



2014 VAREP POLICY CONFERENCE

Military & Veteran Housing Policy & Lending

THREE-POINT POLICY PLAN

Making the American Dream a Reality for Those Who Have Served Us

www.VAREP.net



About VAREP

Established in 2011, the USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals (VAREP), is a non-profit 501(c)(3) organization dedicated to increasing sustainable homeownership and economic opportunity for the active-military and veteran communities. VAREP and its 5,000-plus members represent and work within all sectors of the real estate, housing, and financial-services industries. Its goal is to preserve the American Dream of homeownership for US servicemembers and veterans of all eras.

OVERVIEW

Herein are policy issues that impact VAREP's ability to fulfill this mission. While homeownership is the American Dream, barriers to homeownership are greater for servicemember and veteran communities. We believe it will take the collective efforts of the Obama administration, policymakers, government agencies, the real estate industry, and key leaders in the financial-services industry to overcome these obstacles and create reforms that will bring about meaningful change.

Below is an executive summary of VAREP's 2014 Call to Action and Policy Priorities:

2014 CALL TO ACTION – SERVICEMEMBER AND VETERAN FINANCIAL-LITERACY REFORM

VAREP urges Congress to create and enact legislation that delivers preventative and proactive financial-literacy education for servicemembers and veterans. As outlined in its call to action, VAREP believes that many young servicemembers and veterans make financial mistakes that often spiral into homelessness because of a lack of personal financial wherewithal.

POLICY PRIORITY – THE VA HOME LOAN PROGRAM

VAREP recommends a major overhaul of the US Department of Veterans Affairs (VA) loan program to modernize it and make it competitive with conventional and FHA loan programs. As of the 2011 US Census, 16.4 million veterans own homes. However, in sharp contrast, there are only 1.9 million active VA loans in the system, according to the VA. The disparity between the numbers of veteran homeowners and active VA loans represents a failure in service to military consumers. To reverse this trend, we believe the VA loan program must be modernized and supported in the marketplace through a coordinated effort by government agencies, financial institutions, real estate trade associations, and real estate companies.

POLICY PRIORITY – SERVICEMEMBER CIVIL RELIEF ACT

VAREP applauds the efforts of the nation's financial institutions to comply with the Servicemember Civil Relief Act (SCRA). These institutions must, however, continue to move forward and address servicemembers' complaints about the mortgage process, requirements for loan modifications and refinances, and services rendered by employees who lack basic knowledge of military program guidelines. Consumer confusion plagues the current system. We urge financial institutions to train their employees in Permanent Change of Station (PCS) guidance issued by the Consumer Financial Protection Bureau (CFPB) and in Fannie and Freddie loan short-sale guidelines issued by the Federal Housing Financial Agency, which are aimed at assisting servicemembers with PCS orders. VAREP also appeals to policymakers to enact legislation that mandates the Department of Defense (DoD) to integrate SCRA education into servicemember training.

CALL TO ACTION:

VAREP calls for lawmakers to enact financial-literacy policy reforms that benefit servicemembers and veterans.

Homelessness and poverty affect a large subset of veterans. Currently, 62,619 veterans are homeless on any given night. Veterans with particularly high rates of homelessness include African-Americans, women, veterans with disabilities, and young veterans. Combat veterans of Operation Enduring Freedom (Afghanistan) and Operation Iraqi Freedom (Iraq) have higher rates of homelessness and tend to become homeless more quickly after discharge than do non-combat veterans from the same era.

Post-traumatic stress disorder (PTSD), depression, bipolar disorder, alcohol and drug abuse, youth, and run-ins with the law are risk factors for homelessness among veterans following military service. Financial insolvency is an overlooked contributor to this equation. Typically, this cycle begins with a lack of stable employment, inability to budget and make ends meet, limited financial knowledge, poor judgment in financial decision-making, and lack of material security. These factors often exist independent of mental health diagnoses.

The all-encompassing culture of the military infrastructure, which addresses every need, actually works against servicemembers post separation. Young servicemembers who live on base and have their basic needs accommodated often lack the basic skills to manage personal finances. Compared to their civilian peers, they are ill-equipped to handle the responsibilities of independent living. Essentially, they don't know what they don't know. Their naivety and lack of personal-finance skills begets a lifelong pattern of poor money-management decisions.

Programs like the DoD's Financial Readiness Campaign, whose mission is to help servicemembers and their families learn about money management through participating nonprofit programs, appears to be effective but under-utilized. According to the Blue Star Families Survey, only 12 percent of servicemembers polled claimed to have received financial education through servicemember training, while **90 percent said they wanted greater emphasis on preventative financial education**. The survey also revealed that 65 percent of servicemembers experienced stress related to their family's current financial condition.

None of this is surprising when all the factors are considered. During active duty, cultivating financial savvy takes a back seat to combat-mission training. Add multiple deployments and decades of service to the mix, and one can understand why servicemembers and their commanders are ill-prepared to handle personal financial matters when they exit the military. Consequently, they often turn to unqualified family members and friends for advice on financial decisions rather than seek guidance from trained and certified financial experts.

The financial counseling they do receive prior to discharge is a crash course on budgeting and personal finance delivered during the mandatory Transition Assistance Program (TAP). While servicemembers are required to be physically present for the training as part of the discharge process, most have mentally checked out by then. Financial literacy is a life skill that is acquired over time. While programs like TAP are well intentioned, this type of education can hardly be absorbed during the period of enormous change that occurs just prior to military discharge.

Research conducted in 2012 by the National Institutes of Health examined the relationship between financial well-being and the ability of new veterans to reintegrate into society after deployment. Results from the National Post-Deployment Adjustment Survey showed a link between money woes and subsequent homelessness, a trend most prevalent among veterans of the Iraq and Afghanistan wars. The median income of those surveyed was \$50,000; a fact that confirms the problem is not confined to low-income veterans. Clearly there is a crucial need for financial-literacy programs that can help curb the trend of homelessness among post-separation veterans.

CALL TO ACTION:

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Many current veteran policies and programs are based on the campaign to “End Homelessness by 2015,” a worthy goal set by the Obama administration and the VA. Most VA homeless programs offer components of financial-literacy education, but none are fully developed or supported. At present, there are no other VA financial-literacy programs for the veteran community.

VAREP SOLUTIONS:

VAREP recommends an organized, joint approach to servicemember financial-literacy training that begins early in the recruitment process, continues throughout military service, and includes military families. Ideally, this would include a continuum of training that delivers targeted financial education to servicemembers that correlates with their place in the military lifecycle. VAREP strongly advocates comprehensive military and veteran financial-literacy reform that includes:

- **DoD Financial-Literacy Program Evaluation and Reform**

VAREP urges policymakers and the Obama administration to evaluate the effectiveness of the Financial Readiness Campaign and TAP. At a minimum, these programs should present additional opportunities for military personnel to receive mandatory training earlier and at regular intervals in order to reduce the chances for financial mistakes after separation.

- **Financial-Literacy Coaching Offered under VA Homelessness Programs**

VAREP urges policymakers and the VA to incorporate formal personal-finance education into the array of VA homelessness programs, including joint efforts with the US Department of Housing and Urban Development (HUD), VA Supportive Services for Veteran Families, Health Care for Homeless Veterans, and the VA Fiduciary Program.

- **VA Preventative Financial-Literacy Education Outreach Campaign**

VAREP encourages policymakers and the Obama administration to introduce and pass legislation to fund community-based, peer-to-peer preventative financial-literacy coaching programs through collaboration between the DoD, the VA, and participating nonprofit partners. These outreach programs would provide support to servicemembers, transitioning veterans, and post-separation veterans, including homeless veterans of all eras.

POLICY PRIORITY: VA Home Loan Program

The VA Loan Program must be overhauled and modernized to compete with conventional and FHA loan programs.

Since its inception in 1944, the purpose of the VA Home Loan Program has been to help eligible veterans achieve homeownership with the benefit of favorable loan terms and interest rates. To date, the VA has guaranteed over 18 million home loans and empowered millions of veterans to purchase, construct, or refinance a home.

BARRIERS TO VA LOAN USAGE AND VETERAN HOMEOWNERSHIP

As of the 2011 census, 16.4 million veterans own homes and 4.5 million rent. In sharp contrast, however, according to the VA there are only 1.9 million active VA loans in the system. The disparity between veteran homeownership and the number of active VA loans can be attributed to the following:

- **Inadequate Training of Industry Professionals:** According to the findings from the National Veterans Survey (NVS), of those respondents who used a loan other than a VA loan, 4.2 percent said their lender and/or REALTOR® discouraged the use of the VA loan, while 8.4 percent said they did not know about the program. VAREP believes the actual numbers are much higher. The VA does not provide adequate VA loan training to loan originators and real estate professionals, a fact that perpetuates misinformation and misconceptions about VA loans and creates risk for discriminatory behavior in the industry. The VA also does not provide adequate VA loan or homebuyer training to the military and veteran communities.
- **Veteran or Servicemember VA Eligibility is Overlooked:** According to the NVS, of those veterans who had a home loan, 28.5 percent said their lender never discussed the VA loan option with them. Financial institutions do not adequately identify servicemembers and veterans during the mortgage application process. While there is no apparent malice in this oversight, it only compounds matters for all involved and leads to poor tracking of VA loan usage. Accurate program statistics are fundamental to any efforts to increase usage rates. Veterans are a diverse group identified based upon service rather than race, ethnicity, or gender. Unless veterans self-identify, there is virtually no way to identify them other than to ask.
- **CRA Does Not Protect Veterans and Servicemembers:** The Community Reinvestment Act of 1977 (CRA) provides a framework for financial institutions, state and local governments, and community organizations to jointly promote banking services to all members of a community. Financial institutions have added CRA strategy departments to ensure that lending performance achieves an outstanding CRA rating annually. Many lenders have successfully adopted low-to-moderate-income (LMI) and multicultural (MC) lending and community outreach policies. Some institutions have hired executives with LMI and MC expertise and have forged partnerships with minority real estate trade organizations to ensure LMI and MC outreach is done. The CRA's current interpretation does not take into consideration the military and veteran culture and mindset, thus inadvertently leaving out many veterans who would qualify under the LMI and MC initiatives.
- **HUD-Approved Counseling Agencies Are Not Equipped to Serve Military:** HUD and its army of nationwide housing counselors provide a valuable service to the general public, but most lack the appropriate staff to handle military and veteran clientele. Few HUD-approved counseling agencies employ counselors who know veteran benefits programs and the VA loan program and who understand the military culture.

POLICY PRIORITY: VA Home Loan Program

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- **The VA Loan Program Is Not Competitive:** According to the NVS, veterans said they did not use the VA program because a conventional or FHA mortgage was easier to get, less expensive to obtain, faster to process, and had lower fees. Industry complaints focus on the VA loan's rigid Minimum Property Requirements (MPRs), the lengthy appraisal process, the appraisal valuation, the absence of a loan product similar to the FHA 203K loan, and outdated features that are not competitive.

These forces are compounded in the current housing environment, which is still rife with inventory issues, foreclosures, and short sales. Veterans using a VA loan in multiple-offer situations are losing out to buyers with conventional and FHA loans. Sellers and banks are unwilling to pay the VA non-allowable costs because it lowers their net profit. Additionally, VA loan borrowers are unable to purchase HUD-owned homes.

VAREP SOLUTIONS

Meaningful change can be achieved only through collaboration. To make the VA loan program a viable, competitive mortgage finance product, VAREP believes that the program must be modernized and supported in the marketplace by top government organizations, industry stakeholders, and real estate practitioners.

VAREP believes this can be achieved in the following ways:

- VAREP encourages policymakers and the Obama administration to adopt policies that modernize the VA loan program, making it more competitive with conventional and FHA loan products.
- VAREP implores policymakers, the Obama administration to adopt policies that require financial institutions to identify veterans on the 1003 loan application (Fannie/Freddie) and provide them a Good-Faith Estimate with which the VA loan can be compared to other loan products for more informed decision-making.
- VAREP encourages policymakers and the Obama administration to reform the CRA to include military and veterans as a recognized group like low-to-moderate income consumers, or to adopt policies to ensure that financial institutions afford the same lending opportunities to the military and veteran communities.
- VAREP encourages the VA to provide unbiased VA loan and homeownership education to the entire veteran community, and incorporate formal financial literacy training into its homeless programs.
- VAREP recommends a joint effort between the VA and DoD to deliver VA home loan and homebuyer education, through nonprofit partners, to servicemembers early in their careers and prior to separation.
- VAREP encourages a joint collaboration between the VA and HUD to develop a Housing Counseling program tailor-made for veterans by veterans.
- VAREP encourages the VA and financial institutions to collaborate and track VA loan usage statistics, including detailed reasons for a veteran is not using a VA loan. These stats should be published annually.
- VAREP encourages collaboration between the VA and financial institutions to standardize the VA loan program to eliminate the confusion among veteran borrowers that is created by lender overlays.
- VAREP encourages financial institutions and real estate companies to train their staff on the VA loan program using the VA Lender Handbook. No servicemember or veteran should ever be discouraged from using his or her VA loan benefit.

POLICY PRIORITY: SCRA and Servicemember Mortgage Complaints

Financial institutions must work with government agencies to address servicemember mortgage complaints and ensure SCRA compliance.

The SCRA provides a number of significant protections to servicemembers. Over the course of their role as protectors of the United States during the war on terror, some servicemembers fail to meet basic financial obligations at home (such as rent or mortgage payments) when they are activated for military duty.

To date, the Office of Servicemember Affairs (OSA) of the Consumer Financial Protection Bureau (CFPB) has received 4,700 mortgage complaints from military consumers, which accounts for 33 percent of its consumer product complaints. According to the OSA, the most common consumer complaints are: The inability to keep up with mortgage payments, issues related to loan modifications, and collections and foreclosures (55 percent). Consumers who have filed complaints generally desire to work with their lender to avoid foreclosure.

The complaints indicate that consumer confusion persists around requirements for obtaining loan modifications and refinancing, including but not limited to:

- **Document submission timeframes**
- **Payment trial periods**
- **Allocation of payments**
- **Treatment of income in eligibility calculations**
- **Credit bureau reporting during the evaluation period**

The shelf life of documents provided as part of the loan-modification process is of particular concern to military consumers. Although consumers must provide documents within short periods, income documentation generally remains valid for up to 60 days. In many instances, lengthy evaluation periods necessitate multiple submissions of documents, contributing to overall consumer fatigue and frustration.

In particular, military consumers have reported frustration with mortgage servicers' lack of knowledge about military-specific programs. **Consumers report that servicers remain unaware of the PCS guidance issued by the CFPB and short-sale criteria aimed at assisting servicemembers with PCS orders, such as those stipulated by the Federal Housing Financial Agency's August 2012 Short Sale Guidelines for Fannie and Freddie Loans.**

POLICY PRIORITY: SCRA and Servicemember Mortgage Complaints

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VAREP SOLUTIONS

VAREP applauds the efforts of the DoD, OSA, financial institutions, federal financial regulators, and government-sponsored entities to ensure SCRA compliance, but calls for greater measures that secure fair treatment for servicemembers who are in need of mortgage assistance.

The following are VAREP's recommendations for enhanced reforms:

- **Make SCRA Training Mandatory for All Servicemembers:** All the reforms in the world will not effect change until servicemembers are informed and ready to act on their own behalf. Servicemembers must understand their role in this process to self-identify and activate protections. Servicemember training is needed to create a new mindset; therefore, VAREP recommends that policymakers make SCRA training **MANDATORY** for all servicemembers.
- **Improve Communication with Military Consumers:** VAREP recommends that financial institutions work closely with the OSA and OCC to reduce consumer confusion about the loan-modification and -refinance process, especially as it relates to document submission timeframes, payment trial periods, allocation of payments, treatment of income in eligibility calculations, and credit bureau reporting during the evaluation period.
- **Increase Staff Knowledge of Military-Specific Guidelines:** VAREP recommends that lenders and servicers continue to work closely with the OSA and OCC to improve service and fair treatment of servicemembers throughout the transaction process. This begins with training that increases staff knowledge of processes and guidelines that impact military consumers such as the PCS guidance issued by the CFPB and short-sale guidelines that assist servicemembers with PCS orders.
- **Increase Knowledge of SCRA among Real Estate Agents:** Real estate agents have an influential role with homebuyers. As trusted advisors, they readily share vital information about the home purchase transaction with consumers. VAREP encourages all real estate companies to educate and train their agents on the SCRA so they may serve as an influential resource for servicemembers.

“The willingness with which our young people are likely to serve in any war, no matter how justified, shall be directly proportional to how they perceive veterans of early wars were treated and appreciated by our nation.”

- George Washington



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