

**STATEMENT OF
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VETERANS BENEFITS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
HOUSE COMMITTEE ON VETERANS' AFFAIRS**

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Madame Chairwoman and members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the VA Loan Guaranty Program. In my testimony, I will highlight VA's commitment to meeting the housing needs of our nation's veterans.

VA Home Loan Program

The Loan Guaranty Program serves a clientele that is diverse in many ways. The only common denominator of this clientele is service in the Armed Forces of the nation. Since the inception of this program, the objective has been to assist eligible veterans to become homeowners. We make it possible for veterans to compete in the marketplace for credit with persons who were not obliged to forego the pursuit of gainful occupations by reason of military service.

The Loan Guaranty Program provides a guaranty to private lenders making loans to veterans to purchase homes. This guaranty enables veterans to purchase a home without the need to make a downpayment. Other important program benefits include making direct loans to Native American veterans living on trust lands, and providing Specially Adapted Housing (SAH) grants to severely

disabled veterans. Additionally, services and assistance are provided in coordination with the Vocational Rehabilitation and Employment (VR&E) Program for disabled veterans who are eligible for both Independent Living Services and SAH benefits.

Background

Since the home loan program was enacted as part of the original Servicemen's Readjustment Act of 1944 (the GI Bill), VA has guaranteed more than 18 million home loans totaling nearly \$914 billion for veterans to purchase or construct a home, or refinance another home loan on more favorable terms. We believe that most of these veterans would not have been able to purchase a home at the time they did without the assistance of the no-downpayment feature of the VA home loan program.

In the last five years, VA has assisted more than 1.4 million veterans in obtaining home loan financing totaling almost \$197 billion. About half of these loans, just over 730,000, were to assist veterans to obtain a lower interest rate on an existing VA guaranteed home loan through VA's Interest Rate Reduction Refinancing Loan Program.

Delivery of the loan guaranty

VA guaranteed loans are made by private lenders, such as banks, savings and loans, or mortgage companies to eligible veterans for the purchase of a home which must be for their own personal occupancy. To get a loan, a veteran must apply to a lender. After the lender makes the loan, VA issues a guaranty that protects the lender against loss up to the amount of the guaranty. The guaranty serves as a substitute for the downpayment that a mortgage borrower would typically be required to come up with in order to finance the purchase of a home.

A veteran's basic loan guaranty entitlement is \$36,000, or 25 percent for loans over \$144,000 up to a maximum guaranty amount of \$104,250. For no-downpayment loans, lenders will generally lend up to four times a veteran's available entitlement, provided the veteran qualifies based on income and credit and the property appraises for the asking price.

While there is no maximum VA loan amount set by law, most lenders presently limit these loans to \$417,000. This limit is set by the secondary mortgage market, which purchases most VA loans once they are made. Effective with enactment of PL 108-454 in December 2004, the maximum VA guaranty was indexed to the conventional conforming loan limitations as adjusted each January by the Federal Home Loan Mortgage Corporation (Freddie Mac). In practical terms, this means that the maximum VA no-downpayment loan amount will

always be the same as the Freddie Mac conventional conforming loan limit. This amount has been set at \$417,000 for calendar year 2007. For loans up to this amount, it is usually possible for qualified veterans to obtain no-downpayment financing.

Currently, eligible veterans and service personnel may obtain loans to:

- buy or build a home
- buy a residential unit in a condominium project
- repair, alter or improve a home
- refinance an existing home loan
- buy a new or used manufactured home and/or lot
- buy and improve a manufactured home lot on which to place a unit owned and occupied by the veteran
- improve a home through installation of a solar heating and/or cooling system or other energy-efficient improvements
- refinance a loan currently guaranteed, insured or made by VA for the purpose of lowering the interest rate
- refinance a manufactured home in order to purchase the lot on which the home is or will be placed
- purchase stock or membership in a cooperative housing development corporation

Loan Servicing

Like other homeowners, some veterans experience financial hardships that affect their ability to make mortgage payments. When this occurs, we help veterans retain their homes through supplemental loan servicing efforts. VA offers financial counseling and may intervene directly with the lender on behalf of the veteran to negotiate a repayment plan. In limited circumstances, we buy the loan from the holder and allow the veteran to make payments directly to VA at a reduced interest rate. In the event of foreclosure, VA usually acquires the property from the mortgage loan holder and the property is then transferred to a private contractor to be sold on VA's behalf.

A "successful intervention" occurs when VA's intervention with the lender results in the veteran's loan payments being brought current. Successful interventions not only help veterans keep their homes, but they also save substantial amounts of money by avoiding the payment of a guaranty claim. In 2006, VA accomplished more than 8,700 successful interventions, which translated into a savings to the Government of \$175 million in claims avoided. In those cases where intervention is not possible, loans may end up in foreclosure. While this might be unavoidable in certain circumstances, the foreclosure rate on VA guaranteed home loans is substantially less than that of similar Government lending programs. The Mortgage Bankers Association's most recent National Delinquency Survey indicates that, through the third quarter of 2006, VA's delinquency rates fell from 6.93% to 6.58%. In contrast, FHA and sub-prime

delinquency rates rose from 12.23% to 12.80%, and 10.76% to 12.56% respectively.

To further automate our program requirements and delegate some of their administrative activities to the mortgage banking industry, we currently have a contract for services to develop the VA Loan Electronic Reporting Interface, or VALERI. When operational, VALERI will enable VA to delegate much of its supplemental loan servicing efforts to the mortgage servicing industry by using a leading edge automated system. This will reduce reporting and record-keeping burdens on the servicing industry, as well as costs to the Government, while ensuring that our nation's veterans are afforded the most technically advanced supplemental benefits available.

Specially Adapted Housing Grants

Veterans who have certain service-connected disabilities may be entitled to a Special Home Adaptation (SHA) or a Specially Adapted Housing (SAH) grant for the purpose of constructing an adapted home or modifying an existing home to meet their specific needs. The SHA grant is limited to \$10,000 and is generally used to assist veterans with mobility throughout their homes. The SAH grant is limited to \$50,000 and is generally used to create a wheelchair-accessible home. The goal of these grant programs is to provide a barrier-free living environment, which affords the veteran a level of independent living that he or she may not have otherwise enjoyed. In FY 2006, we served a total of 528 veterans through these grant programs, expending \$24.6 million.

VA offers priority processing of SHA and SAH claims. If eligibility has been established, the veteran is contacted within 30 days to discuss the benefit. If not yet ready to use the SAH benefit, we contact the veteran again within a year to determine if he or she is ready to begin the home adaptation process.

Until the enactment of Public Law 109-233 in June 2006, grant recipients could only receive their grant benefit from VA one time, regardless of the grant amount used. Now, eligible veterans or active duty servicemembers may receive up to a total of three such grants, with the aggregate amount limited to the maximum amounts allowable by law. The new law also established a new grant program called Temporary Residence Adaptation (TRA). Unlike the other grant programs, this grant assists veterans in adapting a family member's home to meet the veteran's special needs. Veterans eligible for a TRA grant are now permitted to use up to up to \$2,000 of the maximum grant amount for a SHA grant or up to \$14,000 for an SAH grant. In December 2006, we mailed individual letters to more than 16,000 veterans who may be eligible for additional grants.

These grant programs provide a critical service to a special group of veterans. We provide personalized service to grant recipients throughout the process of constructing or modifying their homes. The labor-intensive nature of this program, coupled with the law changes, has created a growing workload. In the past two months, we have received formal inquiries for subsequent grant usage

from nearly 2,000 veterans. Since we have historically completed between 400 and 600 grants per year, early indicators suggest a substantial increase in workload. However, we are reallocating resources and streamlining our program requirements to ensure these veterans continue to receive the high quality, personalized service that they deserve.

Madame Chairwoman, this concludes my testimony. I greatly appreciate being here today and look forward to answering any questions you and the Subcommittee members may have.