



MORTGAGE BANKERS ASSOCIATION

**Statement of
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On Behalf of Mortgage Bankers Association**

**U.S. House of Representatives
Committee on Veterans' Affairs
Subcommittee on Economic Opportunity**

Legislative Hearing

**May 18, 2022
10:00 A.M.**



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Chairman Levin, Ranking Member Moore, and members of the subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association ("MBA").¹ My name is Mark Jones, and I am the co-founder and CEO of Amerifirst Home Mortgage, a privately held, independent residential mortgage lender based in Kalamazoo, Michigan. I also currently hold the position of Vice-Chairman of the MBA and serve as a Board member for Southwest Michigan First.

We applaud full committee Ranking Member Bost for introducing H.R. 7735, the "Improving the VA Home Loan Benefit Act of 2022." This bill addresses several of the issues that create frictions in the Department of Veterans Affairs ("VA") home loan appraisal process. The VA home loan program is one of the most significant benefits servicemembers receive and making this program more accessible and operationally efficient is a critical step towards delivering much-needed housing to our nation's heroes. One of the most direct ways to improve the VA home loan program is by modernizing the appraisal process.

Reports from mortgage lenders of all types and sizes suggest servicemembers' home purchase offers often are passed over in favor of other competitive offers that might be perceived to close more quickly or with greater certainty due to conventional financing options and/or cash offers. This legislation would encourage important reforms to the VA requirements regarding appraisals including clarifying: when an appraisal is necessary, how appraisals are to be conducted, and who is eligible to conduct an appraisal for a loan guaranteed by the VA. By directing the VA to consider updates to its existing rules and program guidelines, the legislation is a potential first step towards broad modernization of VA appraisal processes. Veterans would benefit from an

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. 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, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

improved appraisal process because it would make offers by buyers with VA loans more competitive to sellers by reducing closing times and minimizing potential delays. These proposed reforms are timely given that housing markets across the country are still highly competitive, and sellers typically seek the quickest and easiest way to finalize transactions.

The balance of my testimony will describe the VA mortgage market, the VA appraisal process, issues with the existing structure of VA appraisals, and how this legislation, if enacted, could make the housing market more accessible for numerous veterans and active duty servicemembers.

The VA Mortgage Market

The VA home loan program plays a vital role in increasing the availability of mortgage credit for servicemembers, veterans, and surviving spouses. By guaranteeing a portion of the loan balance, the VA enables lenders to offer loans with more favorable terms, such as no required down payment. The VA share of purchase transactions in the mortgage market has held steady at approximately 9 percent in the period from 2016 to 2020. VA purchase originations totaled nearly 365,000 loans in 2016 and grew to more than 432,000 loans in 2020 amid a strong increase in aggregate single-family mortgage lending. VA home loans are offered by a wide variety of mortgage lenders – both independent mortgage lenders and depository institutions – throughout the country.

VA Appraisals

Many borrowers seeking to utilize their VA loan benefit for a home purchase have encountered issues due to the competitive nature of housing markets across the country. The VA process begins when a purchase contract is accepted, and the lender orders an appraisal. Receiving an initial valuation typically takes between 6 and 10 business days but often is delayed in rural markets, situations in which comparable sales are not readily available, or in areas where transaction volumes are high. The valuation is then sent to the lender and the VA for final approval.

Before certifying a valuation, the VA reviews the appraisal to ensure the dwelling meets minimum property requirements (“MPRs”). MPRs range anywhere from minor deficiencies in paint or appliances to structural damage or foundational issues. Remedies exist for both buyers and sellers to address concerns with MPRs, low valuations, or other issues with VA appraisals – all of which take considerable time and have no guaranteed outcome. The still-competitive housing markets across the country continue to favor sellers and, given the conditions that must be met for VA loans to close, lenders report that many sellers give VA applicants low priority when reviewing offers.

The well-documented shortage of appraisers has negatively impacted housing markets, particularly with respect to government lending programs such as VA that require unique certifications or experience for appraisers. Appraisal options are dwindling in many areas across the country and an increase in demand over the past few years led to increased costs for appraisals. The demand for services, coupled with widespread retirements throughout the industry (without a healthy pipeline of newly licensed or certified appraisers) means costs for appraisal services are likely to remain elevated for the foreseeable future.

Potential Policy Options

The VA currently has the authority to address many of the issues affecting appraisals for VA home loans. By conducting a thorough review, and updating program regulations and guidelines as needed, the VA could quickly and easily modernize and simplify its appraisal processes. H.R. 7735 directs the VA to do just that by focusing on the quality control standards associated with VA appraisals, mechanisms for increasing efficiencies within the current process, and reviews of the current certification requirements for VA appraisers. H.R. 7735 also encourages the VA to seek the benefit of recent technological advancements by requiring the Department to review current practices related to hybrid appraisals and the Assisted Appraisal Processing Program. Given that housing markets throughout the country remain competitive, MBA believes the VA should make implementation of this legislation, if or when it is enacted, a priority as clear, consistent, and more up-to-date guidance from the Department will lead to better outcomes for veterans.

Additionally, many of the areas that H.R. 7735 seeks to address are consistent with the recommendations in the report issued by the Biden Administration's recently created Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). As consideration of H.R. 7735 (and/or its Senate companion bill) progresses, and beyond these initial steps, MBA urges subcommittee members to go further and consider directing the VA to modernize and streamline its current processes and align them with those of the housing Government Sponsored Enterprises ("GSEs") to the greatest degree possible.

VA Funding Fees

As Congress considers several pieces of legislation that would expand or alter veteran benefits across a range of programs, MBA remains concerned about the potential for further increases to VA home loan funding fees. MBA has consistently registered our opposition to legislation that increases VA funding fees to offset the costs associated with new expenditures. These funding fee increases that Congress has implemented in recent years are not correlated with the risks associated with the VA home loan

program, putting the funding fee schedule into greater misalignment with the risk profile of veteran borrowers.

The continued increases to VA funding fees severely threaten the VA home loan program – not because of any individual funding fee increase, but rather through the cumulative impact of several hikes and extensions over the past decade. The use of VA funding fees to pay for expanded benefits elsewhere in the VA's programs represents a highly problematic practice – requiring homebuying veterans to subsidize what should be earned benefits.

We urge Congress to ensure that VA funding fees are set at levels commensurate with the risks associated with VA-guaranteed home lending, and to conduct oversight and analysis of past funding fee increases rather than levying further increases. We appreciate the House's continued work to support our veterans and look forward to working with the subcommittee to explore legislative opportunities to broaden access to sustainable homeownership for our heroes.

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Conclusion

Once again, MBA appreciates the opportunity to comment on potential legislation impacting the VA home loan program. Our association looks forward to working with the subcommittee to develop practical solutions, such as H.R. 7735, that will improve the VA home loan program and create a system that is modern, effective, and accessible for all participants in the real estate market – especially active duty and retired servicemembers. I look forward to answering any questions you may have.