

The Honorable Bob Filner
Chairman
House Committee on Veterans Affairs
Washington, DC 20515

The Honorable Steve Buyer
Ranking Member
House Committee on Veterans Affairs
Washington, DC 20515

Dear Chairman Filner and Ranking Member Buyer:

We, the undersigned associations, representing the many elements of the residential real estate construction, marketing and finance industry, write to express our strong support for reauthorization of the Department of Veterans Affairs' (VA's) Loan Guaranty Program to guarantee adjustable-rate and hybrid adjustable-rate mortgage loans, to conform the limit for regular¹ refinanced VA-guaranteed loans with the limit for home purchase loans, and to increase the VA loan guaranty in high-cost areas.

The *Veterans Benefits Improvement Act of 2004*, which was signed into law by President Bush as Public Law 108-454 on December 10, 2004, extended the VA's authority to guaranty adjustable-rate mortgages (ARMs) and hybrid ARMs through September 30, 2008. In addition, the law indexed the VA guaranty to the Freddie Mac conforming loan limit.

The bulk of the VA's guaranty activity is in fixed-rate mortgage loans and this trend is likely to continue even if Congress reauthorizes the VA to guaranty adjustable- and hybrid adjustable-rate mortgage loans. However, these adjustable- and hybrid adjustable-rate loans provide the VA with additional flexibility to better meet the needs of the nation's veterans, servicemembers and reservists. We encourage Congress to authorize these products permanently.

Another important feature of the VA Loan Guaranty Program is the ability of veterans, servicemembers and reservists to refinance their existing non-VA loans into VA-guaranteed loans. By refinancing, these borrowers may realize more favorable terms, which increase their chances of being able to meet their mortgage obligations. In addition, veterans who have VA-guaranteed mortgage loans are afforded the benefit of the Agency's supplemental servicing program, which works to keep veterans out of foreclosure, and wherever possible in their homes, during times of financial distress.

Public Law 108-454 enacted a number of important reforms that provide much-needed help to veterans, servicemembers and reservists. This law indexed the guaranty for most purchase loans to 25 percent of the Freddie Mac

¹ VA can guaranty two types of refinanced loans. Interest Rate Reduction Loans (IRRLs) enable a veteran to refinance an existing VA-guaranteed loan. "Regular" refinancing is the process whereby a VA-eligible borrower can refinance a non-VA-guaranteed loan into a VA-guaranteed loan.

conforming loan limit. As a result of this guaranty, lenders are willing to provide no-downpayment mortgage loans to veterans up to \$417,000 (and \$625,500 in Alaska, Hawaii, Guam and the U.S. Virgin Islands).

Unfortunately, the law did not address the maximum guaranty for regular refinances, which remains at \$36,000 and is not indexed to the conforming loan limit. As a consequence, lenders are typically unwilling to make VA-guaranteed refinance loans above \$144,000, since they would not receive a 25 percent backing from VA for such loans and, therefore, would be unable to sell the loans in the secondary mortgage market. VA's statute also limits the maximum regular refinance loan to 90 percent of the property's appraised value (plus the VA funding fee). This means that veterans who do not have sufficient equity in their homes are unable to refinance their non-VA loans into VA-guaranteed loans. It is imperative that Congress take immediate steps to permanently fix this inequity and give VA the tools it requires to help address the needs of those who serve, and have served, this nation.

While examining the VA Loan Guaranty program, we encourage Congress to scrutinize the current guaranty level and structure. In higher-cost areas, such as California, New York, and the Washington, DC area, VA needs increased guaranty authority to meet the needs of those who, lacking this program, might be forced to seek riskier non-guaranteed loans.

A number of proposals are currently being considered as parts of the bipartisan effort to provide economic stimulus while protecting American's investments in their homes. We urge Congress to ensure that VA's Loan Guaranty Program can continue to serve its vital role during these times of financial and economic turmoil and far into the future.

National Association of Home Builders
Mortgage Bankers Association
National Association of Realtors

CC: House Committee on Veterans Affairs