VA Cemetery System.

For more than 200 years, this Nation has provided suitable resting places for all veterans serving in the defense of this country, and the VA should still be required to maintain this tradition.

Mr. Chairman, PVA supports the proposal to change the criteria for the payment of the $150 plot allowance. Sometimes the only benefit received by a veteran is a home loan and a veterans' burial benefit. During fiscal year 1992, 6,000 veterans were buried in veterans cemeteries, however, only 1,500 received a burial lot allotment. Providing the $150 to all veterans not buried in a national cemetery would continue to show the committee's increased response to the burial needs of all veterans.

This concludes my testimony.

I will answer any questions you may have.

[The prepared statement of Mr. Dupree appears on p. 92.]

Mr. SANGMEISTER. Thank you very much.

Mr. Egan.

STATEMENT OF PAUL S. EGAN

Mr. EGAN. Thank you, Mr. Chairman.

First, I want to thank you for including H.R. 950 as a topic of the hearing. I think it is a magnanimous gesture and my organization certainly appreciates it.

Mr. SANGMEISTER. You are welcome.

Mr. EGAN. I guess it is important to clarify something here. We are not opposed to what is intended by H.R. 950. Anything that will help veterans stay in their homes is inherently a good idea, in our view. The issue of discretion, however, as it applies to the additional authority given VA in the bill as well as how it applies to the existing authority of the VA to grant refunding, is what I would like to discuss with you.

In the refunding, what happens when someone is in default for 3 months or more, is that the bank contacts the VA and the VA contacts the veteran. There is a form letter that is sent out to the veteran with an attachment that advises the veteran that refunding is available, and that the VA will consider refunding of its own accord prior to any foreclosure.

For the most part, I don't believe veterans know what refunding means, what is entailed, what might be involved. They certainly don't know what criteria the VA might use in determining whether to refinance, acquire a loan and refinance it.

Mr. SANGMEISTER. Let me interrupt you.

What you are saying, in the notice that is sent out to the veteran, the VA just talks about refunding and there is no definition of what that means?

I have never seen the notice; that is why I am asking.

Mr. EGAN. Attached to our testimony is Attachment A. Page 2 of that attachment, the bottom of the page, describes refunding by the VA to the veteran.

Mr. SANGMEISTER. I didn't mean to interrupt you, go right ahead.

Mr. EGAN. It is not that the VA has too much discretion to refund, the question is the VA is not required to make decisions.

The veteran is told a decision will be made; that refunding will be considered; but is it? It is entirely up to the whim of any one of the home loan managers in 46 different regional offices.

Let us suppose that there were some criteria that the veteran could look at to determine for himself or herself whether or not they might be eligible for a refunding, and let us suppose the veteran happens to be someone who was laid off from a factory job, replaced that job with some other kind of work that paid less money. That individual, depending on what the criteria are—and again, whatever they are—they were certainly not particularly well-spelled out by the VA in their response to your questions, i.e., cooperation with lender, ability to resume payments, value of property compared to what is still owed. The point here is there are a lot of deeds that the VA ultimately acquires after a foreclosure that might have been good loans for the VA to refund.

If you have an individual, who is not making as much as they made when they first got the mortgage, has another job but is making less, it might make sense for the VA, in those instances, to refund those loans. My point is the discretion that VA is abusing is its failure to make decisions.

Banks are not particularly concerned, I don't suppose, about whether or not the VA acquires deed in a foreclosure or acquires the loan as a result of a refunding. For the banker, the most important thing is to get a demonstrably-risky loan off their books without any responsibility, or as little as possible for the management of the property and the ultimate disposal of it.

So the point here, and it applies to a lending program contemplated in H.R. 950, is there is no guaranty that the VA will render decisions on these contemplated loans. We have no intention of seeing deadbeats that are not making their payments, can't make their payments, drag the VA through a long and drawn out administrative procedure. That is not the point.

The point is for both the lending program, as in H.R. 950, as well as for the refunding program, the VA has got to advise somebody with the home at stake what the criteria are, so that just as in any other claim for benefits, the veteran can file a claim and apply for refunding. What we are doing now is relying on the good will of the VA, and the good will of the VA is suspect, in our view.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Egan appears on p. 94.]

Mr. SANGMEISTER. Thank you very much, Mr. Egan.

Because the other organizations represented here are very much in accord with, as I understand the testimony written and oral, in support of this legislation, I guess we will start with you, Mr. Egan.

As I understand what you are trying to say to this subcommittee, is that you would like us to legislate more procedures for the VA regarding these matters; that you are unhappy with the way they are handled?

If that is true, can you tell us what conversations you have had with them? Certainly heading your organization, have you sat down with maybe even the Secretary himself or others in the administration, and said I think there are problems here, and if so, what have been the results of those conversations?

Mr. EGAN. I have several calls into the Office of the Secretary for the specific purpose of setting up a meeting to discuss a variety of matters. This will certainly be one of them.

Mr. SANGMEISTER. This is the new Secretary you are talking about?

Mr. EGAN. Yes, sir.

Mr. SANGMEISTER. Have you had any discussions with Derwinski, for example?

Mr. EGAN. No, not on this topic.

Mr. EGAN. If I could answer the other part of your question.

Mr. SANGMEISTER. Sure.

Mr. EGAN. With regard to legislation and what might be considered to be further layers of unnecessary bureaucracy, it seems legitimate to require the VA to articulate in some regulatory fashion what are the criteria that it uses to render decisions that it says in its letter it is rendering on refunding.

I don't know what those criteria are, and I am sure the veterans affected by the threat of possible foreclosure don't know what those criteria are; have no idea whether they qualify.

Mr. SANGMEISTER. Would you agree the most important criteria has to be the ability to get back on their feet.

Mr. EGAN. No question about it. Again, I am not suggesting to this committee that virtually every single home loan that is ultimately foreclosed ought instead to have been refunded. All I am suggesting to the committee is that we have no way of knowing how many of those properties that were ultimately foreclosed might have involved veterans that could have been back on their feet.

And I would submit that the willy-nilly nature of the way 46 different regional offices operate, even VA hasn't got much of an idea what number of those loans that have been foreclosed might have been suitable for refunding.

Mr. SANGMEISTER. I will have staff prepare a letter to the new Secretary, indicating your concerns, and ask that the Secretary or his designee meet with us on the subject of refunding.

Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman.

Before I direct my question to Mr. Egan, I would like to personally express my appreciation to all of the members of the panel for your taking the time to come and address us on behalf of veterans. I have veterans in my district in Georgia and across the State of Georgia whom you are speaking for, and I want you to know how much I appreciate your articulating their concerns.

Going to Mr. Egan, as I understand what your concerns are, you are not opposed to the bill or the concept of the bill, what you are

suggesting is that there should be language in the bill which could possibly be cured by amendment, either perhaps directing the VA to develop and to articulate criteria through regulation, through the APA, for example, which would set forth the criteria that would be utilized to decide whether or not to refund. Is that——

Mr. EGAN. That is correct. Exactly correct, Mr. Bishop. And attached to our testimony is a comparative chart which draws the contrast between the VA's refunding program, the FHAs assignment program and the Farmers Home Administration Moratorium Program. I think you will find in that comparison, and if your staff researches the statutes, you will find that there is at least some specific criteria that is used by FHA and by the Farmers Home Administration that people are better able to understand what they do or do not qualify for.

Yes, I think there needs to be some sort of amendatory language. Just as overregulation can be unproductive, so too can underregulation. And as it stands now, the VA is essentially free to do whatever it wants, whatever the whim of all 46 regional offices.

Mr. BISHOP. I think the concern, though, that some Members of the committee may have, and I don't purport to speak for everybody on the committee, is that we don't want to tie the process up indefinitely and be involved in some kind adjudicative process or some kind of claims process, which is not going to inure to anybody's benefit.

I do think it is constructive that, for example, in the notice letter and the discussion of refund, if some brief statement of what the general criteria would be that would be looked at by the VA in determining whether a refund would be appropriate. I think that, at least, would alert the veteran to what is going to be required in it.

Mr. EGAN. That is correct. Exactly right. And the key here is, if I am laid off from a job and I have been out of work for a year-and-a-half, and I am still holding onto this property, there is no way in the world I will qualify for a refund. There is no way in the world why I ought to qualify for a refund.

If, on the other hand, I have lost a job in a manufacturing plant because of, perhaps a closure of the plant, and I have managed to find another job earning 80 percent of what I had earned, I may very well be eligible for refunding. That is the point. We don't know, and I don't think the VA knows how many of the foreclosures involved individuals in just that circumstance.

Mr. BISHOP. It would satisfy your concern, then, to have the criteria but not requiring it in the legislation or through the regulations that there be some kind of availability for due process hearing or of a claim?

Mr. EGAN. Here again, Mr. Bishop, if there are discreet criteria that, in the example used here, where someone loses their job, has another job making 80 percent of what they made before, they fit that criteria and for some apparent reason, perhaps mistake, perhaps whatever other reason the VA determines, that no, indeed, in that example refunding is not appropriate, but the individual feels that, sure enough, that the criteria are met and the refunding ought to go forward, certainly that veteran should have an opportunity to appeal.

We have seen in VA adjudications of disability benefits and pensions year, after year, after year, at least until 1988, when we finally gave veterans a day in court in their disputes with the VA, that there were decisions made on the basis of extraregulatory, nonstatutory rules that were completely unfair.

No one would trust the IRS——

Mr. BISHOP. I understand your concern, but I am suggesting I don't know that we want to make the housing process and the foreclosure process the forum for adjudicating those kinds of issues.

It seems to me what we are concerned about here is keeping the veteran in housing and refinancing. And if there is a clear abuse of discretion, which I think would be identified fairly easily if there are stated criteria, then that veteran could pursue other remedies, perhaps in court, for that abuse of discretion without tying up the whole VA loan process.

Mr. EGAN. Couldn't agree with you more. There is no point—I am not suggesting that the veteran should be kept in a house they cannot afford for an indefinite period. If they are ineligible for refunding, that is just too bad. But if they are eligible for refunding, there should be some criteria by which decisions are made and by which appeals can be made, perhaps, on an expedited basis.

The VA's form letter and its attachments say that they will review the possibility of a refunding within "X" period of time. As a practical matter, they don't do it within "X" period of time, they do it, they say, at some point leading right up to the point of foreclosure.

Perhaps some sort of expedited procedure here—the rules ought to be fairly clear. You either meet a criteria or you do not meet a criteria. But developing those criteria and compelling their use by the VA is what is at stake here.

Mr. SANGMEISTER. One final comment on that.

I am not so sure, that you don't have a problem as far as criteria is concerned. For example, in a particular State or community perhaps the employment possibilities are very good; maybe in another area they are not as good. I am not sure you can get criteria across-the-board that will be equal in all the States.

But anyhow, we will be thinking about that. And I indicated that in the letter I told you I was going to write, and we will pick it up from there.

Mr. EGAN. I certainly appreciate that, Mr. Chairman.

Mr. SANGMEISTER. There is one other thing I want you all to comment on. As you know, the President has his economic program, and the message that is coming across is we are going to have to cut spending. There are some proposals that the subcommittee is going to have to deal with, and I would like to have your comments on them.

One thing the Administration is asking is to increase is the housing loan fee from 1.25 to 2 percent on homes where there is no downpayment. Our thoughts, frankly, were that if you are going to do that, you probably ought to take the ¾ percent increase and pass it along to those that pay a 5 percent and 10 percent downpayment as well, and keep it equal across the board.

What are your thoughts about that increase and what do you think the effect will be? Obviously, you and I don't want the in-

crease, but is this something we can live with or is this something that will be so devastating that it is going to cut down on VA loans and limit veterans housing options?

Any one of you.

Mr. JOHNSON. Mr. Chairman, it will obviously cut down on the number of VA loans and make the program less competitive, particularly for those veterans that can afford commercial financing. We have to remember it is the veterans with the good loan record, the guy that can afford the commercial financing, the guy that can go to other sources, who, by participating in the VA loan program, contributes to its health.

We don't want to set the program on such a path that only those who represent the greatest risk in the mortgage market are participants in the program. And each time we increase the fee, that is exactly what we do, we drive away the more qualified buyer and we hold back for ourselves the risk.

Mr. BISHOP. May I ask a question, Mr. Chairman?

Mr. SANGMEISTER. Certainly.

Mr. BISHOP. How does the increase of that 1.25 to 2, compare with the commercial market? Would they not have to pay a discount point on the commercial market anyway?

Mr. JOHNSON. Not necessarily 2 percent. And, again, when you start looking at 2 percent in the relationship—last time I checked private mortgage insurance, it was running one-half percent up-front and one-half percent for the first 5 years, and you could get out from under it. So you almost have the cost of private mortgage insurance covered there.

If you are going to go with a negotiated rate and you are going to go with 2 percent as far as your points right up-front for a servicing fee to the VA, and you still have to pay 2 percent to the mortgage company for their fees, then you are already, what, 4 percent behind.

Mr. SANGMEISTER. Anyone else have any comments?

Mr. CULLINAN. Mr. Chairman, I was just going to say the VFW agrees with the NCOA assessment. It would have the tendency to drive away the best loans and hold behind the weaker ones.

It is especially true with the refinancing package. Then you are talking about a 2.5 percent user fee and a 10 percent downpayment fee. So we see that as being debilitating to the VA, and, finally, just not in keeping with the spirit and the purpose of the VA home loan program.

Mr. SANGMEISTER. Well, it is significant because they are estimating, OMB is anyway, in 1994 that would produce another $153 million.

Mr. CULLINAN. Sounds like OMB.

Mr. JOHNSON. OMB has been wrong before, Mr. Chairman, and——

Mr. SANGMEISTER. I can understand that.

Let's go on to the second requirement that they are asking about.

Mr. EGAN. Mr. Sangmeister, I have one comment.

Mr. SANGMEISTER. Surely, Mr. Egan.

Mr. EGAN. Increased user fees applied across the board for all users of the home loan program wind up hurting the first-time home buyer the hardest, because for the first-time home buyer,

coming up with the money to front the costs, to front the discount points, to do the closing costs and the rest of it, it is an added burden to the first-time home buyer.

And while the first-time home buyer is probably the riskiest borrower, it is, after all, the first-time home buyer for whom the program was originally designed to serve. So probably we would want to suggest some mix of user fees for second and subsequent users, with the least fee imposed on the first-time home buyer. Just a thought.

Mr. SANGMEISTER. Of course, the other thing I suppose we have to keep in mind is that the VA Home Loan Program is the only one where you can go out in the open market and get a no-downpayment loan. I think that is one of the considerations.

Anyway, let's get on to second item. They are talking about for second-time users a requirement that a 2.5 percent funding fee and a 10-percent downpayment for multiple use of the loan guaranty. It appears to me that the second-time user ought to be our best risks, and I wasn't too happy about that proposal, but what are your thoughts on that?

Mr. JOHNSON. Mr. Chairman, again, let's go back to the origin of why we have the reinstated benefit. In 1976, Non Commissioned Officers Association pleaded with Congress for the reinstated benefit primarily for active-duty military personnel moving from one installation to another; selling a house in San Diego and buying one in Norfolk.

I also point out to the committee that current military reimbursement for moves is only about $1 for every $3 expended. Unlike the Federal civilians who get the big bucks for a downpayment on a new home and who is reimbursed for any loss on the sale of the old home, military personnel are not. They lose a significant amount of money from station to station, requiring them to take the equity from one house, which may or may not exist after 3 years, and reinvest it in another house instead of helping them to use that money to defray moving costs, and it could drive them out of the program.

Once again, the individual who is reinvesting, who is buying his second VA home, or his third VA home, is a known commodity. We know the individual's payment record; we know the track record; we know he is going to be the most reliable client that the VA has, and yet we seek to take unfair advantage of that by placing a 2.5 percent loan fee, which does nothing to reduce the veteran's indebtedness. It just goes purely to the administrative costs of the program. And a 10-percent downpayment requirement on the veteran, again, we drive away our best user.

Mr. SANGMEISTER. And earns us $17 million according to OMB figures.

Mr. JOHNSON. I don't know, for a President that wants to spend more than $12 billion in nonveterans' housing, you would think he could make some concession to veterans in this issue. For a President who wants to spend $38 billion in nonveterans' education, you would think he could give up $600 million in education to at least make the Montgomery GI Bill an affordable commodity for everybody who serves in the Armed Forces.

I believe the President is quite misguided in his proposals towards veterans. I don't believe the President has taken into account that 10 years ago none of these programs had user fees in them; that now we have a complete group of wartime veterans, people who have actually been shot at and injured, who are paying for veterans benefits; something that their World War II, Korean era and Vietnam era counterpart never had to do.

I am sorry, Mr. Chairman, I am getting a little out of hand, but I believe that the President is completely misguided in his proposals towards veterans, and I hope this committee will change them.

Mr. SANGMEISTER. You are certainly not out of hand, you are a good advocate for your position.

The third proposal is on the resale loss provision in the no-bid formula, which allows the VA to include losses that occur in the resale of property in the net value calculation which would determine whether or not the loan holder can convey the property to the VA.

Do you have any feelings about this present law?

Mr. CULLINAN. Mr. Chairman, I would like to speak to that briefly.

Mr. SANGMEISTER. Surely.

Mr. CULLINAN. Last year the VFW opposed altering the no-bid formula basically because we were afraid it would squeeze the low-end veteran out of the market. Those are the riskiest loans, and they are the ones least likely to be made by mortgage bankers.

Nonetheless, the change came about by an unusual avenue and it did take place, and I would have to say, at this point in time, that I would like to look at the current structure to see what happens. We have it, let's look at it to see what the effect is. However, the VFW does not want to see the market dried up with respect to low-income veterans. That is our view on that.

Mr. SANGMEISTER. You better take a good look at the experience factor on this, because it is my understanding we will be moving rather rapidly with the budget, and reconciliation may not be too far behind. Those are the obligations that concern my subcommittee that we are being asked to consider.

Mr. Bishop, do you have any comments you wish to make on those?

Any other comments you gentlemen feel you would like to make about this or anything else?

Mr. JOHNSON. If I may, just one. We agree with Mr. Egan and the Vietnam Veterans of America that there probably could be better use of refunding and there probably could be better use of other avenues to help veterans in retaining their home. But at the same time, let's put this thing in perspective a little bit. We are dealing with the bath water and we have lost track of the baby. The baby is the home loan that is on its way to destruction. Even if we intervene, we are not quite sure we are going to save it.

For all the effort we put into intervening in that one loan, we are ignoring a whole lot of other veterans and a whole lot of other needs in the home loan program; a program with very limited resources, a program that has required a $3 billion input of money over the past 6 years, a program that lost $2 billion to poor man-

agement early in the 1980s, which is what requires us to put money into it now.

Granted, I want to help every veteran who has a problem with a home loan save it, but let us keep in perspective that every time we do something like that, we are working at the expense of other veterans, and it is not the most important aspect of the program.

Mr. SANGMEISTER. Any other comments?

Anything from the Minority that you would like to put in for the record, or Mr. Bishop, anything else?

Mr. BISHOP. No, thank you.

Mr. SANGMEISTER. I want to thank you all for coming. I am sure we will see a lot more of each other. I appreciate your openness, and this committee Chairman wants to work with you. So don't hesitate to send letters, or if you want personal appointments with me to discuss matters, I will certainly make myself available.

If there is no further business, the committee is adjourned.

[Whereupon, at 11:45 a.m., the subcommittee was adjourned.]

APPENDIX

I

103D CONGRESS
1ST SESSION

H. R. 949

To amend title 38, United States Code, to increase the amount of the loan guaranty for loans for the purchase or construction of homes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 17, 1993

Mr. SANGMEISTER introduced the following bill; which was referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to increase the amount of the loan guaranty for loans for the purchase or construction of homes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. INCREASE IN AMOUNT OF LOAN GUARANTY FOR LOANS FOR THE PURCHASE OR CONSTRUCTION OF HOMES.

Subparagraphs (A)(i)(IV) and (B) of section 3703(a)(1) of title 38, United States Code, are each amended by striking out "$46,000" and inserting in lieu thereof "$50,750.".

I

103D CONGRESS
1ST SESSION

H. R. 950

To amend title 38, United States Code, to provide mortgage payment assistance to avoid foreclosure of home loans guaranteed under title 38, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 17, 1993

Mr. SANGMEISTER introduced the following bill; which was referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to provide mortgage payment assistance to avoid foreclosure of home loans guaranteed under title 38, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. MORTGAGE PAYMENT ASSISTANCE TO AVOID FORECLOSURE OF HOME LOANS GUARANTEED UNDER TITLE 38.

(a) IN GENERAL.—(1) Chapter 37 of title 38, United States Code, is amended by inserting after section 3714 the following new section:

"§ 3715. Loans to refinance delinquent indebtedness

"(a)(1) The Secretary may, at the Secretary's option, provide assistance to a veteran under this section for the purpose of avoiding the foreclosure of a housing loan made to that veteran and guaranteed by the Secretary under section 3710 or 3712 of this title (hereinafter in this section referred to as a 'primary loan').

"(2) Assistance under this section shall be in the form of a loan to the veteran. Such assistance may be provided only if—

"(A) the dwelling that secures the primary loan is the current residence of the veteran and is occupied by the veteran as the veteran's home;

"(B) the veteran is at least six months delinquent in payments on that primary loan;

"(C) the veteran has lost employment or has had a substantial reduction in household income (as defined in regulations prescribed by the Secretary) through no fault of the veteran; and

"(D) the Secretary determines that there is a reasonable prospect that the veteran will be able to resume payment on the primary loan within six months after receiving assistance under this section.

"(3) For the purposes of this section, the term 'veteran' includes the surviving spouse of a veteran if the surviving spouse was a co-obligor of the primary loan.

"(b)(1) A loan under this section shall be advanced to the holder of the primary loan. The amount of the loan under this subsection shall first be applied to the amount delinquent on the loan guaranteed under this chapter including any amount delinquent on taxes, assessments, hazard insurance, and late charges required by the holder to be included in the veteran's monthly payment on the mortgage.

"(2) The Secretary may make more than one loan under this section to a veteran. The total amount of loans under this section to any veteran may not exceed $10,000.

"(c) A loan under this section—

"(1) shall bear no interest until the date on which payments on the primary loan (including amounts for taxes, assessments, hazard insurance, and late charges required by the holder to be included in the veteran's monthly payment on the mortgage) are current;

"(2) shall be secured by a lien on the property securing the primary loan and by such other security as the Secretary may require; and

"(3) shall be subject to such additional terms and conditions as the Secretary may require.

"(d) As a condition of receiving a loan under this section the veteran shall execute an agreement, in such form

as the Secretary may prescribe, to repay the loan within a reasonable period of time, as determined by the Secretary, not to exceed 15 years from the date on which such loan is made. If the Secretary determines that the veteran has sufficient income or other resources to do so, the Secretary may require the veteran to make partial payments on the primary loan guaranteed under this chapter during the period the holder of that loan is applying the amount of the loan under this section to payments becoming due on the primary loan.

"(e) Notwithstanding any other law, the Secretary may employ attorneys to bring suit to collect any amount of a loan under this section on which the veteran to whom the loan is made is in default.

"(f) The Secretary's decisions on any question of law or fact regarding assistance under this section, including whether or not to grant such assistance and the terms and conditions under which such assistance is granted or not granted, shall be final and conclusive, and no other official or any court of the United States shall have power or jurisdiction to review any such decision by an action in the nature of mandamus or otherwise.

"(g) A loan under this section shall be made from the fund established under section 3724 or 3725 of this title that is available with respect to the primary loan in

connection with which the loan is made under this section.".

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 3714 the following new item:

"3715. Loans to refinance delinquent indebtedness.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a), shall take effect at the end of the 60-day period beginning on the date of the enactment of this Act.

SEC. 2. FINANCING OF DISCOUNT POINTS.

Section 3703(c)(4)(B) of title 38, United States Code, is amended in the second sentence by striking out "Discount" and inserting in lieu thereof "Except in the case of a loan for the purpose specified in section 3710(a)(8), 3710(b)(7), or section 3712(a)(1)(F) of this title, discount".

SEC. 3. RATE ADJUSTMENTS FOR ADJUSTABLE RATE MORTGAGES.

Section 3707(b)(2) of title 38, United States Code, is amended by striking out "on the anniversary of the date on which the loan was closed".

I

103D CONGRESS
1ST SESSION

H. R. 951

To amend title 38, United States Code, to provide for the payment of the cemetery plot allowance for veterans eligible for burial in a national cemetery but interred in a State veterans cemetery, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 17, 1993

Mr. SANGMEISTER introduced the following bill; which was referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to provide for the payment of the cemetery plot allowance for veterans eligible for burial in a national cemetery but interred in a State veterans cemetery, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CEMETERY PLOT ALLOWANCE FOR VETERANS ELIGIBLE FOR BURIAL IN A NATIONAL CEMETERY BUT INTERRED IN A STATE VETERANS CEMETERY.

Section 2303 of title 38, United States Code, is amended by adding at the end thereof the following:

"(c) In addition to the benefits provided for under section 2302 of this title and subsection (a) of this section, in the case of a veteran who—

"(1) is eligible for burial in a national cemetery under section 2402 of this title, and

"(2) is buried (without charge for the cost of a plot or interment) in a cemetery, or a section of a cemetery, that (A) is used solely for the interment of persons eligible for burial in a national cemetery, and (B) is owned by a State or by an agency or political subdivision of a State,

the Secretary shall pay to such State, agency, or political subdivision the sum of $150 as a plot or interment allowance for such veteran.".

SEC. 2. INCREASE IN FEDERAL AID TO STATES VETERANS' CEMETERIES.

Paragraphs (1) and (2) of section 2408(b) are each amended by striking out "50 percent" and inserting in lieu thereof "65 percent.".

March 4, 1993
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
HEARING, H.R. 950, 949, 951
HONORABLE DAN BURTON

THANK YOU, MR. CHAIRMAN. FIRST OF ALL LET ME SAY THAT I LOOK FORWARD TO WORKING WITH YOU AS THE NEW CHAIRMAN OF THE HOUSING AND MEMORIAL AFFAIRS SUBCOMMITTEE FOR THE 103RD CONGRESS.

I WAS FORTUNATE TO HAVE HAD THE OPPORTUNITY TO WORK WITH YOUR PREDECESSOR REPRESENTATIVE HARLEY STAGGERS. TOGETHER, WE WERE ABLE TO DO SOME GOOD THINGS FOR AMERICA'S VETERANS. HOWEVER, I HAVE NO DOUBT THAT THE SUBCOMMITTEE WILL RUN JUST AS SMOOTHLY AND ACHIEVE THE SAME RESULTS FOR OUR VETERANS UNDER YOUR LEADERSHIP AS IT DID UNDER HARLEY'S.

I LOOK FORWARD TO TODAY'S HEARING ON H.R. 950. THIS BILL WOULD PROVIDE MORTGAGE ASSISTANCE TO VETERANS TO AVOID FORECLOSURE. ANOTHER BILL WE WILL EXAMINE IS H.R. 949, WHICH WOULD INCREASE THE AMOUNT OF THE V.A. LOAN GUARANTY FOR NO-DOWNPAYMENT LOANS TO VETERANS. FINALLY, WE WILL LOOK AT

H.R. 951, A BILL WHICH I AM TOLD WOULD INCREASE THE NUMBER OF VETERANS ELIGIBLE FOR PLOT ALLOWANCES IN STATE CEMETERIES.

I VERY INTERESTED IN EACH OF THESE BILLS, AND ESPECIALLY HOW MUCH EACH BILL WILL COST. IN THE PAST FEW, WE HAVE HAD MANY GOOD BILLS BROUGHT BEFORE THIS SUBCOMMITTEE.. HOWEVER, WE HAVE LACKED THE MONEY NECESSARY TO FUND THESE BILLS. RIGHT NOW, MANY PEOPLE BELIEVE THAT WE ARE DOING TO TOO MANY THINGS WITHIN THE DEPARTMENT OF VETERANS AFFAIRS, AND NONE OF THEM WELL. THEREFORE, I WANT TO MAKE ABSOLUTELY SURE THAT ANY NEW INITIATIVES THAT WE SUGGEST IN THIS SUBCOMMITTEE DO NOT TAKE AWAY CRITICAL FUNDS FROM OTHER VETERANS' PROGRAMS WHICH ARE IN GREATER NEED.

WITH THAT BEING SAID, LET ME TURN THIS HEARING BACK OVER TO OUR NEW CHAIRMAN. I WISH YOU THE BEST OF LUCK IN THE COMING YEAR.

STATEMENT OF

HAROLD F. GRACEY

CHIEF OF STAFF

VETERANS BENEFITS ADMINISTRATION

DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

HOUSE COMMITTEE ON VETERANS' AFFAIRS

MARCH 4, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present the views of the Department of Veterans Affairs concerning several bills now pending before your subcommittee. Accompanying me this morning are Mr. Roger Rapp, Acting Director, National Cemetery System, and Mr. Gary Hickman and Mr. Keith Pedigo, Directors of Compensation and Pension and Loan Guaranty Services, respectively.

MORTGAGE PAYMENT ASSISTANCE TO AVOID FORECLOSURE

This morning, prior to this hearing, the subcommittee was scheduled to mark-up H.R. 950. This bill would authorize a mortgage payment assistance program to preclude homelessness by avoiding foreclosure of home loans guaranteed by VA and make two technical amendments to provisions added to the law in October 1992. We would like to offer the following comments.

First, Mr. Chairman, H.R. 950 would grant the Secretary discretionary authority to assist certain veteran homeowners who are in temporary financial distress. This assistance would be in the form of a new direct loan to veterans who are either unemployed or have suffered a substantial reduction in household income and currently own and occupy a home which secures an existing VA guaranteed loan (referred to as the "primary loan" under H.R. 950). Payments on the primary loan

must be at least 6 months delinquent, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

The bill would authorize the Secretary to advance up to $10,000 on behalf of the veteran to the holder of the primary loan in order to bring the primary loan current. The advance would not bear interest until payments on the primary loan are current. The veteran would be required to repay the advance within 15 years.

Mr. Chairman, we believe a new Federal assistance program such as proposed by H.R. 950 based on making direct loans to seriously delinquent borrowers is not warranted and would drain resources from VA's loan funds.

We believe there would be very few veterans who are 6 months delinquent on their existing guaranteed loans who would also be viewed by VA as being good credit risks and thus eligible for a new direct loan under H.R. 950.

In addition, Mr. Chairman, VA currently has authority to assist veterans in temporary financial distress. When a VA guaranteed loan is reported as being in default, VA makes every reasonable effort to work with the veteran and loan holder to prevent foreclosure when possible. Further, VA's refunding program under 38 U.S.C. § 3732(a)(2) provides a similar type of relief to qualified veterans.

Under the refunding statute, VA has discretionary authority to purchase the defaulted loan from the mortgage holder. VA automatically considers every defaulted loan for refunding before the loan is foreclosed. VA will acquire, or "refund" a loan when VA believes the borrower has the ability to maintain the mortgage obligation, or clearly will have that ability in the near future, but the loan holder will not extend forbearance. VA may then reamortize the loan or reduce the interest

rate in order to lower the monthly payments, or grant the veteran additional forbearance.

Finally, this provision of H.R. 950 would be subject to the pay-as-you-go requirements of the Budget Enforcement Act (BEA).

TECHNICAL AMENDMENTS

Mr. Chairman, H.R. 950 would also make technical amendments to two provisions enacted last year as part of Public Law 102-547, the Veterans Home Loan Program Amendments of 1992. We favor both of these amendments.

One concerns the financing of discount points. As you know, VA has provided for negotiated interest rates, as authorized by Public Law 102-547. Section 3703(c)(4)(B) of title 38, United States Code, provides that points may not be included in the loan amount when the interest rate is agreed upon by the veteran and the lender. The bill would amend this section to allow the points for refinancing loans for the purpose specified in sections 3710(a)(8), 3710(b)(7), and 3712(a)(1)(F) of title 38, United States Code, to be included in the loan amount. Section 3710(a)(8) refers to interest rate reduction loans, section 3710(b)(7) refers to loans to refinance construction loans, installment sales contracts and loans which the veteran has assumed, and section 3712(a)(1)(F) refers to interest rate reduction loans for manufactured homes. Public Law 102-547 inadvertently omitted the exception which allowed discount points for loans for these purposes to be included in the loan amount. H.R. 950 will restore this exception. This provision may have pay-as-you-go costs under the BEA. If so, we would strongly favor enactment of this provision if pay-as-you-go costs are offset.

The other technical amendment concerns the date of the interest rate adjustment for adjustable rate mortgage (ARM) loans. Section 3707(b)(2) of title 38, United States Code,

provides for the interest rate to be adjusted annually on the anniversary of the date on which the loan was closed. The bill would delete the requirement that the annual adjustment be on the anniversary of the loan closing date. The existing requirement would be extremely difficult for lenders to administer, and could prevent inclusion of VA's ARM loans in Government National Mortgage Association (GNMA) mortgage-backed securities pools. If H.R. 950 is approved, VA will provide for the first adjustment to occur no sooner than 12 months, nor later than 18 months from the date of the borrower's first mortgage payment. Subsequent adjustments will be made on the anniversary of the initial adjustment. This is similar to the approach now taken by the Department of Housing and Urban Development (HUD) in their ARM loan program. We note that section 3707(a) of title 38, United States Code, provides that the VA ARM program should be structured in a manner similar to the manner in which the Secretary of Housing and Urban Development insures adjustable rate mortgages. Providing flexibility for the initial adjustment date will allow VA ARM loans to be included in GNMA pools along with HUD adjustable rate mortgage loans. We strongly favor enactment of this provision.

VA LOAN LIMIT

Mr. Chairman, you requested VA's comments on H.R. 949, which increases the maximum home loan guaranty from $46,000 to $50,750.

Your invitation letter states the intent of H.R. 949 is to increase the no-downpayment limit on VA guaranteed loans from $184,000 to $203,000. VA does not have a maximum loan amount. A VA guaranteed loan can be made for up to 100 percent of the reasonable value of the home, provided the veteran meets VA's credit and income standards. Lenders, however, generally will not make loans for more than four times the amount of the guaranty. With the current maximum guaranty amount at $46,000, lenders are willing to make VA guaranteed loans for up to four

times $46,000, or $184,000. The maximum guaranty proposed in H.R. 949 would support a no-downpayment loan of $203,000.

The guaranty, in effect, takes the place of a cash downpayment. With the current maximum guaranty amount at $46,000, a veteran can obtain a VA guaranteed loan for $184,000 without making a downpayment. We believe that in today's market this is still a good deal for veterans. For Fiscal Year 1992, 82.6 percent of all VA purchase loans were obtained with no downpayment. The average loan amount for the 265,895 home loans guaranteed by VA in FY 1992 was $86,337, and only 2 percent of the loans guaranteed in FY 1992 were for amounts over $180,000.

In recent years, inflation has been moderate and there has been no significant increase in the price of homes. In some markets prices have even fallen. There is no evidence that veterans have been prevented from obtaining VA home loans because of the limit on the guaranty amount. Therefore, we do not support an increase in the VA maximum guaranty.

H.R. 949 would be subject to the pay-as-you-go requirements of the BEA. We are currently developing these estimates.

EXPANSION OF PLOT ALLOWANCE ELIGIBILITY

Mr. Chairman, you also requested our comments on two proposals relating to state veterans cemeteries. Section 1 of H.R. 951 would expand eligibility for the $150 plot allowance for all veterans eligible for burial in a national cemetery who are interred without charge in a state veterans cemetery. We oppose section 1 of the bill.

Under section 2303(b)(1) of title 38, United States Code, VA is authorized to pay to States, or their political subdivisions, a plot allowance to help defray the cost of interment of certain qualified veterans in state, county, or municipal veterans cemeteries. Eligibility for the plot allowance is

generally restricted to: (a) veterans who had wartime service; (b) veterans who, at the time of death, were receiving compensation or pension; (c) veterans who, at the time of death, were hospitalized at Federal expense; and, (d) veterans who were discharged from service for a disability incurred or aggravated in line of duty. The proposed bill would expand plot-allowance eligibility to include all peacetime veterans buried in state veterans cemeteries, regardless of whether they were receiving VA benefits or were discharged for service-connected disability.

This proposal would significantly expand potential eligibility for the plot allowance and, consequently, would increase program costs. These costs would be subject to the pay-as-you-go requirements of the BEA. Further, this modification of the eligibility criteria for the plot allowance would unfairly discriminate against peacetime veterans buried in private cemeteries, who are not eligible for a plot allowance, and would further exacerbate the existing disparity in plot-allowance eligibility criteria between veterans buried in state and private cemeteries. Such disparities could be expected to generate calls for expansion of eligibility criteria for veterans interred in private cemeteries.

In light of the disparity it would create in plot-allowance eligibility criteria between peacetime veterans buried in state and private cemeteries and the fiscal constraints confronting the Federal government, we cannot support this proposal.

MODIFICATION OF CEMETERY GRANTS FORMULA

Mr. Chairman, under section 2408 of title 38, United States Code, VA is authorized to provide to states matching grants of up to 50 percent of the cost of establishing, expanding, or improving state veterans cemeteries. Section 2 of H.R. 951 would increase VA's share for projects under this program to 65 percent. VA opposes enactment of this measure.

As originally conceived in Pub. L. No. 95-476, the principal purpose of the State Cemetery Grant program was to furnish an impetus to states to undertake cemetery construction, expansion, and improvement in order to better meet the burial needs of veterans by increasing the number and enhancing the geographical distribution of available gravesites. In this manner, the states are encouraged to share responsibility for providing cemeteries for veterans who desire to be buried with their comrades-in-arms. It was noted at the time of enactment of the grant legislation that many states had taken the initiative, without Federal assistance, to provide some measure of assistance, either financial or in-kind, in the burial of veterans.

The present State Cemetery Grant program is an effective partnership for meeting the burial needs of our Nation's veterans. The Federal government already assists in the acquisition and improvement of land for state veterans cemeteries and contributes toward the costs of interment and maintenance through payment to the states of a plot allowance for certain veterans buried in state veterans cemeteries. The costs associated with implementing the proposed modification of the grant formula, assuming current project levels, would be an additional $1,320,000 over each of the next five fiscal years. In our view, section 2 of the bill represents an imprudent shift of financial responsibility from the states to the Federal government in this era of budgetary constraint. Therefore, VA opposes enactment of section 2 of H.R. 951.

Mr. Chairman, I thank the Subcommittee for this opportunity to present the views of VA. This concludes my prepared testimony. I would be happy to answer any questions that you or other members of the subcommittee may have.

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The National Association of Real Estate Finance

STATEMENT OF

HERBERT B. TASKER, CMB
CEO AND CHAIRMAN OF THE BOARD

ALL PACIFIC MORTGAGE COMPANY
CONCORD, CALIFORNIA

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

Subcommittee on Housing and Memorial Affairs

of the

Committee on Veterans' Affairs
United States House of Representatives

Hearing on

HR 949, a Bill to Raise the
VA Home Loan Guaranty Amount, and other
Legislative Proposals Affecting the
VA Home Loan Guaranty Program

March 4, 1993

Mr. Chairman and Members of the Subcommittee, I am Herbert B. Tasker, CEO and Chairman of the Board of All Pacific Mortgage Company of Concord, California. I am currently serving as President of the Mortgage Bankers Association of America (MBA)[1].

MBA appreciates the opportunity to testify at these hearings. Our testimony will cover your bill, Mr. Chairman, HR 949, that will increase the VA home loan guaranty amount. I will also discuss with you our reaction to President Clinton's economic plan and our concerns with some of its provisions, as well as our proposals with respect to other features of the VA Home Loan Guaranty Program.

Before discussing HR 490, our reaction to President Clinton's economic plan proposals, and other provisions of the VA Home Loan Guaranty Program, I would like to express the mortgage finance industry's appreciation for your Subcommittee's and the Congress' approval last year of some major legislative changes to the program. These were:

- Adoption of a negotiated VA interest rate
- Establishment of a VA ARM program
- A reduction in the VA funding fee for interest-rate reduction loans to .5 percent.
- An extension of the Lender Appraisal Processing Program through December 1995.
- Qualification for certain reservists for the program.

These changes will increase veterans' homeownership opportunities and result in a more efficient program functioning.

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[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 2,400 companies includes all elements of real estate finance: mortgage companies, savings and loan associations, commercial banks, savings banks, life insurance companies and others in the mortgage lending field.

First of all, I would like to address the President's economic plan.

President Clinton's aggressive proposals to cut the Federal deficit and stimulate investment should create a more favorable climate for housing. Long-term interest rates should decline making housing more affordable. We applaud his serious and courageous leadership in addressing the Nation's economic ailments.

We particularly welcome the President's goals for the Department of Housing and Urban Development and look forward to working with his administration as it develops appropriate reforms for the Federal Housing Administration (FHA) and implements a GNMA REMIC program. President Clinton has demonstrated the importance of investing in our Nation's cities by permanently extending the low-income tax credit and mortgage revenue bond programs and by making programs for the homeless and for the preservation and restoration of low-income housing a priority of his investment package.

While some details of the President's plan may be subject to debate, particularly the changes that will damage the VA home loan guaranty program, the plan itself is a remarkable step forward in the Nation's willingness to tackle its overwhelming debt burden. The deficit has been the single most critical stumbling block to long-term economic growth and we support the President's substantive efforts to lessen its negative impact.

Our reservations with the President's proposals affecting the VA Home Loan Guaranty Program center on two areas: the VA "no-bid" formula and the increased funding fee.

No-Bids

The Administration proposes to make permanent the provision in the 1992 Housing Act with respect to the "no-bid" formula applicable to a foreclosure on a VA loan.

Under the VA Home Loan Guaranty program, when there is a foreclosure on a VA loan, the VA applies a statutory "no-bid" formula. The no-bid formula is used by the VA to determine whether the VA will specify an amount for the lender to bid at the foreclosure and accept conveyance of the property if the lender is the successful bidder, or will only pay the lender the amount of the guaranty and turn the property over to the lender--a "no-bid"--for disposition. In this event, the lender bears the risk of loss associated with acquisition and resale of the property.

The current no-bid formula, instead of taking into account the loss on the particular property involved in the foreclosure, requires that the formula take into account the average loss on all VA foreclosures. This forces more foreclosures into a "no-bid" situation, greatly increasing lenders' losses. This provision, adopted in 1992, is scheduled to expire on September 30, 1993.

With respect to the Administration's proposal to make permanent the inclusion of VA's loss per property in the VA "no-bid" calculation process, MBA is concerned that such an action would further stifle lender participation in the VA guaranty program. This is a likely result of a permanent extension because this change increases the lender's potential liability approximately $2,000 on the average VA loan in the event of a foreclosure. While the number of VA foreclosures and no-bids are down dramatically for a variety of factors (e.g., market conditions and tighter underwriting), the fact remains that a significant economic downturn could place lenders in jeopardy in affected markets. Therefore, in the interest of promoting the availability of the VA program to all eligible veterans, MBA opposes the permanent extension of VA's resale loss provision.

While the Administration expects savings of $80 million over the next four years as a result of this action, the exact opposite may in fact occur as a result of decreased participation by lenders with a resulting decrease in VA funding fee income.

Increased Funding Fee

MBA also has concerns with the Administration's proposal to increase the VA funding fee to 2 percent. This represents a further cost to veterans. Using the average VA loan in 1992, which was $82,907, the increase in the fee from 1.25 to 2.00 percent results in an average increase of $622 per loan.

Even though this fee can be financed, it is an additional cost which MBA does not believe should be imposed on our Nations' veterans.

As indicated in our response to President Clinton's Economic plan, MBA believes that a reduction in Federal spending and an increase in Federal taxation where absolutely fair are the price the Nation must pay for economic solvency. We do have concerns, however, that the "no-bid" and increased funding fees proposals place a disproportionate burden on the participants in the VA Home Loan Guaranty Program.

HR 949

HR 949 would increase the VA home loan guaranty amount from $46,000 to $50,750. MBA supports this measure. Just as the provisions Congress approved last year have done, it will help keep the program viable in serving veterans' housing needs.

HR 949 recognizes the increasing cost of housing, particularly for first-time veteran homebuyers. An increase in the guaranty amount will expand homeownership opportunities in high cost areas where the current guaranty ceiling has the effect of preventing veterans from using their VA entitlement. In addition, VA default and claim data clearly show that default/foreclosure rates decline as the size of the mortgage increases. MBA

believes, therefore, that raising the guaranty will improve the quality of total VA home loan originations.

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. The mortgage lender must deal with that assigned appraiser without regard to the quality of the appraiser's qualifications or the appraiser's workload.

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.

The FIRREA appraiser certification requirements have, in effect, rendered the VA appraiser designation system unnecessary. 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 the loan application processing delays currently existing under the VA program. This would not only enable VA to use staff resources for other critical functions, but veterans would also benefit from increased speed in application processing.

MBA urges Congress to modify the current VA Home Loan Guaranty program requirement to permit lenders to select appraisers, so long as they meet state appraiser certification requirements, as established under FIRREA.

Soldiers' and Sailors' Civil Relief Act

While the Soldiers' and Sailors' Civil Relief Act of 1940 (SSCRA) is not the subject of these hearings, we would like to call your attention to the fact that during Operation Desert Storm/Shield lenders, bore an unfair burden with respect to VA loans in Government National Mortgage Association (GNMA) mortgage backed securities (MBS) pools as a result of the application of the 6 percent interest rate cap provisions of the Act.

The Soldiers' and Sailors' Civil Relief Act of 1940 (SSCRA) requires lenders to reduce the interest rate on loans of persons called to active military service to no higher than 6 percent.

The purpose of the Soldiers' and Sailors' Civil Relief Act (SSCRA), passed in 1940 and amended in 1942, was to assist "persons in the military service" by making provisions "to

suspend enforcement of civil liabilities". The act was amended further by the "Soldiers' and Sailors' Civil Relief Act Amendments of 1991", enacted on March 18, 1991 (PL 102-12). This Act makes technical amendments to SSCRA.

A major provision of the Act provides that for any debt, including mortgages incurred prior to active duty, the interest rate on the loan may not exceed 6 percent per annum, unless in the opinion of the court, upon application by the lender, the borrower's ability to pay more than 6 percent is not materially affected by reason of military service.

Another key provision prevents the foreclosure or seizure of property for nonpayment of any amount due while the person is on active duty or within three months thereafter.

With respect to reservists called to duty during Operation Desert Storm/Shield, both the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) have absorbed the losses resulting from the application of the 6 percent cap to loans that back their mortgage-backed securities. The Government National Mortgage Association (GNMA) adopted the position that it is the responsibility of the issuer to pass through payments at the security rate and absorb all losses associated with the lower interest rate. GNMA claimed it lacked statutory authority to follow the course adopted by FNMA and FHLMC. As a result of GNMA's refusal, mortgage lenders suffered severe financial losses from the application of SSCRA's 1940 outdated interest provision to the vastly changed economic picture of the 1990s.

In January 1991, MBA conducted a survey to determine the losses being suffered by lenders. The lenders responding to the survey serviced approximately 31 percent of all loans in GNMA MBA pools. Based on these reports, MBA estimated the average monthly loss to lenders totaled slightly more than $2 million--a disproportionately unfair burden for lenders.

Congress, in the 1992 Housing Act, specifically granted GNMA the authority to absorb these losses.

Last year, staff from MBA, FNMA, and GNMA met with staff from this Subcommittee to explore legislative adjustments to update the Act to make it more equitable. The staffs of both the House and Senate VA Committees have indicated a willingness in the 103rd Congress to explore with MBA, FNMA, and FHLMC legislative adjustments to update the Act to make it more equitable.

MBA urges a modernization of the 1940 Act to reflect today's economic conditions. However, in the event of another international situation involving a call-up of reservists prior to any modernization of the Act, MBA will urge GNMA, as it is now authorized, to follow FNMA's and FHLMC's lead in absorbing losses caused by any interest rate differential.

We appreciate being able to appear today to explore with you our interests and concerns on issues affecting veterans' homeownership opportunities, and stand ready to furnish any additional needed information.

TESTIMONY OF ALFRED AUSTIN
ON BEHALF OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON VETERANS AFFAIRS

MARCH 4, 1993

INTRODUCTION

Mr. Chairman, Members of the Subcommittee. my name is Al Austin. I am a REALTOR® from Brunswick, Maine and I serve as Chairman of the Association's Residential Finance Subcommittee. On behalf of the members of the NATIONAL ASSOCIATION OF REALTORS®, I would like to thank you and the Members of the Subcommittee for your commitment to promoting affordable housing opportunities for our Nation's veterans. We welcome this opportunity to testify regarding legislative proposals which make changes to the VA Home Loan Guaranty Program. Our testimony will focus on the following pending legislative measures which are the subject of this hearing:

(1) H.R. 949, which would increase the amount of loan guaranty for loans for the purchase or construction of homes; and

(2) H.R. 950, which would establish a loan program to refinance delinquent indebtedness.

The NATIONAL ASSOCIATION OF REALTORS® applauds your commitment to promote and maintain home ownership for our nation's veterans. The Association continues to believe in the viability of the Home Loan Guaranty Program and pledges its support to work with the Subcommittee to ensure that the program continues to fulfill its objective of helping veterans buy and remain in their homes.

LEGISLATIVE PROPOSALS

1. Increase VA Home Loan Guaranty Maximum, H.R. 949

The NATIONAL ASSOCIATION OF REALTORS® supports initiatives increasing the VA loan guaranty maximum from its present level of $46,000. We believe this change will allow buyers to obtain loans for up to $203,000 and provide welcome relief to qualified buyers in high-priced areas who previously had difficulty obtaining VA loans. The NATIONAL ASSOCIATION OF REALTORS® also believes the guaranty increase will provide a much-needed economic boost to high-cost housing markets bruised by the economic recession.

The loan guaranty, also known as the veterans' entitlement, is the amount available to veterans on home loans originated under the loan guaranty program. The guaranty enables veterans to obtain a loan without a downpayment, making it an attractive and marketable feature of the home loan program. However, to ensure that the home loan program remains attractive and competitive with other mortgage products, the value of the guaranty must continuously reflect the housing market.

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.

DVA statistics demonstrate that higher principal amount mortgages have lower claim rates, and as the loan amount increases the foreclosure rate decreases considerably. Thus, increasing the guaranty will improve the quality of total VA home loan originations. And, the effect of the increased guaranty will solidify financially the Guaranty and Indemnity Fund because of a more diversified portfolio of loans.

With interest rates at their lowest levels in years, and the recent changes initiated by your Subcommittee and approved by Congress to revitalize the program, the NATIONAL ASSOCIATION OF REALTORS® believes H.R.949 will help reinvigorate VA's share of the housing market in all segments of the country and ensure that the program meets its stated objectives of fulfilling the housing needs of all qualified veterans.

2. Establish a Mortgage Foreclosure Payment Assistance Program, H.R. 950

The NATIONAL ASSOCIATION OF REALTORS® supports initiatives that help avoid foreclosure of DVA home loans. It is our belief that veterans should, when faced with default and foreclosure, be provided every possible opportunity to maintain their homes.

The NATIONAL ASSOCIATION OF REALTORS® recognizes that current economic conditions are creating instances of unemployment and underemployment for our nation's veterans, and we appreciate the Subcommittee's forthrightness to address the potential housing problems that may result.

However, the NATIONAL ASSOCIATION OF REALTORS® is concerned that the proposal establishing a mortgage foreclosure payment assistance program duplicates DVA's servicing program and may create financial and administrative burdens to the lending industry. Currently, the Department of Veterans Affairs provides a servicing program for defaulting loans in which the DVA works with the borrower and servicer from the time the default is reported, evaluates available information to determine whether the default may be cured, and pursues an appropriate remedy based on the facts in the case utilizing several approaches including the provision of financial guidance.

The NATIONAL ASSOCIATION OF REALTORS® is also concerned that extending further financial assistance could exacerbate total repayment ability and provide a disincentive on the part of the borrower to act responsibly and meet his/her mortgage

obligations. We are concerned that the amount of accumulated debt may exceed the homeowner's desire to repay and could result in his/her eventual "walking away" from the property.

Section 2, Financing of Discount Points

The NATIONAL ASSOCIATION OF REALTORS® supports this provision making technical corrections to Public Law 102-547, the Veterans Home Loan Program Amendments of 1992, and allowing the financing of loan discount points on interest rate reduction refinancings of VA-guaranteed loans.

This provision will now allow veteran borrowers to finance the loan discount points and realize the savings of lower interest rates. The NATIONAL ASSOCIATION OF REALTORS® believes this technical correction will enhance homeownership opportunities for our nation's veterans.

CONCLUSION

The NATIONAL ASSOCIATION OF REALTORS® appreciates the opportunity to testify at these hearings on issues affecting veterans' homeownership opportunities and we stand ready to work with the Subcommittee on developing veterans housing legislation that is efficient, fair and cost-effective.

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of, and major participant in, DVA's Home Loan Guaranty Program and we pledge our continued support to ensure the program meets its stated objectives of fulfilling the housing needs of our nation's veterans.

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STATEMENT OF JERRY J. BROWN

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

HOUSE COMMITTEE ON VETERANS' AFFAIRS

MARCH 4, 1993

Chairman Sangmeister and Members of the Subcommittee,

My name is Jerry J. Brown, and I am here today on behalf of the National Concrete Burial Vault Association (the "NCBVA"). I serve as the Executive Director of the NCBVA and I want to thank you for the opportunity to present the views of our Association at today's hearing. As always, we appreciate the invitations to testify before this Subcommittee on matters relating to veterans.

Founded in 1930, the NCBVA is the primary industry voice for the manufacturers of concrete burial vaults and other outer burial receptacles. Many of our member companies supply grave liners under contracts awarded by the National Cemetery System (the "NCS") in connection with the NCS Grave Liner Program, which was mandated pursuant to Section 504 of Public Law 101-237.

<u>103rd Congress Veterans' Legislation</u>

The NCBVA would like to offer its general support of the legislation which is the subject of today's hearing; specifically, three bills Mr. Chairman, introduced by you

on February 17, as H.R. 949, H.R. 950 and H.R. 951. We feel that the enactment of these legislative proposals into public law is an appropriate way to show our country's appreciation for our veterans service and sacrifice. We are, however, mindful of the expenditures. Over the past few years we have seen veterans benefits eroded, particularly with the enactment of the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508). The concept of making a contribution and sacrifice to help put this country back on its feet is nothing new to the veteran and his or her family.

H.R. 951

Mr. Chairman, the NCBVA supports H.R. 951, legislation that provides for the payment of the cemetery plot allowance for veterans eligible for burial in a national cemetery but interred in a State veterans cemetery. The bill also increases federal aid to States veterans' cemeteries from 50% to 65%. Indeed, Mr. Chairman, the NCBVA would not only like to see the plot allowance given to veterans interred in State veterans cemeteries, but to all veterans. It must be remembered that the vast majority of veterans (88%) are buried in private, public or nondenominational cemeteries (not in the National Cemetery System).

H.R. 949

H.R. 949 provides for increasing the amount of a veteran's loan guaranty for loans for the purchase or construction of homes. The consideration of this legislation is particularly timely since, as interest rates continue to lower and housing becomes more affordable, any increase in the amount of loan guarantees for veterans could go a long way in helping our veterans secure what is generally perceived as part of the American dream--home ownership.

H.R. 950

H.R. 950 would provide an amount up to $10,000 in mortgage assistance to aid a veteran in avoiding foreclosure on home loans that are guaranteed under Title 38 of the United States Code. We support this bill and note the built in safeguards with respect to the availability of use of the funds. The additional assistance could only be provided for a veteran if:

--it is applied to the primary loan on the principal residence of the veterans and the home is occupied by the veteran;

--payments on the primary loan are six months in arrears;

-- the veteran has lost employment or experienced a significant reduction in family income; and

-- the assistance will only be provided where there is a reasonable prospect that the veteran will be able to resume payment on the primary loan within six months after obtaining the assistance.

Having additional funds available for a veteran to help avoid a pending or threatened foreclosure seems to us fair. With the built-in restrictions on the use and availability of the funds, we feel this is a good viable proposal.

While we support these proposals and in particular the cemetery plot allowance, we realize that there are costs associated with these legislative proposals and funding may be hard to come by, particularly when we consider the budget constraints under which this Subcommittee and the VA operate.

One area where we believe costs can be shifted relates to the NCS Grave Liner Program. As you know, Section 504 of Public Law 101-237 (103 STAT. 2094) states that, effective January 1, 1990, the government must provide "a grave liner for each new grave in an open cemetery within the National Cemetery System in which remains are interred in a casket."

In past testimony before this Subcommittee the NCBVA has expressed its support for the grave liner requirement, because it makes economic good sense. We do not think, however, that it is

necessarily the responsibility of the federal government to supply the cost of the grave liners during this period of fiscal restraint. Eliminating the free government provided grave liner while maintaining the grave liner requirement would, among other things, restore an imbalance in veterans death benefits, free funds for use elsewhere in other veterans programs such as guaranteed home loans, healthcare, VA hospitals, and education, and help maintain our nation's National Cemeteries. We would be pleased to provide the Subcommittee with additional information regarding this proposal.

Mr. Chairman this concludes my remarks. Again, I want to thank you and the members of the Subcommittee for the opportunity to present our views on these important matters and I'll be happy to answer any questions that you may have.

Written Testimony
to the
Subcommittee on Housing and Memorial Affairs
of the
United States House of Representatives

Submitted by:
Walt McDonald
President
California Association of REALTORS®
Los Angeles, California
March 4, 1993

I. INTRODUCTION

As President of the California Association of REALTORS®, the statewide trade association representing the interests of 126,000 real estate licensees, I am grateful to have the opportunity to present C.A.R.'s perspectives on the legislative proposals currently before the Housing and Memorial Affairs Subcommittee. This testimony is submitted in conjunction with that presented by the National Association of REALTORS®.

The business activities of C.A.R.'s membership involve the brokerage of real property as well as well as helping homebuyers secure mortgage financing for their home purchases. It is this business focus, and the importance of the VA program in meeting the needs of California's veteran homebuyers, that motivates C.A.R.'s active interest in the issues presently before the Housing and Memorial Affairs Subcommittee.

II. HR 949

C.A.R. strongly supports HR 949, introduced by Chairman Sangmeister, which would increase from $46,000 to $50,750 the loan guarantee entitlement of veterans obtaining guaranteed loans greater than $144,000. By increasing the maximum no-downpayment loan these veterans can obtain from $184,000 to $203,000, HR 939 would improve the effectiveness of this important mortgage credit program in the high-cost California housing market.

By way of background, a myriad of C.A.R. statistics point out the indispensable role played by VA financing in meeting the housing needs of large numbers of veteran homebuyers in California. C.A.R.'s data show that more than 28,000 new and existing homes were purchased by California veterans in 1992 with the aid of VA-guaranteed financing. If refinance loans and assumption activity are included, the number of veterans assisted by VA financing is even greater.

The volume of VA loan activity in 1992 was up rather sharply in California from 1991 when C.A.R. estimates that 20,000 homes were financed with VA-guaranteed home loans. In reflection of last years's VA legislation (HR 939) which deregulated the VA interest rate, made reservists eligible for the loan guarantee program and authorized a VA adjustable-rate mortgage, VA loan volume in California should, over the near term, continue to increase. C.A.R. was strongly supportive of last year's improvements to the VA Home Loan Guarantee Program

and we compliment the members and staff of the Housing Subcommittee for its integral role in seeing HR 939 enacted.

VA-guaranteed financing plays an especially pivotal role in addressing the mortgage financing needs of California's first-time and moderate-income veteran homebuyers. As shown in Exhibit 1 below, nearly 72 percent of newly originated VA loans in California in 1992 went to buyers purchasing their first home. The VA program was able to assist moderate-income veteran buyers, as evidenced by a participant median income of $45,000. This figure was $17,000 less than the $62,000 median income of buyers using conventional financing in California in 1992.

Exhibit 1 points out the key advantages of the VA program for first-time and moderate income buyers, namely the VA program's no-downpayment feature and low closing costs. In 1992, the program's no-downpayment option meant that a veteran borrower was able to purchase a home without having to accumulate the $36,900 downpayment made by the typical conventional homebuyer. Closing costs for the veteran homebuyer using the VA program in California were also substantially lower than those paid by buyers using conventional financing; median buyer-paid closing on VA loans were $2,100 versus $5,000 for conventional loan borrowers. It is obvious that the no-downpayment and reduced closing costs charged on VA guaranteed loans have made it possible for a larger number of California veterans to enjoy the benefits of homeownership than would otherwise have been the case.

The existence of a source of low cost, low downpayment financing is crucial in a state like California where increases in home prices have far outstripped gains in

EXHIBIT 1

Characteristics of Newly Originated Conventional and VA-Guaranteed Mortgages in California: 1992

Characteristic	Conventional	VA
Median Interest Rate	8.5%*	8.5%
Median Loan Amount	$169,600	$147,000
Median Sales Price	$210,000	$146,300
Median Downpayment	$36,900	---
Med. Buyer Paid Closing Costs	$5,000	$2,100
Proportion of First-Time Buyers	46.0%	71.7%
Med. Annual Household Inc.	$62,000	$45,000
Median Loan-to-Value Ratio	80.0%	100.0%

* Includes fixed- and adjustable-rate loans.
Source: C.A.R. Housing Finance Survey

household income over the last decade. Between 1980 and 1992, the median price of a home in California nearly doubled, rising from $99,300 to $197,900; during this same period, median family income increased by less than 50 percent, from $23,000 to $33,900. These conditions make it difficult for the typical family to save the downpayment necessary to purchase a home.

California REALTORS® are supportive of HR 949's proposed entitlement increase because the new maximum VA loan amount of $203,000 would better reflect the price of homes in the California housing market, enhancing the program in high-cost regions and providing veterans with a larger selection of homes which could

financed with a VA-guaranteed home loan. As mentioned above, the median price of a resale home in California in 1992 was almost $198,000. Thus, the maximum VA loan of $203,000 envisioned under HR 949 would more closely approximate the price of homes in California than does the current maximum VA loan of $184,000.

According to our data, an additional 11 percent of home sales in California could be financed with a VA-guaranteed loan under the proposed $203,000 no-downpayment loan amount. Based on 1992 statistics, this means that California veterans would have had an additional 60,000 homes from which to choose when they went home shopping.

As additional justification for the proposed entitlement increase, the Housing Subcommittee should be apprised that only last year the maximum loan amount permitted under the home loan program of the California Department of Veterans Affairs (the state's Cal-Vet program) was increased from $125,000 to as high as $242,100 in California's most expensive counties. The new Cal-Vet loan limit is $170,000 or 90 percent of county median home price, whichever is higher. In the San Francisco Bay Area, the increase resulted in the maximum Cal-Vet loan amount rising from $125,000 to $242,100. In Orange County, the maximum Cal-Vet loan climbed from $125,000 to $220,400 while in Los Angeles County the maximum Cal-Vet loan amount rose from $125,000 to $198,700.

C.A.R. is also in favor of HR 949's entitlement increase because it would result in a maximum VA loan amount which would more closely correspond with the 1993 Fannie Mae/Freddie Mac conforming loan amount of $203,150. C.A.R. would suggest to the subcommittee that it may in fact set a proper precedent to have uniform maximum loan amounts for VA and FNMA/FHLMC financing. The subcommittee may wish to study the issue of whether the loan guarantee entitlement of veterans should be indexed so as to equal 25 percent of the FNMA/FHLMC conforming. This would result in identical VA and FNMA/FHLMC loan amounts.

C.A.R. urges the subcommittee to review the implications of the entitlement increase with the staff of the Government National Mortgage Association as soon as practical since it is Ginnie Mae who must determine whether it will guarantee mortgage securities based on the proposed no-downpayment maximum mortgage amount of up to $203,000. C.A.R. is hopeful that, if enacted into law, the GNMA will immediately accept for securization VA mortgages of up to $203,000.

Finally, C.A.R. favors the loan guarantee entitlement increase because it may provide some much-needed stimulus to California's housing market and to the state's overall economy. California has been hard hit by the economic recession from which, in fact, it has not yet emerged. Having lost over 800,000 jobs since the economic downturn began in 1990, C.A.R. supports efforts by the federal government, such as might be accomplished via a higher VA loan amount, to help spur the state's beleaguered economy.

III. HR 950

C.A.R. does not have official policy on the provisions of HR 950 which would create a mortgage payment assistance program to aid distressed veterans and avoid foreclosure of VA-guaranteed mortgages. However, the Association is cognizant of the fact that, because of the high costs involved in many instances of foreclosure, it may be more cost-effective to provide mortgage payment assistance to troubled veterans than to have the veteran's lender foreclose. This may be especially valid for veterans eligible for assistance under HR 950. Eligible participants for mortgage payment assistance would have to be veterans who have lost their job or suffered a reduction in income through no fault of their own and who have a reasonable prospect of being able to resume regular monthly mortgage payments within six months.

C.A.R. is in favor of section 2 of HR 950 which would correct a technical error in last year's veterans housing bill (HR 939) by permitting the financing of loan discount points on interest rate reduction refinancings of VA-guaranteed loans. It is obviously not in the best interest of the veteran-homeowner or the DVA for veterans to not be able to realize the savings of lower interest rates through a prohibition on the financing of loan discount points. We therefore support the provision of HR 950 which would allow veterans to finance discount points on rate reduction refinancings.

IV. CONCLUSION

The California Association of REALTORS® appreciates the opportunity to comment on the important issues before the Housing and Memorial Affairs Subcommittee. With the reduced availability of high loan-to-value ratio loans in the conventional market, the VA Loan Guarantee Program continues to provide many moderate-income and first-time buyer veterans with their only chance of owning a home. California REALTORS® strongly support the VA Home Loan Guarantee Program and we again express our gratitude to the Housing Subcommittee for its support of the program, both in the past and in the future.

Thank you for considering our viewpoints. If you have any questions concerning our testimony, please do not hesitate to contact Leslie Appleton-Young, C.A.R.'s Vice-President of Research and Economics, at (213) 739-8325, or Marcia Salkin, Manager of Housing and Policy Development, at (213) 739-8272.

AMERICAN CEMETERY ASSOCIATION
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Stephen L. Morgan, CCE
Executive Vice President

February 24, 1993

HAND DELIVERED

The Honorable George E. Sangmeister
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
U.S. House of Representatives
335 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Sangmeister:

We appreciate your inviting the American Cemetery Association to testify at the Subcommittee hearing on March 4, 1993, concerning H.R. 951 which would increase the federal funding of state veterans cemeteries. We respectfully submit our views and request that this letter be made part of the hearing record.

The American Cemetery Association ("ACA") represents over 2,000 members including private, religious, and municipal cemeteries. For many years the ACA has expressed its concern regarding the contingent liability facing the federal government for state veterans cemeteries. Congress, through the VA State Cemetery Grants Program, has encouraged states to establish and expand veterans cemeteries of their own. The program is considered successful because a number of states have obtained grant funding.

However, many states remain dependent upon continued federal assistance through the plot allowance and additional grants. In 1988, Congress authorized the VA to take over the Arizona state veterans cemetery which was originally established through federal funding. The ACA views this initiative as establishing a precedent for the future unfunded contingent liability of the federal government for state cemeteries. The bill under consideration in the Subcommittee's hearing, H.R. 951, would move the federal government closer to assuming full responsibility for state veterans cemeteries.

The ACA supports the restoration of the $150 plot allowance for all veterans, regardless of their choice for interment, because the plot allowance was meant as a veterans' benefit, not a state cemeteries' benefit. However, H.R. 951 in effect discriminates against those veterans who choose, for personal, family, or religious reasons, to be interred in non-governmental cemeteries.

This bill also seeks to increase the federal share to establish or improve state veterans cemeteries through the Grants Program from 50 percent to 65 percent. In the ACA's view, this proposal draws the VA closer to the day when it will become the de facto operator of state veterans cemeteries. The ACA recommends that grants for establishing new state cemeteries should be discontinued and alternatives for providing local interment for veterans be explored.

Specifically, the VA should be authorized to develop optional specifications for use by private, religious, and municipal cemeteries in establishing special veterans' sections. Cemeteries which choose to comply with VA specifications could be designated as "affiliate members" of the National Cemetery System. Thus, eligible veterans could choose between interment in a national cemetery, or where convenience of location, existing family burial sites, or religious considerations are important factors, interment in a local VA affiliate cemetery operated by private, religious, or municipal entities.

For these reasons, the ACA opposes H.R. 951 because it neither creates nor restores burial benefits to veterans but instead increases the federal subsidy for state veterans cemeteries. The ACA also recommends that Congress, in conjunction with President Clinton and the VA, appoint a blue-ribbon commission of government and private industry experts to study the issues involved in providing fair and equitable burial benefits for all of our nation's veterans. Thank you.

Sincerely,

Stephen L. Morgan, CCE
Executive Vice President

SLM:mws

STATEMENT FOR THE RECORD OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

to the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

of the

UNITED STATES HOUSE OF REPRESENTATIVES

on

H.R. 949
AND ITS POTENTIAL AFFECT ON
THE VETERANS AFFAIRS HOME LOAN GUARANTY PROGRAM

March 4, 1993

Mr. Chairman and Members of the Subcommittee:

Thank you for allowing us to present the views of the National Association of Home Builders' 160,000 firms, representing over eight million employees. It is our privilege to submit a statement outlining our views on proposed changes to the Veterans Affairs (VA) Home Loan Guaranty Program.

The National Association of Home Builders would like to take this opportunity to applaud your successful 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 are grateful to you for your foresight and ability to adjust the program to today's environment. You are to be commended for your strong commitment to providing veterans the opportunity to own a home and achieve the American dream.

PROPOSAL TO INCREASE VA GUARANTEED HOME LOAN LIMITS

We are pleased to present our comments on legislation to increase the amount of the loan guaranty for loans for the purchase or construction of homes. The National Association of Home Builders has reviewed the legislation, H.R. 949, as introduced by Chairman Sangmeister on February 17, 1993.

Specifically, H.R. 949 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 limit of $184,000 to $203,000.

The National Association of Home Builders strongly supports this legislative proposal. This increase would provide worthy veterans living in high-cost areas the entitlement they deserve. Presently, many eligible veterans are unable to take advantage of VA home loan benefits simply due to their geographic location.

Such an increase will assure the program remains a viable one in today's market. As of January 1, 1993, Fannie Mae and Freddie Mac began purchasing loans up to $203,150 on the secondary market. H.R. 949 would broaden program participation by ensuring an accurate reflection of our nation's housing market.

NAHB has consistently supported the entitlement nature of the VA Home Loan Guaranty Program. Throughout the years, we have urged that the program's original intent be preserved. Today's guaranty ceiling restricts veterans in certain areas from receiving their entitlement. We believe this legislation would serve to rectify this deficiency.

CONCLUSION

In conclusion, we would like to thank you for your strong efforts to provide affordable homeownership opportunities for the men and women of the armed services. 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.

STATEMENT OF
JOSEPH A. VIOLANTE
LEGISLATIVE COUNSEL
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MARCH 4, 1993

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 wish to thank you for this opportunity to present our views relative to the Department of Veterans Affairs (VA) Loan Guaranty Program and state veterans' cemeteries programs.

At the outset, Mr. Chairman, the DAV wishes to commend you and the members of the Subcommittee for your outstanding advocacy on behalf of America's veterans. Clearly, action taken by this Subcommittee has materially affected the lives of America's veterans in a most meaningful way.

Your letter of invitation to appear today indicated that you would be interested in our comments relative to increasing no-downpayment VA guaranteed home loan limits from $184,000 to $203,000; to provide for payment of the $150 plot allowance for any veterans buried in state veterans' cemeteries; and to change the funding formula for State Cemetery Grants to a 65/35 split.

We also appreciate your efforts, prior to this panel, when you undertook to markup legislation that would preclude homelessness by avoiding foreclosure of home loans guaranteed by the VA. By eliminating potential foreclosures from coming into the system, the VA saves money and protects a veteran from a situation that is almost guaranteed to cause financial headaches, ruin credit ratings and cause homelessness.

Mr. Chairman, since its creation in 1944, the VA Home Loan Guaranty Program has permitted more than 13.5 million veterans to realize the American dream of home ownership. Clearly this vital VA benefit program has been good for America's economy and has expanded the tax base of nearly every community throughout our nation.

In recent years, the housing and mortgage industries have experienced volatile financial conditions due to various economic factors. These conditions have negatively impacted upon the VA Home Loan Guaranty Program and the use of the program by veterans, including service-connected disabled veterans. Fortunately, Congress has acted quickly to address these problems and it is to be commended for its quick action.

H.R. 949

Mr. Chairman, H.R. 949, a bill introduced by you, would amend Title 38, United States Code, Section 3703(a)(1), subparagraphs (A)(i)(IV) and (B) to increase the amount of the loan guaranty for loans for the purchase or construction of homes from $46,000 to $50,750. This change would allow eligible veterans to purchase a home for up to $203,000 without being required to make a downpayment.

Mr. Chairman, as mandated by our delegates, DAV continues to support a strong and viable VA Home Loan Guaranty Program available to all eligible veterans. While we have no specific mandate to increase no-downpayment VA Guaranteed Home Loan

limits, we certainly support this Subcommittee's efforts to increase these limits.

H.R. 951

Mr. Chairman, legislation introduced by yourself, H.R. 951, proposes to amend Section 2303 of Title 38, United States Code and add a new subsection (c) to provide for the payment of the current $150 plot allowance for any veteran interred in a state veterans' cemetery or a section of a cemetery owned by a state or by an agency or political subdivision of a state, who otherwise is eligible for burial in a national cemetery.

Under current law, states only receive payment for veteran's interred having wartime service. By amending the law, states would receive payment for both wartime and peacetime veterans. The one-time payment would help defray the cost of cemetery maintenance and operations.

Mr. Chairman, while we have no national convention mandate regarding your proposed change to allow a $150 plot allowance for any veteran interred in a state veterans cemetery, we do have a mandate to support legislation that would authorize VA nonservice-connected burial benefits entitlement to the survivors of all wartime veterans.

Mr. Chairman, while our mandate does not speak to the particular issue before us today, it certainly recognizes the need to provide burial benefits to eligible veterans. DAV does not oppose this bill.

Additionally, DAV continues to support legislation to require at least one national cemetery in every state. DAV National Convention delegates have taken a position to support legislation to provide for at least one open National Cemetery in each state to ensure that all veterans may be buried in a National Cemetery reasonably close to their homes.

In previous testimony before this Subcommittee, DAV has noted that there will be nearly 2.5 million cumulative veteran deaths by the year 2000 and about 9 million currently living veterans will pass away between now and the year 2020. Though not all of these veterans will choose to be buried in a National Cemetery, the number of eligibles who could choose such interment is truly a staggering figure. Clearly definite plans must be made now to meet the future demands on our National Cemetery System (NCS).

In order to be ready to provide veterans' burial services when needed, we must construct new cemeteries, acquire additional land to keep some existing cemeteries open to first family member interment and encourage individual states to develop state veterans' cemeteries through the NCS State Cemetery Grants Program. Only in these ways will we be prepared to provide these final benefits to veterans and their families.

Mr. Chairman, there are steps that can be taken to ease the NCS burden. For example, there are states that have special state cemetery provisions for veterans. This is not the same as having your final resting place in a National Cemetery. However, pending the advent of an open National Cemetery in every state, we support the NCS State Cemetery Grants Program.

For the past fourteen years, Public Law 95-476 has provided the VA with authority to make grants providing up to 50 percent of the costs associated with the development, expansion or improvement of a state-owned veterans' cemetery. The VA has provided grants in 16 of the 25 states -- plus the territory of Guam -- that have state veterans' cemeteries. By the proposed

amendment of Title 38 United States Code, Section 2408(b)(1) and (2), the federal share is increased to 65 percent of the total grant and reduces the states share to 35 percent.

DAV believes that this increased grant to the states will encourage more states to participate in the program. The potential for increased state participation in this program, pending the advent of an open National Cemetery in every state, will provide a final resting place relatively close to a veteran's home and family.

This concludes our statement, Mr. Chairman. Again, thank you very much for inviting our participation in these important proceedings.

Non Commissioned Officers Association of the United States of America

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STATEMENT OF

RICHARD W. JOHNSON
EXECUTIVE DIRECTOR OF GOVERNMENT AFFAIRS

BEFORE THE

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

ON

H.R. 949, H.R. 950, AND H.R. 951

MARCH 4, 1993

Chartered by the United States Congress

Mr. Chairman, the Non Commissioned Officers Association sincerely appreciates the opportunity to comment on the bills under consideration by the committee today. Let me begin this morning by congratulating you, Mr. Chairman on your new position. NCOA wishes you great success. We look forward to working with you in the months and years ahead.

Under consideration this morning are three bills. H.R. 949, if passed will increase the maximum guarantee amount on veterans loans to $50,750. H.R. 950, a bill to create a mortgage payment assistance plan designed to help veterans avoid foreclosure. And, H.R. 951 a bill to increase federal assistance in the construction of state veterans cemeteries and provide for the payment of a $150 plot allowance on behalf of any veteran buried in a state veterans cemetery. NCOA is pleased to offer its support to all the bills.

H.R. 949

If adopted, H.R. 949 would increase the maximum guaranty amount on veterans home loans from $46,000 to $50,750. The change would effectively increase the maximum price of a home purchased with no down payment from $184,000 to $203,000. The 10.3 percent increase proposed in H.R. 949 represents the first adjustment in this benefit since 1989.

NCOA strongly supports H.R. 949. The ready availability of mortgage money combined with lower interest rates and a recovering economy foretell increasing home prices. Increasing the loan guaranty amount to adjust for inflation since the rate was set in 1989 and to accommodate current real estate trends is highly desirable. Accordingly NCOA fully supports this proposal.

The association also wants to take this opportunity to ask the committee to oppose that portion of the President's economic plan that would increase fees charged to veteran participants in the loan guaranty program. According to President Clinton's "Vision for Change in America", published February 17, he will propose increasing most loan fees to 2 percent. He will also propose increasing fees for those using reinstated benefits to 2.5 percent and require a 10 percent down payment on such loans.

Mr. Chairman, making such changes in the program will only drive the most financially qualified participants away. A two percent fee could easily exceed the cost of private mortgage insurance on a conventional loan. Under the new negotiated interest rate rules, 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 military installation to another. Unlike their civilian counterparts, military personnel receive no federal assistance in the sale or purchase of a house when transferring under military orders. They should not have to bear the hardship of facing additional financial burdens in the veterans home loan program. NCOA urges the committee to reject the Clinton proposal.

H.R. 950

A brand new program to assist veterans in retaining their homes during economic hard times is the subject of H.R. 950. The bill would allow the Secretary discretionary authority to loan a veteran up to $10,000 to resolve a payment delinquency and avoid foreclosure of a primary loan. Such loans would be made only if, in the opinion of the Secretary, the financial position of the veteran will improve enough to resume regular payments on the primary loan within the next six months. Veterans who borrow money under this program would have up to 15 years to repay the amount borrowed under terms and conditions set by the Secretary.

Although it sometimes seems forgotten, one of the most important aspects of the loan guaranty program is to assist veterans in keeping the home they have purchased. The program proposed in H.R. 950 could be a tremendous asset in fulfilling that goal. Accordingly it has NCOA's strong endorsement. However, NCOA does suggest one improvement in the bill.

As written, the bill does not allow Secretarial intercession until the primary loan is at least six months delinquent. Why not let the Secretary become involved at whatever point is deemed to be most beneficial to both the Department and the veteran? For example, if an uninsured veteran working in independent construction breaks a leg, there is no logical reason to force upon him six months of financial hardship and indebtedness when the loan of three monthly payments might be sufficient to keep the primary loan current. It would be cheaper to the Department and make recovery from the veteran more likely since the loan amount is smaller.

Mr. Chairman, NCOA believes it is extremely unfortunate that restrictions such as the six month indebtedness provision often work severely against the veteran. For example, in the veterans job training act veterans have to be unemployed 15 of the past 20 weeks to qualify for job training assistance. This kind of waiting period only serves to exacerbate the basic unemployment problem. If the veteran needs job training in six months, a limited assessment of the situation would reveal the veteran needs the training now! In the home loan arena, waiting to intercede with refunding programs, financial counselling or programs like the one contained in H.R. 950 works to the economic disadvantage of all parties concerned. NCOA therefore urges the committee to reexamine the need for the six month delinquency clause in the bill.

H.R. 951

H.R. 951 would substantially improve incentives for states to open and operate veterans cemeteries. Section one of the bill would stimulate state veteran cemetery construction and operation by allowing the payment of a $150 plot allowance for all veterans buried therein. Currently such payments are made only on behalf of service disabled and wartime veterans. The association strongly supports this initiative.

NCOA also strongly supports the provisions of this bill that increase from 50 percent to 65 percent the amount of federal cost sharing dedicated to state veterans cemetery construction. The Non Commissioned Officers Association continues to believe there should be sufficient National Cemetery System facilities to meet the burial needs of veterans. Unfortunately, it has become painfully apparent over the past few years that there is insufficient willingness and funding to provide adequate national cemeteries to accommodate all veterans.

The obvious alternative is to augment the National Cemetery System with more state veterans cemeteries. It is appropriate therefor that the federal government should accept greater financial responsibility in funding these facilities.

Thank you.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

DENNIS M. CULLINAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

LEGISLATION AFFECTING THE VA HOME LOAN
AND STATE CEMETERY GRANT PROGRAMS

WASHINGTON, D.C. MARCH 4, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the 2.9 million members of the Veterans of Foreign Wars of the United States and its Ladies Auxiliary I wish to thank you for having invited us to take part in today's important legislative hearing. The VFW has been and continues to be a strong proponent of the VA home loan program as a highly successful and essential veterans' benefit. The VA home loan program has proven to be of immeasurable value to both veterans as well as the national economy. The VFW similarly supports veterans state and national cemetery systems. We thank and commend this subcommittee for all that you have undertaken to achieve their continuing and improved operation.

Under discussion today are a number of legislative initiatives to refine and improve the operation of the VA Home Loan program and State Cemetery programs. While these initiatives do not represent major alterations of the current operation and function of these programs, they are clearly designed to provide enhanced benefits and services to veterans.

First under discussion today is H.R. 949, legislation introduced by the Chairman of this Subcommittee, Mr. Sangmeister, which will increase the no-down-payment VA Guaranteed Home Loan guaranty limit from $184,000 to $203,000. In light of the rapidly escalating cost of housing in certain parts of the United

States, the VFW strongly supports this initiative. We also point to the fact that there are certain housing markets in this country, such as New York City and Seattle as well as, of course, the Washington, D.C. Metropolitan area, where the cost of housing is so high that it effectively prohibits the use of a VA guaranteed loan unless a substantial down-payment is made by the veteran borrower. When individuals are buying a home in such a market, they often have considerable incomes, but little savings. This means that while such veterans can well afford their own home, they are not possessed of the financial wherewithal to make the down payment. Thus, they are denied both the American dream of home ownership and the use of an earned benefit. The VFW applauds this initiative to increase the VA guaranteed limit.

The next bill we will address today was also introduced by the Chairman of this Subcommittee and marked-up earlier this morning, H.R. 950, which provides mortgage payment assistance to veteran borrowers to avoid foreclosures on their homes during periods of financial difficulty. Such assistance would be provided to a veteran who is at least six months delinquent in payments on his loan and where the dwelling securing the loan is the current residence of that veteran. It is additionally prescribed that the Secretary must make the determination that there is a reasonable prospect that the veteran will be able to resume payments on his loan within six months. Further, this assistance would only be provided to veterans who have lost their employment or who have otherwise suffered a substantial decrease in their household incomes. It is not the intention of this legislation to sustain veterans in their homes who have been financially negligent, but only to help those veterans who through no fault of their own are experiencing temporary and severe financial difficulty. The VFW has long argued that it makes sense, not only from the perspective of fairness and compassion to the veteran, but the financial stability of the VA home loan program to avoid foreclosures in every and all instances where possible. CBO figures, in fact, indicate a savings of $1 million to the program if this bill is enacted into law. By making a relatively

small and temporary investment in keeping a veteran in his or her own home, the VA will save money through avoiding the expensive and time consuming procedures involved in recouping money lost during a foreclosure proceeding.

Next under discussion today is H.R. 951, legislation introduced by Chairman Sangmeister to change the criteria for the payment of the $150 plot allowance currently payable only for wartime veterans to State Veteran Cemeteries to include payment for any veteran buried therein. Once again, the VFW supports this proposal. One hundred and fifty dollars is not a large amount of money--CBO estimates the overall cost to be only $1,000,000--and the plot allowance will become the one veteran's benefit that all veterans truly hold in common, as was the case up until just a few years ago. Further, these payments would also serve to strengthen State Veterans Cemeteries systems throughout the nation. This would provide many more veterans and their families with access to a veterans cemetery, and save the federal government money through a consequent reduced demand on our National Cemetery System.

The final proposal that I will address here today is also contained in H.R. 951 and pertains to changing the funding formula for the State Cemetery Grants program from a 50-50 federal/state financing split to a 65-35 split. This would make the State Cemetery Grants program financing mechanism consistent with that employed in providing grants to states for construction of state nursing home facilities. Once again, the VFW supports this proposal to directly enhance the state cemetery system. It is our understanding that at this time a portion of funds appropriated for State Cemetery Grants go unused due to the fact that states are often unable to come up with their portion of the money. This being the case, it only makes sense to increase the federal portion in order to promote the construction of state veteran cemeteries. We point out that this directly benefits veterans and their families by providing more readily accessible veteran's cemeteries throughout the country, and the federal government by reducing the burden on the National Cemetery system. Once again the VFW strongly supports this proposal.

Mr. Chairman, on behalf of the entire membership of the Veterans of Foreign Wars I wish to thank you for inviting us to play a role in today's important hearing. It is our strong desire to now work together with you in improving and enhancing the benefits VA provides to veterans that fall under the jurisdiction of your subcommittee. I would be happy to respond to any questions you may have; germane VFW Resolutions are appended to this statement for your review and consideration.

PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT OF
CLIFTON E. DUPREE, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON HOUSING, AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
VA GUARANTEED HOME LOAN PROGRAM
AND THE
NATIONAL CEMETERY SYSTEM (NCS)
March 4, 1993

Mr. Chairman and Members of the Subcommittee, Paralyzed Veterans of America (PVA) thanks you for inviting us to testify today. I want to begin by conveying our gratitude for the time and effort you and committee staff have devoted to these programs. The existence of a viable benefit program to help veterans in purchasing homes remains extremely important to the members of our organization.

Limited to accessible housing, individuals using wheelchairs are especially vulnerable to shifts in the national housing market; however, the Department of Veterans Affairs's (VA) Home Loan Guaranty Program has, without question, enabled many paralyzed veterans to become home owners. PVA supports legislation that would increase the no-downpayment fully guaranteed mortgage loan limits from $184,000 to $203,000.

For over forty-six years, VA's offer of a fully guaranteed mortgage loan, with no downpayment, enabled more than twelve million American veterans to purchase and maintain a home. The program is administered in 48 of the 59 regional offices.

A veteran goes to a lender, 90 percent of whom are mortgage bankers, to get a loan. The VA guarantees a certain percentage of the loan to the bank in case it should go to foreclosure. The VA regulations allow certain bankers to underwrite loans on an automatic basis, without VA's prior approval. Approximately 85 percent of all VA loans are underwritten automatically.

The number of new loans guaranteed has risen to 266,011 in FY 1992 compared to 181,167 in 1991. This increase can be contributed to lower interest rates and the large number of veterans refinancing their homes. The number of defaults and foreclosures also continue to decline, as has the number of properties on hand.

PVA supports the recommendation in the FY 1994 Independent Budget for Veterans Affairs, requesting funds for one hundred thirteen additional FTEEs, including fifty for the VA loan servicing activities, decreasing the probability of veterans' home loan defaults.

For example, during FY 1992, successful direct interventions on 5,029 properties resulted in an estimated $69 million in program savings. During the first quarter of FY 1993, successful intervention on 1,183 properties has already resulted in an estimated program savings of $5.9 million.

National Cemetery System (NCS)

PVA appreciates this opportunity to present our views concerning proposed changes to the operation of the VA's National Cemetery System (NCS). A rapidly aging veteran population calls for expansion and improvement of the National Cemetery System.

Mr. Chairman, the FY 1994 Independent Budget requests an appropriation of $80 million and funding for fifty-five additional FTEEs. This increase will not fund all NCS equipment and maintenance needs, nor will it fund the optimal number of employees. It will enable NCS, however, to move toward its goal of meeting the burial needs of American veterans and their families.

PVA continues to support mandatory spending accounts for all costs associated with providing entitlements. These include the cost of requiring sufficient cemetery space, constructing cemeteries and maintaining them properly.

We support the proposed funding formula for the State Cemetery Grants Program from a fifty/fifty to a sixty-five/thirty-five split. Improvements in the State Cemetery Grants Program are necessary if we are to provide the needed burial space for future veterans.

The State Veterans' Cemetery Grants Program makes grants to any state to aid them in establishing, expanding, or improving state-owned veterans' cemeteries.

States receive financial help (grants) not to exceed fifty percent of the total value of the land and cost of improvements to provide burial space for veterans that serves to enhance the National Cemetery System. These cemeteries are operated and permanently maintained by the states. Since establishing this program more than eleven years ago, grants to states total $40.6 million.

PVA continues to advocate for the location of a VA cemetery in every state and a national cemetery within reasonable driving distance of each major veterans' population center.

The National Cemetery System (NCS) has one hundred and fourteen cemeteries located in thirty-nine states, the District of Columbia, and Puerto Rico. Thirty-six cemeteries were closed to new internments at the end of 1992 due to lack of space.

We do encourage the efforts to expand the grants program for state veterans' cemeteries. However, these efforts alone will not adequately provide for the final need of all veterans.

A rapidly aging veteran population calls for expansion and improvement of the Department of Veterans Affairs' National Cemetery System. For more than two-hundred years this nation has provided suitable final resting places for the men and women who served in our Armed Forces. This tradition must be preserved and continued.

It should be the primary responsibility of the federal government to provide a final resting place for all eligible veterans who have served in defense of this nation.

The National Cemetery System had 64,602 internments in 1992. The NCS maintained 1.9 gravesites, an increase of 100,000 over 1991. About 6,000 veterans have been buried in State Veterans Cemeteries, with 1500 receiving the plot allowance benefit.

Mr. Chairman, the proposal to change the criteria for the payment of the $150 plot allowance now payable for wartime veterans to State Veterans' Cemeteries, including payment for any veteran buried in those cemeteries, continues to show the committees increasing response to the burial needs of all veterans.

That concludes my testimony. I will answer any questions you may have.

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Statement Of
VIETNAM VETERANS OF AMERICA

Presented By

Paul S. Egan
Executive Director

Before The

House Veterans Affairs Subcommittee On
Housing and Memorial Affairs

On

H.R. 950, Mortgage Foreclosure Payment Assistance Legislation

March 4, 1993

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Mr. Chairman and members of the Subcommittee, Vietnam Veterans of America, Inc. (VVA) appreciates the opportunity to present its views on the current status of the VA's home loan guaranty program and on one of the three bills at hand, H.R. 950. My organization offers special thanks you, Chairman Sangmeister, for your willingness to reschedule mark-up of this bill in order that testimony on it may be heard. Contrary to what you have apparently been advised, the contents of H.R. 950 and their consequences are deserving of careful consideration. Your openness in entertaining a discussion of this bill signals a fairness of leadership worthy of praise.

VA's Home Loan Policies Favor Foreclosure

Over the course of the last several years VA home loan program managers have embraced a policy making little sense either from a domestic housing policy standpoint or from the standpoint of its own programmatic fiscal viability. The policy at issue is one in which VA encourages bank exercise of foreclosure as an option of first resort when veterans default on their home loan guaranteed mortgages. It has made little difference to the VA whether these veterans defaulted through no fault of their own and it has made even less difference to the VA whether these veterans might likely regain their economic footing.

The reasons this problem exists are twofold. First, VA has unbridled discretionary statutory authority to refund (refinance) delinquent loans it has guaranteed. Once the bank has notified VA of a default, VA notifies the veteran borrower of available options. In the case of refunding, VA states to the defaulting borrower that it is agency policy to consider refunding in every case before foreclosure is completed. "If refunding is appropriate," says the VA letter, "VA will notify you" (see page 2 of attachment A). As a practical matter the veteran borrower is expected to believe the VA will seriously consider refunding and trust that VA can be relied upon to objectively weigh the risks of refunding against the desirable end of keeping the veteran in his/her home.

The second reason VA's home loan guaranty policies favor bank foreclosure is that veterans have no effective procedural rights to affirmative administrative refunding decision-making by loan guaranty officials or judicial review of VA decisions. Inded the volume of foreclosed VA-guaranteed property makes VA-decision-making on refundings appear arbitrary and capricious. The VA has itself acknowledged its shortcomings here by admitting "we are no doubt vulnerable to an adverse finding by COVA on this issue because we have never established a formal notice procedure to inform the veteran that their loan is/is not being considered for refunding, the result of that refunding review, or of an appeal process should the refunding not be approved" (see underscored portion of paragraph 2 of attachment B).

Under the circumstances it should surprise no one that between October 1, 1988 and June 30, 1992, delinquent VA guaranteed mortgages were foreclosed upon 98.2 percent of the time. This amounts to 134,231 veterans who lost their homes during this period (see attachment C). Sadly, VA's practice of never seriously adjudicating refunding means there is no way to determine how many of these 134,231 veterans might have been financially capable of saving their homes.

Other federal agencies operating housing programs might also have adopted VA's posture but for statutes applying to those other housing programs mandating administrative rights to agency refunding decision-making in cases involving individuals in default. These statutes do not and should not require refunding in all cases. Instead, refunding is required when the default is through no fault of the individual and there is a likelihood the individual will be financially capable of meeting mortgage payments.

Absent the available discretion almost never exercised by the VA, the Federal Housing Administration (FHA) of HUD and Farmers

Home Administration (FmHA) of the Department of Agriculture have been forced to realize what the General Accounting Office (GAO) has proven: a policy favoring foreclosure costs the government much more than refunding (see GAO report summary at attachment D). In essence, the broad discretion given VA to ignore refunding decision-making as a viable means to both save federal dollars and assist many veterans, has prompted practices ending in unnecessarily high foreclosure rates, seemingly to satisfy bureaucratic desires for administrative convenience.

H.R. 950

Mr. Chairman, we are convinced by the general thrust of this bill that you sincerely intend to ameliorate circumstances facing veterans in default and to seriously find a way of curing the dizzying rate of foreclosure on VA guaranteed mortgages. However, we are just as convinced that in crafting this bill, the subcommittee staff have mistakenly overlooked the most appropriate means to serve your intentions.

In essence, this bill offers VA discretionary authority to provide loans to defaulting veterans up to $10,000 to cover arrearage. Since this authority is just as discretionary as VA's refunding authority, there is no good reason to believe VA will exercise it. Absent from this bill, as with current practices by VA in refunding, is any required administrative decision-making, or appellate procedure. If enacted this legislation leaves veterans in default at the mercy of the VA, just as they are currently required to blindly trust the VA to consider refunding. Through refunding, VA has the authority to acquire defaulted mortgages from banks, capitalize delinquency and lower monthly payments through lowered interest rates. The added authority to lend up to $10,000 contemplated in H.R. 950 is just one more authority VA will be safely capable of ignoring without administrative decision-making requirements that are appealable.

Judicial Review Denied

The designers of this bill have also included a feature that acts at cross purpose with what we believe is intended. This particular feature makes the VA Secretary's "decisions on any question of law or fact regarding assistance under this section, including whether or not to grant such assistance and the terms and conditions under which such assistance is granted or not granted, shall be final and conclusive, and no other official or any court of the United States shall have power or jurisdiction to review any such decision by an action in the nature of mandamus or otherwise."

The issue of judicial review of VA adjudications was settled in 1988 with legislation enacted creating the Court of Veterans Appeals (COVA). Since its creation, COVA has served to bring long overdue accountability to Regional Office and VA Central Office practices. So successful has COVA been, in this regard, that the concept of judicial review has been embraced even by all or most of those within the veterans community who opposed judicial review. Like any other agency, VA will run roughshod over due process protections if left free to do so. A long and inglorious history particularly in compensation and pension claims adjudication is evidence enough of this basic tenet. VA home loan guaranty functions must be held to the same standards of accountability as any other VA adjudications function. As we have seen from attachment B, home loan guaranty officials are desirous of exemptions from accountability. While this may be normal bureaucratic sentiment, it must be insisted that the home loan program was designed to assist veterans rather than to serve the convenience of bureaucratic culture. Just as no one out of blind trust would seriously propose exemptions from administrative decision-making processes and judicial review for the Internal Revenue Service (IRS), proposals to exempt the loan guaranty service must be rejected.

For some, the exemption from judicial review as contemplated in H.R. 950 may seem desirable. Why, after all, should the agency be dragged into long drawn-out appellate proceedings over decisions denying arrearage-clearing loans for individuals obviously unable to repay these loans? This argument, however, misses the point by ignoring the need for (a requirement absent in the bill) VA to develop objective criteria for use in deciding whether veterans are eligible for the loan.

Loans, Less Costly than Refunding?

The subcommittee staff have calculated, based on VA-provided statistics, that assisting veterans through arrearage-clearing loans called for by H.R. 950 would be less costly to the federal government and of benefit to greater numbers of defaulting veterans than refunding these loans. Here it is argued that the $86,337 average loan amount VA guaranteed in FY 1992 taken together with a minimum $2,000 in arrearage costs, exercise by VA of refunding would engender expenditures of between $88,000 - $89,000 in order to acquire the average loan from the loan holder and refund the loan for the defaulting veteran. Based on the same averages, it is argued that arrearage lending as contemplated by H.R. 950 would allow VA to save eight loans for the price of one saved by refunding.

This argument would be compelling but for current practices by VA in acquiring deeds to properties once they have been foreclosed by lenders. As a practical matter VA acquires deeds to foreclosed property in most instances rather than simply paying the guarantee, the no bid scenario so hotly contested by mortgage bankers.

Under the circumstances, it makes little difference to lenders whether VA acquires deeds prior to or following foreclosures, as long as demonstrably risky loan and property disposal responsibilities are off the books. VA's practice of acquiring deeds has bloated the inventory of property it must sell in order to recoup its acquisition expenses. Since VA has done a relatively poor job of marketing these properties, usually taking significant losses on claim repayments and property management losses on resales (nearly $15,000 per property foreclosed), it makes sense for VA to diminish its property acquisitions by refunding delinquent loans in cases where veterans can be expected to meet mortgage payments in the future. Seen from this prospective, it makes more sense for VA to acquire loans at about the same cost as acquisitions of foreclosed property deeds without the risk of loss on resale or at auction.

In the first quarter of FY 1993, VA acquired 5,975 of the deeds from a total of 7,336 foreclosures. Including the 476 deeds acquired by VA in lieu of foreclosure, the rate of property acquisition by VA for this quarter was 87.9 percent. As of February, the total inventory included 13,374 properties.

Refunding as Income Source for VA

As stated earlier it is unknown how many of the foreclosed VA-backed properties were held by veterans who might have been reasonably expected to keep payments up in the future. However, it makes sense to refund as many of these loans for salvageable veterans as possible. Doing so would constitute a good start in rebuilding VA's asset portfolio of income generating home loans.

Refunding Criteria

VVA has repeatedly stated in the past that the home loan guaranty program does a disservice to veterans whose mortgages are greater than they can afford. The risk of default is too great the higher the percentage of disposable income that is consumed by housing payments. Similarly, a refunding program allowing veterans to retain houses they cannot afford constitutes the same disservice. Realistic criteria must be developed by VA for determining eligibility for refunding. Until this is done and

until VA at least considers refunding decision-making, many veterans will continue to lose their homes needlessly.

Needed Changes

Last year VVA proposed specific legislative language designed to bring VA's home loan program into conformity with refinancing statutes applying to FHA and FmHA. These proposals were made in two separate hearings and the language for needed remedial legislation is attached to this document for the Subcommittee's consideration (see attachment E).

The specific program operated by HUD is an Assignment program and assists individuals temporarily unable to continue their mortgage payments for reasons beyond their control. Payments by these individuals are reduced or suspended for up to 36 months. The FmHA program is a Moratorium program and assists individuals in default for reasons beyond their control by reducing or suspending their payments for a period up to two years.

Each of these programs offer mechanisms for reamortization and extending payments. These programs can be found at section 1715u (b) of title 12, United States Code and section 1475 of title 42, United States Code respectively. Both of these programs have clear eligibility criteria and administrative decisions on eligibility are reviewable judicially under the Administrative Procedures Act. The VA too should offer a workable program such as these.

Unfortunately, it does not and there seems a bias in the VA against such a program. To illustrate a comparison of HUD, FmHA and VA programs, we have attached to this statement a chart (see attachment F).

If we are truly concerned about the continuing viability of the VA Home Loan Guaranty Program, and the intent of Congress as expressed in 38 U.S.C. 3732 (a)(2) that VA refund loans, we cannot ignore the figures showing how VA has refused to do just this.

As you may note in the chart attached to this testimony (attachment C), only 21 loans were refunded, compared with 3,974 foreclosed in the Chicago, Illinois Regional Office; 5 loans were refunded in the Atlanta, Georgia Regional Office, compared with 4,884 foreclosed; in St. Petersburg, Florida, 180 were refunded and 10,152 were foreclosed; 16 were refunded and 1,859 were foreclosed in Seattle, Washington; the Indianapolis, Indiana Regional Office foreclosed 2,058 and refunded 10 mortgage loans; and in Columbia, South Carolina, 24 loans were refinanced, compared with 2,056 that were foreclosed.

In conclusion, VVA is not suggesting that it is prudent or even desirable for the VA to bail-out every veteran's delinquent mortgage. We are only asking that the program be brought up to date and be redesigned to conform with two other successful programs in order to both save the taxpayers' money and assure that the program's practices represent the intent of Congress--that of serving and assisting the veterans who have served our country.

Mr. Chairman, this concludes our statement.

Veterans Administration

A.

LOAN NUMBER

Your mortgage holder has notified us that your home loan is in default.

It is very important that you contact your loan holder immediately. Explain why you have been unable to pay, how you intend to make up the past due payments, and when you will resume making your regular monthly installment payments.

If you are unable to make satisfactory arrangements to reinstate your loan, contact the Veterans Administration at once. We can review your financial situation to determine if a reasonable payment plan is possible. To do this, we will need detailed information about your present income and regular expenses, such as utility bills, installment debt payments, food, clothing and transportation costs, etc. If your income has been temporarily reduced, or your expenses have increased, we will need to know when you expect your financial situation to return to normal. Based on what you can afford to pay on your mortgage right now and in the future, we will try to develop a realistic repayment plan and encourage your loan holder to accept it.

In addition to financial counseling, the Veterans Administration offers vocational and educational counseling. Readjustment counseling is also available for veterans experiencing problems associated with service during the Vietnam era. Information regarding these benefits may be obtained by contacting the Veterans Services Division at our office.

If you will not be able to maintain your mortgage obligation, or if you need assistance in maintaining it, we can discuss alternatives which may help you avoid foreclosure and protect your credit standing. A number of ways to avoid foreclosure are outlined on the back of this letter -- one, or more, may be appropriate for you.

DO NOT DELAY! If you fail to pay the past due installments promptly, or do not make other arrangements to reinstate your loan, it is likely that your loan holder will begin foreclosure action. A foreclosure will result in the loss of your home and the investment you have made in it. Also, since VA guaranteed payment of a portion of the loan, we may be called upon to pay a claim to your loan holder. Our claim liability is usually for the difference between the total amount owing on your loan (including unpaid interest, foreclosure costs, and allowable advances) as of the date of the foreclosure sale, and the amount of the highest bid at the sale. If VA has to pay a claim to your loan holder, you may be legally liable to reimburse the Government for the amount we pay.

If you would like us to assist you, you may call or visit our office between 8:00 a.m. and 4:00 p.m., Monday through Friday.

Chief, Loan Service and Claims Section

VA FORM JAN 1968 26-8761 (Over)

3

A.

METHODS FOR AVOIDING FORECLOSURE

PAY THE DELINQUENCY. Under most circumstances, GI loan holders are required to accept payment of the full delinquency and reinstate the loan. The delinquency may include certain legal costs if you are already in foreclosure. Many holders require certified funds for reinstatement.

FORBEARANCE/REPAYMENT SCHEDULE. The most common way of resolving a loan default is to work out a plan which will let you repay part of the delinquency each month, along with your regular monthly installment. If you are temporarily unable to meet your monthly mortgage obligation, your holder may extend forbearance by agreeing to suspend payments or accept partial payments for a limited period of time until you will be able to begin a repayment schedule. VA cannot require the holder to extend forbearance or to agree to a specific repayment schedule; however, holders will usually cooperate so long as you can show that you will be able to resume payments on a specific date in the near future.

PAYMENT ASSISTANCE. Many State and local governments, as well as private charitable organizations, have programs which will pay all or part of your mortgage obligation for a fixed period of time. VA can provide information on these programs; we do not, however, have a program which would enable VA to give you direct payment assistance.

REAMORTIZATION. If your loan is reamortized, the delinquency is added to the loan balance in order to bring your payments up to date. This increases your loan amount and will also increase your monthly payments. The amount of the payment increase will not be as great if the life of your loan is extended at the same time. Your loan holder is allowed to extend and/or reamortize your loan by VA regulations; however, we cannot require the holder to do so.

PRIVATE SALE. If you do not believe you will be able to reinstate your loan and cure the default, a private sale of the property will enable you to meet your obligations and receive any equity you may have built up. Most private sales are for more than the amount owing on the loan. You may sell the property to a buyer who gets his or her own financing and pays off your GI loan or to a buyer who will assume your responsibility for the loan. If the buyer is assuming your loan, you should contact VA and obtain a release of liability before the sale is closed. If your property cannot be sold for an amount which is greater than or equal to what you owe on the loan, VA may pay a "compromise claim" for the difference in order to help you go through with the sale. You must contact VA to discuss the situation and get prior approval for a sale with a compromise claim payment.

DEED IN LIEU OF FORECLOSURE. If you will be unable to cure the default, and a private sale does not appear realistic, VA will consider accepting a deed in lieu of foreclosure. If there are no liens on the property, and VA agrees to accept a deed, you will have to sign legal papers making VA the owner of the property. Normally, VA will have to pay your loan holder a claim for the difference between the value of the property and the amount you owe on the loan. If a deed is accepted, you may be released from all further liability, or you may be asked to agree to repay the Government for all or part of the claim we paid. VA representatives can discuss this with you in detail.

REFUNDING. VA has the discretionary authority to buy a loan from the holder and take over the servicing. This is called "refunding." We consider this alternative for every loan before foreclosure is completed. If you have the ability to make mortgage payments, or will have the ability in the near future, but your loan holder has decided it cannot extend further forbearance or a repayment plan, you may qualify for refunding. If refunding is appropriate, VA will notify you.

B,

FEB 3 1992

Director, Loan Guaranty Service (264)

Vulnerability to Future COVA Decisions

Deputy Chief Benefits Director (201)

1. In accordance with your recent request, we have completed a comprehensive review of the law governing Loan Guaranty policies to identify areas of inconsistency between practice and statute where we may become vulnerable to adverse COVA decisions.

2. Title 38 USC 3732(a)(2) states that "within thirty days" (after receiving notice of a default) "the Administrator may, at the Administrator's option," refund the loan. Currently, when a default is reported and established in our Liquidation and Claims System, a supplemental servicing letter (copy attached) is automatically sent to the borrower advising of our policy to consider refunding in every case before foreclosure is completed. However, we seldom complete the refunding decision within 30 days of the default notice. Instead, we are prepared to consider refunding right up to a time immediately before foreclosure, a practice which often is to the veteran's benefit. In addition, we are no doubt vulnerable to an adverse finding by COVA on this issue because we have never established a formal notice procedure to inform the veteran that their loan is/is not being considered for refunding, the result of that refunding review, or of an appeal process should the refunding not be approved. Accordingly, legislation should be sought to conform this section to existing practice.

3. There are other areas in which COVA could potentially assert jurisdiction, such as review of loan underwriting decisions and property valuation decisions. These decisions have traditionally been considered not appealable to BVA, although informal appeals for review of the cases in VACO are entertained from veterans who are dissatisfied with the initial decisions. It would be helpful if the jurisdiction of COVA in Loan Guaranty matters were clarified.

Keith Pedigo

Refundings and Foreclosures
In VA's Loan Guaranty Program
From October 1, 1988 to June 30, 1992

C.

Station	Number of Refundings	Number of Foreclosures	Refunding Divided By Foreclosures Expressed As A Percent
1 Honolulu	12	33	36.4 %
2 Boise	109	538	20.2
3 Pittsburgh	83	743	11.2
4 Buffalo	21	224	9.4
5 Huntington	24	399	6.0
6 Winston- Salem	172	3,271	5.3
7 Baltimore	35	689	5.1
8 St. Louis	87	1,754	5.0
9 Little Rock	70	1,529	4.6
10 Phoenix	209	6,848	3.1
11 San Juan	3	104	2.9
12 Washington D.C.	36	1,297	2.8
13 San Francisco	24	970	2.5
14 Milwaukee	28	1,192	2.3
15 Waco	345	15,465	2.2
16 Houston	293	14,841	2.0
17 Denver	191	10,113	1.9
18 Muskogee	121	6,463	1.9
19 Jackson	26	1,444	1.8
20 St. Petersburg	180	10,152	1.8
21 St. Paul	42	3,079	1.4
22 Roanoke	84	6,387	1.3
23 Philadelphia	12	985	1.2
24 Columbia	24	2,056	1.2
25 Salt Lake City	17	1,528	1.1
26 New Orleans	36	3,916	0.9
27 Seattle	16	1,859	0.9
28 Newark	5	633	0.8
29 Montgomery	13	2,096	0.6
30 Cleveland	27	4,410	0.6
31 Portland	2	352	0.6
32 Chicago	21	3,974	0.5
33 Anchorage	7	1,393	0.5
34 Indianapolis	10	2,058	0.5
35 Louisville	5	1,048	0.5
36 Manchester	4	855	0.5
37 Ft. Harrison	2	532	0.4
38 Lincoln	2	788	0.3
39 Los Angeles	6	4,341	0.1
40 Des Moines	1	750	0.1
41 Nashville	3	2,752	0.1
42 Albuquerque	1	948	0.1
43 Atlanta	5	4,834	0.1
44 Wichita	1	1,306	0.1
45 Detroit	1	2,564	0
46 New York City	0	218	0
U.S. Totals	2,416	134,231	1.8 %

Executive Summary

D

Purpose

Under the Home Loan Guaranty Program, the Department of Veterans Affairs (VA) helps eligible veterans buy homes by guaranteeing the lender that VA will repay part of the loan amount if the homebuyer defaults. These guarantees are paid from VA's Loan Guaranty Revolving Fund. However, as foreclosures on VA-guaranteed loans rose from 12,490 to 40,336 between fiscal years 1981 and 1989, expenditures from the revolving fund exceeded income and a total of over $2.2 billion in appropriations was made to the fund in fiscal years 1984 through 1989.

Concerned about the drain on the program's resources, the Chairman of the House Committee on Veterans' Affairs asked GAO to review VA's loan termination practices and the extent to which changes in VA practices could reduce the number and cost of foreclosures and revolving fund losses.

Background

When a borrower does not make scheduled payments on a VA-guaranteed loan, the lender has primary responsibility for resolving (curing) the default or terminating the loan by foreclosure. VA regulations allow the lender 105 days to cure the default before it must be reported to VA. VA then is responsible for providing supplemental servicing, which consists of letters, telephone calls, and/or office visits to resolve the default and avoid foreclosure.

If the default cannot be cured, VA may allow the lender to foreclose on the loan or pursue the following alternatives to foreclosure:

- Refunding: VA may pay the lender the outstanding loan amount and then restructure the loan according to the veteran's ability to repay by reducing the monthly payment, lowering the interest rate, or lengthening the payment period. Refunding thus allows the veteran to keep the property, while VA avoids foreclosure.
- Compromise agreement: This alternative enables the veteran to sell the property, with VA providing the financial assistance to do so. For example, if the proceeds from the sale do not cover the total indebtedness, VA provides the remaining funds to pay off the lender. VA then may require the veteran to sign a promissory note for the amount VA provides. By using this alternative, VA avoids foreclosure costs as well as the costs associated with acquiring, managing, and reselling the property.
- Voluntary conveyance of the property deed: Under this action, the veteran voluntarily conveys the property deed to VA. Before accepting the conveyance, in states where it is legally feasible VA may require the veteran to sign a promissory note for all or part of any debt in the event

that the proceeds from the sale do not cover the total indebtedness. This action benefits VA by saving foreclosure time and costs. It benefits the veteran by preserving his or her credit rating.

Results in Brief

Alternatives to foreclosure are seldom used to terminate defaulted VA loans. For example, foreclosure, which is generally the most expensive method of terminating a defaulted loan, was used by lenders to terminate over 97 percent of the defaulted loans that GAO reviewed at nine regional offices during fiscal year 1987, the last year for which foreclosure alternatives were reviewed by GAO.

In deciding whether to allow lenders to foreclose on defaulted loans or use alternatives to foreclosure, VA does not consider all of the costs involved in foreclosure, which may result in VA allowing foreclosure instead of pursuing a less costly alternative. To demonstrate the feasibility of considering various loan termination alternatives and specific cost factors, GAO developed a cost model that identifies costs associated with each termination alternative. Using this model, GAO estimates that VA could have saved between $42 million and $94 million in fiscal year 1987 if VA regional offices had more frequently used foreclosure alternatives, rather than allowing lenders to foreclose.

Private mortgage insurers told GAO that they are more aggressive than VA in finding alternatives to avoid foreclosures. Officials at these companies said they become involved with delinquent borrowers sooner than VA. The private insurers believe that their efforts result in millions of dollars saved each year.

Principal Findings

Alternatives to Foreclosure Offer Opportunities for Significant Savings

Foreclosure is the most expensive approach to terminating a loan. In fiscal year 1987, VA lost $465 million on homes it had acquired and resold. VA holds the veteran whose home loan was terminated liable for much of the loss it incurs. However, very little of the debt is ever collected, due to the low income of defaulting borrowers and/or incomplete implementation of VA collection procedures.

To compare the cost of foreclosure and the available alternatives, GAO developed a cost analysis model. This model includes three costs that VA

loan service officers do not consider in deciding whether to foreclose: (1) the portion of VA costs charged to veterans that is never collected, (2) the interest costs on funds used to acquire and hold property, and (3) the price discount of up to 10 percent that VA allows on cash offers for properties sold. Applying the model to typical properties of five VA regional offices, GAO found that the cost of the three alternatives was, on average, considerably less than the $25,387 average cost of foreclosure. The model was applied to these five regions because they represented a range of economic conditions and represented each of the geographic areas with significant foreclosure activity among the nine regions GAO reviewed. Specifically, the model showed the following:

- Refunding was $10,420 less than foreclosure.
- Compromise agreement was $8,992 less than foreclosure.
- Voluntary conveyance was $1,426 less than foreclosure.

These alternatives cannot be used cost effectively in all cases because of differences in state foreclosure laws, borrowers' individual financial situations and preferences, and the strength of local housing markets. Nonetheless, on the basis of estimates made by officials at VA regional offices, GAO estimates that VA could have saved between $42 million and $94 million during fiscal year 1987 by using foreclosure alternatives. Because the information on which the estimates are based was obtained at a limited number of locations and is not statistically valid, the estimated potential savings should be viewed only as approximations.

Private Insurers Report Saving Millions by Servicing Defaulted Loans and Using Foreclosure Alternatives

Private mortgage insurers guarantee conventional mortgage loans in a manner similar to the way VA guarantees mortgages for veterans. The private insurers use alternatives to foreclosure that are similar to those available to VA. They use home sales assistance, which is similar to VA's compromise agreement program. They also avoid foreclosures by accepting voluntary conveyances of the property deed, purchasing loans from lenders, or providing direct financial assistance.

According to officials of four private mortgage insurers that collectively insure an estimated 76 percent of all insured conventional mortgages, the firms become involved with delinquent borrowers sooner than VA. Officials from three of the four private mortgage insurers each reported savings ranging from $14 million to $18 million for 1987 as a result of servicing and the use of alternatives to foreclosure.

Recommendations

By considering the costs and benefits of each loan termination alternative and selecting the least costly means of terminating loans—including alternatives to foreclosure—VA could reduce its losses. Therefore, GAO recommends that the Secretary of the Department of Veterans Affairs

- use GAO's model or develop a similar cost analysis to identify, on a case-by-case basis, the costs of loan termination alternatives, including debt collection rates, interest costs, and the discount on cash sales, and
- require VA loan service representatives to complete and document the loan termination cost analysis and pursue the least costly alternative.

Agency Comments

VA agreed that improvements are needed to facilitate the increased use of foreclosure alternatives and discussed several actions that it has taken toward this end, such as increased staffing and improved training and guidance. VA also agreed to make GAO's model available to its field offices as an additional management tool. Nonetheless, VA stated it did not find any apparent benefit that would justify the extra paperwork and administrative burden resulting from adoption of the model on a nationwide mandatory basis. GAO agrees with the positive steps VA has taken. GAO believes, however, that VA field offices should be required to use GAO's model or a similar cost analysis on a case-by-case basis in order to increase the use of foreclosure alternatives and thereby reduce program costs. Unless VA requires such a cost analysis, GAO believes that VA will not have any assurance that its loan service representatives will consider or compare all cost factors when analyzing loan termination alternatives or that they will pursue the most cost-effective means of terminating a loan. VA's comments along with GAO's responses, are discussed at the end of chapter 4 and in appendix VII.

E

Explanation of Statutory Amendment

The first of these two amendments creates an assignment program similar to the HUD assignment program for the VA guaranteed home loan program. The proposed language is identical to that of the HUD program in all but one respect. Specifically, unlike the HUD program which requires borrowers whose loans are assigned to resume making full mortgage payments at the end of the forbearance period, the proposed language authorizes the VA to accept an assignment if the borrower is able to resume partial payments at the end of 36 months and full payments within 48 months. The variation is made in recognition of the fact that under the assignment program borrowers often default after a period of forbearance because their payment after the forbearance is larger than their regular payment was before the forbearance. In order to provide borrowers a smoother transition from reduced payments to full payments, the VA assignment program would only require that they make partial payments at the end of thirty six months and full payments at the end of 38.

The second amendment simply creates an equivalent program for loans made directly by the VA.

E

Proposed Statutory Language

Amend 38 U.S.C. § 1832 (a) by adding the following new subsections

(6) Upon receiving a notice pursuant to paragraph (1) of this section, the Secretary, for the purpose of avoiding foreclosure of the mortgage, shall acquire the mortgage and security therefor if such default was caused by circumstances which are beyond the mortgagor's control and render the mortgagor temporarily unable to correct a mortgage delinquency and to resume full mortgage payments. Upon acquisition of the mortgage, the Secretary shall pay the holder of the obligation the unpaid balance of the obligation plus accrued interest and reimbursement for such costs and attorney's fees as the Secretary finds were properly incurred in connection with the defaulted mortgage and its assignment to the Secretary, and for any proper advances therefore made by the holder under the provisions of the mortgage.

(A) The Secretary may provide assistance to a mortgagor whose mortgage has been acquired under subparagraph (a)(6) of this section, through forbearance of interest or principal, or both, or through other means, for a period of not more than eighteen months after the acquisition of the mortgage if the Secretary determines that there is a reasonable prospect that the mortgagor will be able

(i) to resume partial mortgage payments within thirty-six months and full mortgage payments after forty eight-months after the mortgage has been assigned to the Secretary;

(ii) to commence repayment of principal and interest that has not been paid at a time designated by the Secretary; and

(iii) to pay the mortgage in full by its maturity date or by a later date, not to exceed 15 years after the maturity date, established by the Secretary for completing the mortgage payments.

(B) The forbearance period prescribed in subparagraph (A) may be extended for not to exceed thirty months where the Secretary has determined that such extension is necessary to avoid foreclosure and that there is a reasonable prospect that the mortgagor will be able to meet the conditions enumerated in subparagraph (A).

Amend 38 U.S.C. § 1832 (b) by:

1. deleting that portion of the first sentence beginning with "due to the fact" and ending with "a Federal Installation" and substituting therefore "caused by circumstances which are beyond the veteran's control and render the veteran temporarily unable to correct a mortgage delinquency and to resume full mortgage payments"

2. Deleting the word "or" before "(2)" and inserting a comma instead.

E

3. renumbering the existing subsection (2) as subsection (3) and adding a new subsection (2) to read as follows:

(2) grant a moratorium upon the payment of interest and principal on such loan for a period of up to thirty six months if the Secretary determines that the mortgagor will be able

(i) to resume partial mortgage payments within thirty-six months and full mortgage payments after forty eight-months after the mortgage has been assigned to the Secretary;

(ii) to commence repayment of principal and interest that has not been paid at a time designated by the Secretary; and

(iii) to pay the mortgage in full by its maturity date or by a later date, not to exceed 15 years after the maturity date, established by the Secretary for completing the mortgage payments.

4. inserting in the new subsection (3), after the word "termination," the words "of the moratorium or the termination".

	HUD ASSIGNMENT PROGRAM	FmHA MORATORIUM PROGRAM	VA REFUNDING
NOTICE OF ELIGIBILITY	By lender after borrower is three payment delinquent.	By FmHA after borrower has missed a payment.	By VA after lender has declared default.
RIGHT TO APPLY	After borrower is three payments in arrears and lender is prepared to foreclose.	At any time.	NONE
PRIMARY ELIGIBILITY CRITERIA	1. Default caused by circumstances beyond the borrowers control. 2. Borrower has reasonable prospect of resuming full mortgage payment within 36 months.	1. Default was caused due to circumstances beyond the borrower's control.	1. Veteran has a present or potential ability to satisfactorily resume regular payments within a reasonable time and to repay the loan.
DURATION OF FORBEARANCE PERIOD	Up to 36 months.	Up to 24 months	Unknown, discretionary "reasonable time."
PAYMENTS DURING FORBEARANCE PERIOD	Not to exceed 35% of income.	None	Unknown, discretionary
MAXIMUM DURATION OF PAYMENT PLAN TO MAKE UP ARREARAGE	Remaining term of loan plus 10 years.	Remaining term of loan plus 2 years.	Unknown.
SPECIAL RELIEF PROVISIONS	None	FmHA may forgo interest accrued during moratorium	VA may refinance loan at a lower interest rate.
NOTICE OF DECISION	In writing from lender or from HUD	In writing from FmHA	None
RIGHT TO SEEK ADMINISTRATIVE REVIEW	1. Borrower may request HUD to accept assignment regardless of lender's decision. 2. Borrower may seek face to face meeting with HUD official to review initial denial.	1. Borrower may appeal decision pursuant to FmHA appeals procedure.	None
RIGHT TO SEEK JUDICIAL REVIEW OF DECISION	Yes	Yes	No

STATEMENT OF FRANK C. BUXTON, DEPUTY DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
TO THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 4, 1993

Mr. Chairman and Members of the Subcommittee:

The American Legion appreciates the opportunity to present its views on several legislative proposals which are important to this nation's veterans.

The Legion supports H.R. 949 which would increase the amount of VA's home loan guaranty. This bill is a timely proposal.

We also support H.R. 950 to provide mortgage payment assistance to certain veterans facing foreclosure on their loans. Each foreclosure VA can prevent saves critical dollars for both the homeowner and VA. This program serves as a "safety net" against temporary financial disasters by assisting veterans in default on VA guaranteed loans and in jeopardy of being forced from their homes. Not all veterans would qualify for this program; each case must be evaluated on an individual basis. The limited resources available for this program must be wisely invested only on those veterans who can demonstrate that they have regained financial stability. Otherwise, a greater financial burden would be unnecessarily placed on the veteran and VA.

The Legion strongly supports H.R. 951 which would provide for the payment of the cemetery plot allowance for veterans eligible for burial in a national cemetery but interred in a state veterans cemetery. This bill also proposes to adjust the current matching grants program for state cemeteries to a 65 federal/35 state funding formula.

Mr. Chairman, the State Cemetery Grants Program was designed to aid States in establishing, expanding or improving state-owned cemeteries for veterans. Under this program, VA was authorized to pay a plot allowance not exceeding $150 to a state for expenses incurred in the burial of eligible veterans in cemeteries owned and operated by the state. Over the past 15 years, this rate has never been adjusted for inflation.

Mr. Chairman, a burial benefit is paid by VA to non-VA cemeteries for interred honorably discharged veterans. The program is aid-in-kind to those states or privately owned cemeteries who provide grave sites for our nation's patriots. We view these payments as a vital component of the state/federal partnership entered into under P.L. 95-476. Certain provisions of the Omnibus Budget Reconciliation Act of 1990 (OBRA 90) have seriously eroded these benefits.

The program has been reauthorized through Fiscal Year 1994. At present, VA funds up to 50 percent of the cost associated with the acquisition and construction to convert land into a grave sites for veterans. To date, this program has awarded approximately 74 grants to support 29 cemeteries. Currently there are 48 state-owned veterans cemeteries in just 29 states.

Latest projections estimate that veteran interments in state cemeteries will rise from 6,300 in FY 1993 to 7,800 in FY 1999. By then, approximately 85,000 veterans and 65,000 dependents will have been interred in state cemeteries. The Legion anticipates a greater dependence on the partnership between VA and the State Cemetery Grants Program in meeting the future burial needs of America's veterans.

Mr. Chairman, The American Legion continues to advocate the reinstatement of both the burial plot and headstone allowances which were eliminated under OBRA 90. This law,

coupled with inflation, seriously jeopardizes the continued operation and future expansion of participating cemeteries. During FY 1992, of the over 6,000 veteran burials in state cemeteries, only one-third of those interments were entitled to receive the plot allowance resulting in the cemeteries sharing an estimated $600,000 shortfall.

Mr. Chairman, other states have expressed interest in establishing veterans cemeteries, however, their state legislatures have voiced concerns over costs for up-keep and maintenance, without adequate Federal reimbursement. This consternation is a direct result of the OBRA 90 burial benefits changes and other factors. Today the average cost for a state to bury a veteran and maintain the grave site is $587. Perpetual maintenance costs increase annually due to inflationary factors.

In our view, it is not realistic to have an open national cemetery in every state. We strongly support the expansion of the State Cemetery Grants Program as an excellent complement to VA's National Cemetery System.

The Legion endorses the provision in H.R. 951 to increase the funding formula to establish and/or expand state cemeteries to a proposed 65 Federal/35 State ratio. This change would make it more attractive for states to consider expanding or establishing state veterans cemeteries.

We advocate a plot allowance for any honorably discharged veteran buried in a state cemetery or in a veterans section of a privately-owned cemetery. The American Legion urges restoration of the pre-1981 burial allowance and to increase the burial benefit to $400. We also seek the restoration of the pre-OBRA 90 criteria for (1) a government furnished headstone or marker allowance and (2) the burial plot allowance with an increase to $300.

The American Legion believes that the pre-OBRA 90 burial benefits truly represent the homage and tribute a grateful nation intended for its veterans.

Mr. Chairman, that concludes our statement.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSES

CHAIRMAN SANGMEISTER TO DEPARTMENT OF VETERANS AFFAIRS

RESPONSE TO
POST-HEARING QUESTIONS FROM MARCH 4, 1993, HEARING

1. Without any increase in appropriations, wouldn't it behoove the VA to offer this $10,000 alternative rather than refund a whole loan? This authority would enable you to help thousands of veterans more.

RESPONSE: For purposes of budgeting under credit reform, money spent on supplemental lending rather than refunding does not free up other funds for more supplemental loans. Since, however, sufficient funds are already appropriated to cover the present value of the Government subsidy on existing GI loans, these funds are available for any activity which reduces program costs and the related subsidy amounts. We believe it is more effective to continue to invest this money in refunding because, given our ability to re-amortize and lower the interest rate on a refunded loan, refunding provides the veteran with a greater benefit and is more likely to be successful than a supplemental loan.

Assuming 30,000 foreclosures in FY 1994 (slightly fewer than the 30,779 which occurred in FY 1992), we project that 1,458 loans would qualify for assistance under H.R. 950. This corresponds to the number of loans which we project would otherwise qualify for intervention action by VA in an effort to facilitate reinstatement but, despite the intervention, would wind up being foreclosed.

The average expenditure to reinstate a loan under H.R. 950 is estimated to be 8 monthly payments of $644.80 ($520 P&I + $100 T&I + 24.80 late charge) plus 4 monthly half-payments of $310 (until the veteran is scheduled to resume paying full installments), for a total of $6,398.

The estimated foreclosure rate for the loans which are reinstated instead of foreclosed is 50% (the average foreclosure rate on refunded loans is 40%, and we assume these accounts will not perform as well since they represent cases which our field stations would not otherwise consider qualified for refunding).

If 729 GI loans are reinstated, avoid future foreclosure, and the borrowers repay the H.R. 950 supplemental loans (and assuming, for sake of simplicity, that the arbitrage between the interest on the loans and the Treasury cost of funds covers VA's collection costs), savings due to these reinstatements will be $16,727 (average claim paid) plus $1,700 (average loss on resale of acquired property) = $18,427 per loan, for a total of $13,433,283.

If the other 729 reinstated GI loans go into default and are foreclosed after the H.R. 950 supplemental loan funds are expended (and assuming the loss due to the future foreclosure equals the loss to VA if they were foreclosed in FY 1994), the additional loss incurred by the Government will be the $4,664,142 loaned plus $279,849 cost of funds on the loans during the fiscal year, for a total of $4,804,066.

In conclusion, assuming a 50% success rate, the present value of the savings under H.R. 950 could be as high as $8,629,217. ($13,433,283 - $4,804,066) If, however, no reinstatements under H.R. 950 were permanent, VA would incur an additional loss in the amount of the money loaned plus interest; i.e., as much as $9,608,132.

A wide range of variables affects the H.R. 950 proposal. The timing of future foreclosures on loans that are reinstated impacts costs. The likelihood of a high success rate is questionable, since we are dealing with loans which are currently not considered candidates for refunding assistance. Borrowers qualifying for the program will generally have no equity and the supplemental loan will worsen their equity position; thus, even in successful cases, VA may have to forgive all or part of supplemental loans in order to permit future sale of the property. For these reasons, it is not possible to provide a more precise cost estimate than to state our belief that H.R. 950 could range from an annual savings of $8.6 million to a cost of $9.6 million expressed in FY 1994 dollars.

2. If the guaranty is increased, thus increasing the size of loans, wouldn't that generate more income because of the funding fee? Wouldn't these be better risks than those veterans who purchase less expensive homes? Therefore, wouldn't the ratio of potential loss through foreclosure be outweighed by potential gain through funding fees.

Response: There is less risk of default on larger loans than on smaller loans and the higher funding fee for larger loans would generate more income. However, the funding fee charged to veterans is not sufficient to offset the full subsidy (i.e., risk of future loss to the Government) for any group of loans, regardless of size. As a result, the funding fees paid on the larger loans which may be guaranteed under this proposal will be insufficient to cover the losses VA will incur on these loans. It will not generate additional income which could be used to offset losses VA will incur on smaller guaranteed loans.

3. Mr. Gracey, you state that extending the payment of the plot allowance as proposed in H.R. 951 would unfairly discriminate against peacetime veterans buried in private cemeteries, as they would not be eligible for the plot allowance. Considering that peacetime veterans have never been eligible to receive the $150 plot allowance, is your conclusion valid as the legislation only restores, what should have never been denied to states, $150 plot allowance for any veteran interred in a state veterans cemetery.

Response: It is our understanding that Congress intended that plot allowance should be paid to the states only on behalf of veterans eligible for the plot allowance who are buried in a qualifying state cemetery or cemetery section. With few exceptions, the plot allowance is available only to those entitled to the nonservice-connected (NSC) burial allowance.

Section 5 of the National Cemeteries Act of 1973, Public Law 93-43, first authorized plot allowance effective September 1, 1973, for all veterans eligible for the nonservice-connected (NSC) burial allowance and not buried in a national cemetery. The Veterans' Housing Benefits Act of 1978, Public Law 95-476, which authorized payment of the plot allowance to states, did not affect the eligibility criteria of Public Law 93-43. The Omnibus Budget Reconciliation Act (OBRA) of 1981, Public Law 97-35, substantially restricted payment of the NSC burial and plot allowance but did authorize plot allowance for wartime veterans with no entitlement to the burial allowance. OBRA 1990 removed wartime veterans' eligibility except for those buried in qualifying state cemeteries.

Under current law, veterans, whether wartime or peacetime, who are buried in private cemeteries are not eligible for the plot allowance unless they are eligible for the NSC burial benefit. The states, however, may receive the plot allowance on behalf of wartime veterans buried in qualifying state cemeteries, regardless of eligibility for the NSC burial benefit. Under H.R. 951, peacetime veterans who have no NSC burial allowance entitlement but who are buried in these state cemeteries also would be eligible for the plot allowance. This proposal unfairly enlarges a preferred class of veterans simply on the basis of burial location. Because it would expand already existing disparities in entitlement criteria among similarly situated veterans, and because of budgetary considerations outlined in our March 4 testimony, we oppose enactment of H.R. 951.

4. In recent years, I have been advised that a number of states have been willing to establish State Veterans Cemeteries, but their respective state legislatures have not been willing to fund the cemetery at a 50/50 share split. If the split increased to 65/35, which states do you believe would be willing to fund the 35 percent share?

RESPONSE: The State Cemetery Grants Program is a successful program. In the past, however, many states such as California, Georgia, Missouri, Iowa, Indiana, Kentucky, Louisiana, Nebraska, New Hampshire, and Washington, have either rejected proposals before their legislature or opted not to establish state-owned veterans cemeteries due to the high cost to the state. VA has no way of knowing which States would apply for a grant if the Federal share were increased to 65 percent.

5. The 1987 Report to Congress identified 10 sites to establish new national cemeteries and I understand that a second follow up Report to Congress is about to be released. What is the current status of the follow up report and when do you expect it to be delivered to Congress? In addition, I would appreciate receiving an updated report on the current status of each of the 10 sites identified in the 1987 report.

RESPONSE: VA is completing its internal review of the document prepared by the Logistics Management Institute (LMI). Following review and approval by the Secretary, we will release an analysis to Congress.

The 10 sites from the 1987 report, listed in order of priority and their status:

a. Chicago, Illinois: On October 31, 1991, the Secretary of Veterans Affairs selected a site at Fort Sheridan for the establishment of a new national cemetery in the Chicago area. VA Secretary Jesse Brown wrote to Secretary of Defense Les Aspin on February 25, 1993, expressing VA's continued interest in the

site and making an offer of $6.945 million in exchange for 162 acres of land. To date, VA has not received a response from the Department of Defense.

b. Northern California (San Francisco) area: On June 5, 1992, the National Cemetery System dedicated and officially opened the San Joaquin Valley National Cemetery at Santa Nella, California. The 322-acre cemetery interred 368 remains in 1992. It is the 114th cemetery in the System.

c. Miami/Fort Lauderdale, Florida: Ten prospective sites were appraised and the appraisals received by VA early this year. From the ten, five sites will be included in the Environmental Impact Statement (EIS). The contract for the EIS has been awarded.

d. Cleveland/Akron/Canton, Ohio: On January 19, 1993, the Acting Secretary of Veterans Affairs signed the Record of Decision selecting a site in Guilford Township, Medina County, for the proposed national cemetery. VA has received a legal description from the owners. An award was made for surveying, which should be completed in the spring. An advertisement for an architectural and engineering firm to prepare the master plan was placed in the Commerce Business Daily on March 8, 1993.

e. Detroit, Michigan: A contract to do the EIS was awarded on February 16, 1993. Sixteen sites have been deemed viable and the Site Board will visit each site in April 1993.

f. Pittsburgh, Pennsylvania: An EIS contract has been awarded. The consultant's initial site investigation was submitted to VA. The Site Board has recommended five sites to be included in the EIS.

g. Dallas/Fort Worth, Texas: On October 6, 1992, the Acting Secretary of Veterans Affairs selected Mountain Creek as the site of a new national cemetery. Funds have been approved for master planning, but not for land acquisition. On March 1, 1993, an advertisement for an architectural and engineering firm to recommend a parcel of land for purchase and to prepare a master plan was placed in the Commerce Business Daily.

h. Seattle/Tacoma, Washington: On April 20, 1992, the Secretary of Veterans Affairs selected Tahoma as the site of a proposed national cemetery. The property selected belongs to the State of Washington, A preliminary title binder has been obtained and an appraisal ordered. On February 22, 1993, an advertisement for an architectural and engineering firm to prepare the master plan was placed in the Commerce Business Daily.

i. Albany/Utica, New York: On September 18, 1992, the Secretary of Veterans Affairs selected Saratoga as the site of a proposed national cemetery. Land acquisition is in progress. The land survey has been received by VA's Real Property Management. An appraisal and title work will be ordered soon.

j. Oklahoma City/Lawton, Oklahoma: The draft EIS has been distributed to the Oklahoma Congressional delegation and other interested parties. The EIS was filed with the Environmental Protection Agency on February 26, 1993. The 45-day public comment period will end in mid-April 1993.

6. VA and DOD have been negotiating a proposed Memorandum of Understanding (MOU) to transfer land at Fort Sheridan to VA to establish a new national cemetery in the Chicago area. Provisions of the MOU would also transfer a number of Army Post Cemeteries to VA. What is the status of the MOU and what is VA's position on taking responsibility for the operations and maintenance of these Post Cemeteries?

RESPONSE: The terms of the proposed MOU are not acceptable to VA. On February 25, 1993, the Secretary of Veterans Affairs wrote to the Secretary of Defense stating that fact and expressing VA's continued interest in the Fort Sheridan property for establishment of a national cemetery. VA offered $6.945 million in exchange for 162 acres at Fort Sheridan. We have not received a response from the Department of Defense to date.

7. As Congress awaits and begins debate on the Administration's FY 1994 budget, what baseline funding figure has VA determined is necessary to prevent a decline in the operations of the NCS?

RESPONSE: The requested level of $70.5 million, though it will not permit improvement in cemetery operations, represents a level that will be sufficient to prevent any decline. It will, for instance, allow a net increase of five FTE within NCS, an increase of eleven FTE in the field partially offset by a reduction of six FTE in Central Office. Inflation requirements will be essentially offset by the planned three percent savings in administrative costs. Other required increases are in part met by decreased requirements for the Burial Operations Support System (BOSS) and for the Employee Compensation payment to the Department of Labor, and in part by reductions in planned spending for replacement equipment. The revised replacement equipment funding level will permit NCS to maintain the progress achieved through 1993 against the replacement equipment backlog, but it will not permit further progress to be made in 1994.

8. During the current climate of limited resources the building of columbaria to save space and extend the life of existing national cemeteries needs to be closely examined. With 63 national cemeteries closed and 11 scheduled to close before the year 2000, what and where are VA plans to build additional columbaria and promote cremation as an effective way to meet our veteran's burial needs?

RESPONSE: The National Cemetery System had 55 closed cemeteries as of March 1993. Many of the closed cemeteries can bury cremated remains. The number of cremated remains, as a percentage of total national cemetery interments, has increased dramatically in recent years. In FY 1992, NCS accommodated 64,602 interments in VA national cemeteries and of that total, 15,541, or 24 percent, were cremated remains. Development of available space for cremated remains constitutes an integral initiative of NCS planning. In-ground burial sites for cremated remains are routinely accommodated at most national cemeteries. They are established as 3' x 3' plots in specially designated areas of many national cemeteries. A new, smaller size flat marker has been developed for these cremated remains to create a sense of balance and perspective.

The construction of columbaria has not been the most cost-effective option for interment of cremated remains due to substantial construction costs compared to development of in-ground burial space. Recent evolution, however, of modular columbaria construction techniques has brought the cost down.

Columbaria construction has been planned in the current NCS five-year Major and Minor Construction Program at:

EXISTING CEMETERIES	NEW CEMETERIES
Calverton	Albany
Fort Rosecrans	Chicago
National Memorial Cemetery of Arizona	Cleveland
Riverside	Dallas/Fort Worth
Willamette	Seattle

CHAIRMAN SANGMEISTER TO MR. EGAN, VIETNAM VETERANS OF AMERICA

How can giving the Secretary the authority to make $10,000 loans to clear up a veteran's mortgage arrearage in addition to his discretionary authority to refund veterans' loans (average $86,000) make matters worse for veterans?

Doesn't this rather make it possible to help 8 times as many veterans as can be helped under current law?

Using the average loan amount of $86,000 guaranteed by VA assumes that the veteran has paid little to no principle on the loan, and thus that the default occurs in the first months of the mortgage. It is true that most defaults and foreclosures occur in the first few years of the loan. The assumption made in this proposal is that the veteran will be able to begin paying the mortgage payments again in addition to payments on this new $10,000 loan within three months of the default. It is unlikely, particularly in current economic conditions, that a veteran in default will regain sufficient economic stability in this short period to resume the full mortgage payments, let alone the additional payments on the $10,000 loan.

In addition, the $10,000 loan increases the veteran's debt-to-income ratio. To employ a very basic analogy, when a creditor cannot make regular credit card payments, it is foolish for a bank to issue an additional credit card or raise the account credit limit. VVA has continually contended that the VA does veterans a disservice if it allows them to purchase homes priced beyond their means. This added debt would be a perpetuation of this problem, given the assumption that the value of the original loan was approved based upon consideration of the maximum debt allowable given the borrower's income level.

Currently, the VA acquires most properties from the lender when a VA guaranteed mortgage is foreclosed. The cost to the VA to maintain, administratively process and sell these homes--and the eventual loss--is enormous. These foreclosed properties bring little-to-no return for the VA investment, and are thus running the revolving funds dry. A far more practical solution is to refinance those loans in which the veteran borrower has a reasonable ability to regain economic stability, such that the veterans can afford to stay in their homes, maintaining an interest-bearing asset for the VA rather than a funding drain and a loss on the property sale. The VA would be better advised to purchase an asset-bearing loan than a deed to a property after foreclosure.

Finally, assuming that the VA will utilize this arrearage loan option to help 8 times the number of defaulting veterans ignores the failures of the VA to use the refunding (refinancing) option, and the abominably high VA-guaranteed loan foreclosure rates. The VA Regional Offices allow foreclosure rather than utilizing the refunding option because of the additional loan servicing workload required to conduct the refunding. This $10,000 loan would certainly add to the servicing workload as well, and would likely be an equally unused option unless a mechanism is put into place to require the VA to evaluate each defaulting loan holder's eligibility for VA assistance based upon set criteria.

It is our belief that these are the reasons this legislation has failed to progress in the Senate when it has passed the House in the last two Congresses. The Senate has recognized that the House legislation was ill-considered. While the arrearage clearing loan option contemplated by the House bill aims at the correct problem, it does so with the wrong solution.