

January 17, 2023

Secretary Denis R. McDonough
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

RE: Comment Regarding Advance Notice of Proposed Rulemaking, Loan Guaranty: Loss-Mitigation Options for Guaranteed Loans, 87 Fed. Reg. 62752

Dear Secretary McDonough:

On behalf of the clients, communities, companies, and veterans we represent, we urge the VA to prioritize allocating and seeking the budgetary resources necessary to expand the loss mitigation options available under the VA Home Loan Guaranty Program to help veteran borrowers avoid foreclosure. We believe your agency's current loss mitigation tools and resources are insufficient to meet the needs of veterans who require assistance to keep their homes.

This is an urgent issue, as we estimate that there are between 100,000 and 130,000 seriously delinquent (missed 3 or more payments) veteran borrowers with VA-backed mortgages. Unfortunately, the options currently available to veteran borrowers are fewer and significantly less effective than those available to other government-insured borrowers. Our organizations find this situation troubling and worthy of immediate attention. Policy changes and solutions – regulatory, statutory, or budgetary -- are needed now.

We are encouraged that the VA has recognized these challenges in its advance notice of proposed rulemaking on loss mitigation¹ and is seeking public input on how it can improve its existing options. Our view is simply that the VA Home Loan Program needs better loss mitigation tools and additional resources.

The VA Home Loan Program Needs Better Loss Mitigation Tools. The recent dramatic increase in interest rates has undermined the effectiveness of VA loss mitigation programs by hampering loan servicers' ability to help borrowers avoid foreclosure. The average interest rate for VA-guaranteed loans originated after 2019 is 3%, which is less than half the current market rate of 6.3%. This rapid rise in interest rates limits one of the primary means by which veterans have reduced their monthly mortgage payments. Historically, loan modifications have leveraged favorable changes to mortgage terms or interest rates to reduce the veteran's monthly payments. Moreover, the VA Partial Claim Program that helped veterans keep their existing loans current by providing them payment relief or assistance in making up missed payments, while keeping their original mortgage rates (which are much lower than currently available rates), expired on October 28, 2022.

¹ Loan Guaranty: Loss-Mitigation Options for Guaranteed Loans, Vol. 87, No. 199, Fed. Reg. 62752 (Oct. 17, 2022).

While the VA has historically provided suitable solutions that address borrower financial hardship, there is currently a lack of parity between the options available to a VA borrower in financial distress and those available to homeowners with other types of government-backed mortgages. Without equivalent loss mitigation options, veterans who secured a VA loan as a benefit for serving their country now find themselves with inferior forms of mortgage assistance. We know that VA leadership and staff would agree that, at the very least, veteran borrowers deserve equal access to loss mitigation programs that will prevent missed mortgage payments from forcing them to refinance their loans at much higher market rates. To bring its program into alignment with the assistance provided by other government agencies, the VA needs to take the following actions to improve existing tools and develop new loss mitigation options:

- Reactivate and update the partial claim program, which allows borrowers to receive payment relief and/or assistance in resolving missed payments, while keeping their original mortgage rates (which are much lower than currently available rates);
- Reconfigure and expand the statutorily authorized refund program², which enables the VA to purchase delinquent loans from servicers and change the terms of the original loans to reduce veterans' monthly payments;
- Extend mortgage repayment out to a full 40-year term if needed to reduce a veteran's monthly mortgage payment to an affordable level; and
- Expand the use of limited documentation applications, which lowers the administrative burden for veterans to qualify for loss mitigation options.

We support legislation, if necessary, to give the VA additional authority to develop tools that are similar to those available to FHA, USDA, and GSE borrowers.

The VA Home Loan Program Needs Additional Resources. We understand that the VA is experiencing financial and operational strain as a result of the Blue Water Navy Vietnam Veterans Act of 2019 and waiver of the VA funding fee for veterans who receive compensation for service-connected disabilities. While we applaud the goals of these policy priorities, the reduced revenue poses a challenge for an organization that requires sufficient income to provide loss mitigation assistance to veteran borrowers in need.

Despite these and other agency challenges, we believe our common objective should be to offer all veterans a comprehensive home loan program that meets their needs throughout their lives. Thus, we strongly support giving the VA additional financial resources so veterans can not only

² The Refund Program allows the VA to take assignment of the existing guaranteed loan indebtedness and pay the servicer the unpaid principal balance on the loan, plus accrued interest. The loan is then placed into the VA's portfolio, and the veteran makes loan payments directly to the VA. The benefit of this structure is, that once the loan has been bought out of a Ginnie Mae security and is on the balance sheet of the VA, the Agency has significant latitude to modify the mortgage in a number of ways (e.g. payment deferral, principal forgiveness, term extension, reduced interest rate, or some combination of these), to reduce the veteran's monthly payment or provide other assistance, as necessary.

pursue the American dream of homeownership, but also retain their homes if they encounter financial challenges.

Immediate action is needed to prevent avoidable foreclosures. There is compelling evidence that providing assistance, especially payment reductions for borrowers, leads to fewer foreclosures and fewer claims on the guarantor / insurer. Additionally, providing such assistance comes at a considerably lower cost than the claims associated with foreclosures. Regardless, if the budgetary costs associated with our recommendations require additional appropriations, we will support the VA's efforts to secure them.

We look forward to working with the VA on determining how funding for the Home Loan Guaranty Program can be supplemented so that veterans can receive the assistance they have earned.

Thank you for your consideration. If you have any questions or would like to discuss these recommendations further, please contact Steve Sharpe at ssharpe@nclc.org or Matt Douglas at matt.douglas@housingpolicycouncil.org.

Sincerely,

American Bankers Association
Americans for Financial Reform Education Fund
Association of Military Banks of America
Center for Community Progress
Center for Responsible Lending
Chief Warrant and Warrant Officers Association of the US Coast Guard
Consumer Action
Housing Finance Strategies, LLC
Housing Policy Council
Independent Community Bankers of America
Mortgage Bankers Association
National Community Stabilization Trust
National Consumer Law Center (on behalf of its low-income clients)
National Fair Housing Alliance
National Housing Conference
National Housing Law Project
National Housing Resource Center
Operation Homefront
VetsFirst/United Spinal Association