



## News From the FAMP Government Affairs Committee

### **Underused VA Mortgage Program Makes Inroads as FHA Costs Rise**

by Brian Collins  
JUN 11, 2014 4:15pm ET

Of the 16.4 million active-duty service members and military veterans with mortgages, less than 12% have a loan guaranteed by the Department of Veterans Affairs.

Some blame this low participation rate on a lack of promotion for the VA home loan program, which was created in 1944. Many loan officers don't even ask potential clients if they are veterans. And many veterans don't know enough about the program to ask for a VA loan.

Others blame lenders and real estate agents who have preferred the loan products guaranteed or purchased by Fannie Mae, Freddie Mae and Federal Housing Administration.

But things are looking up for VA lending as specialists in the product redouble their efforts to get the word out and other low-down-payment

products grow more expensive.

A sharp increase in Federal Housing Administration mortgage insurance premiums is making VA more competitive, according to Megan Booth, senior policy representative at the National Association of Realtors.

"There is not a Realtor alive today that thinks FHA is better deal" for veterans, Booth said. "That is helping the VA grow and it will continue to help the VA grow."

VA lenders originated a record 629,300 single-family loans in fiscal 2013, which ended Sept. 30.

The agency endorsed 90,820 single-family loans in the fiscal second quarter, totaling \$20.1 billion, down 10.5% from the prior quarter. FHA endorsements declined at twice that rate over the same period. Sixty-three percent of VA loans are going to homebuyers rather than for refinancing, according to agency officials.

The Veterans Association of Real Estate Professionals, a trade group launched in 2011 to promote the VA program, held its first Washington conference last week.

"There are a lot of misconceptions about the VA home loan program among real estate, lending and housing professionals" says Son Nguyen, the group's co-founder and president. "We want to change that through education and outreach."

The trade group will provide VA with "honest feedback," he says.

VA officials told the conference they will be issuing a proposal soon that will clarify the agency's rules on negotiating fees with sellers. VA rules currently limit the amount veterans can be charged for closing costs and fees for termite and other inspections.

Real estate agents have been pressing VA for a clarification because veterans are often disadvantaged when competing with non-veterans to buy a house, particularly when there are multiple bidders.

The fee rule would have been out by now, but the work had to take a backseat to the agency's version of the qualified mortgage rule, the VA's assistant director for loans, John Bell, told the conference.

The VA issued an interim final QM rule on May 30. The VA version essentially

provides a safe harbor for home purchase loans that meet the agency's traditional lending standards. VA has the lowest delinquency rate of any government loan program.

But VA used the QM rule to stop lenders from repeatedly refinancing veterans who fall behind on their payments.

Interest rate reduction refinancing loans were "never intended to be a loss mitigation tool," Bell said. It was intended to reduce monthly payments, not add fees to their loan balances which the veteran couldn't repay.

"Some predatory lenders took advantage of that situation," Bell said. "We had to stop it."

Under the VA's QM rule, performing loans can be refinanced after six months. These rate-reducing refis can qualify for a safe harbor if the borrower can recoup the refinancing costs within 36 months.

VA loans that don't meet that refinancing standard will be considered "rebuttable presumption" loans, subject to greater litigation risk than safe harbor loans.

Meanwhile, lenders continue to complain that there is a shortage of VA-approved appraisers and underwriters, which slows processing times.

"I can't tell how many times the appraisal is the hiccup in the process," said David Gibbons, the national VA mortgage program manager at Wells Fargo Home Mortgage.

But VA is becoming more responsive. "VA is trying to get more appraisers and weeding out the bad ones," Booth said at the conference.

VA is recruiting new appraisers every month, Bell said. And the agency is reviewing appraisals for quality as well as monitoring and scoring appraiser performance.

However, the VA will not use appraisal management firms. "Not while I am at VA," Bell said. (He didn't say why, but appraisers and other critics of AMCs often complain that these outfits often employ second-rate appraisers who don't know the local markets.)

VA is becoming more responsive to industry concerns, Nguyen said, noting that the agency is working on seven proposed changes to the home loan

guarantee program. "It shows willingness that I have not seen before."

The Navy veteran stressed that his organization wants to become "eyes and ears" for the VA program.

VAREP has a web portal for real estate professionals and will soon announce a consumer portal for service members and veterans.

"There is a large percentage of people who are eligible for a VA loan but don't want to use it because they don't understand it. That is where education and outreach could be effective," said Wells Fargo's Gibbons.