HOME LOAN CHURNING PRACTICES AND HOW VETERAN HOMEBUYERS ARE BEING AFFECTED

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BEFORE THE

SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

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Wednesday, January 10, 2018

COMMITTEE ON VETERANS' AFFAIRS,
U. S. HOUSE OF REPRESENTATIVES,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 10:02 a.m., in Room 334, Cannon House Office Building, Hon. Jodey Arrington [Chairman of the Subcommittee] presiding.

OPENING STATEMENT OF JODEY ARRINGTON, CHAIRMAN

Mr. ARRINGTON. The Subcommittee will come to order.

Good morning, everyone, and welcome to today's Subcommittee on Economic Opportunity and our oversight hearing entitled "Home Loan Churning Practices and How Veteran Homebuyers are Being Affected," and additionally, how taxpayers could be affected. This is the second oversight hearing that we have held this Congress related to VA's Loan Guaranty Program and the benefits that are provided to our American servicemembers and veterans on account of this program.

As Mr. London with the Department of Veterans Affairs discusses in his testimony, VA has guaranteed over 23 million loans in excessive of $2 trillion since the 1940s. That represents millions of veterans, servicemembers, and their families who may not have otherwise been able to achieve the American Dream.

And while this program is one of the more well-run programs at the VA—and I have some thoughts about why it is. Mainly because they guarantee it. But the lenders are involved, and they underwrite it, there are more people involved in administering it in the private sector.

But they have recently had some concerns about certain activities being conducted by some lenders, potentially unscrupulous lenders, which have the potential for harmful outcomes for veteran home buyers. But not only for the home buyers, but for more the mortgage industry and for, again, the taxpayer who in guaranteed programs like this are ultimately on the hook.

We have seen reports of what may be deceptive practices that seem to be, in some cases, misleading veterans to refinance their homes with the idea that they will have lower interest rates or be able to skip a mortgage payment or take cash out of their homes that will, quote, unquote, save them money down the road. And as our dads taught us, if something sounds too good to be true, oftentimes it is too good to be true.

So we have heard stories of individual veterans receiving dozens, dozens of solicitations from certain lenders in the immediate week after closing on their homes, leading some of them to believe that they will pay less cash each month if they just refinance their homes with these lenders. However, due to the realities of hidden fees, adjustable interest rates, and other products like that, the veteran can end up paying much more than they ultimately can afford or even remove all their equity in the home, such that they end up upside down on their mortgage.

These practices are troubling. They don't seem to have the best interests of the veteran in mind. They can have a negative impact on financial institutions and the investors that support them. And then, most disconcerting to me, they are depreciating the value of the VA guaranteed loans and the integrity of the program, and they are exposing—potentially exposing taxpayers to greater risk.

I understand that many households do experience instances where refinancing through an Interest Rate Reduction Refinancing Loan, or an IRRRL, is necessary and appropriate for their own financial circumstances. However, we must ensure that there are appropriate standards in place to prevent unfair and deceptive practices, number one; and, number two, that these products are being offered consistent with safe and sound practices to protect the integrity of the Home Loan Program.

I look forward to discussing these solutions with our witnesses today to ensure that we are appropriately protecting the veteran consumer, the integrity of the program, the taxpayer, who, by the way, has agreed to make this investment and be a guarantor for this program so that we can serve our veterans in this way.

I again thank the witnesses for being here this morning, and I look forward to your testimony.

And I now want to yield time to my friend, Ranking Member Beto O'Rourke.

OPENING STATEMENT OF BETO O'ROURKE, RANKING MEMBER

Mr. O'ROURKE. Mr. Chairman, thank you for helping to organize this meeting, to your staff and the minority staff for ensuring that we are prepared for it. I am looking forward to hearing from those who are here today to testify and answer our questions.

And as always, you have done such an excellent job of describing the benefit of the program that we seek to enhance, some of the challenges that face that program right now, and specifically the veterans for whom it is set up and administered and intended to benefit.

And as we have often done in this Subcommittee, which I think really distinguishes it from so much of the other work in Congress, I would love to see us, perhaps by the end of this meeting, suggest some commonsense solutions that the VA could either adopt administratively or that we will work on as, literally, an act of Congress, if necessary. I think that is something that we have been able to do in many of our meetings together with the participation of the Members, input from VSOs and veterans, and the wisdom that we gain from the panel here.

And so I have come in with some ideas. I want to listen to yours. I want to hear what the experts have to say. And then, perhaps, in summary at the end of this, we could hopefully get on the same page about how we could correct this in a way that is not burdensome or onerous but protects veterans from fraud or duplicity or decisions that they may not be making in an informed way.

So I am looking forward to the conversation and grateful that you brought us all together today on this important issue. And with that, I will yield back.

Mr. ARRINGTON. Thank you, Ranking Member O'Rourke. And I share your sentiments and the desired outcome to find out where the problem lies and what tools the folks here, the stakeholders need to solve the problem, and then move forward with just a better environment altogether for our veterans and taxpayers.

So with that, let's make introductions of those who are here to testify with us.

We have Mr. Jeffrey London, Director of VA's Loan Guaranty Service. And he is accompanied by Mr. John Bell, Deputy Director of VA's Loan Guaranty Service.

Mr. Michael Bright, Executive Vice President, Chief Operating Officer of the Government National Mortgage Association, better known as Ginnie Mae.

Glad to have you here with us.

Mr. J. David Motley, President of Colonial Savings, who is testifying on behalf of the Mortgage Bankers Association, an important stakeholder, no doubt, in this discussion.

And finally, Mr. Brock Cooper, General Counsel for Veterans United Home Loans.

Thanks, everybody, for being here, and certainly look forward to hearing from you.

Let's start with Mr. London. You have 5 minutes for your opening statement.

STATEMENT OF JEFFREY LONDON

Mr. LONDON. Good morning, Chairman Arrington, Ranking Member O'Rourke, and other Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the Department of Veterans Affairs Home Loan Guaranty Program and the issue of serial refinancing and the impact it can have on veteran borrowers.

Making sure refinance loans provide veterans with a benefit and not future financial harm is a very important matter. No one is helped when a refinance loan ends in a foreclosure.

It is also very important to ensure that VA loans facilitate healthy mortgage-backed securities and continue investment in our Nation's housing market.

Today I am pleased to share with you our assessment of the situation, the activities to assist veterans that we have undertaken in collaboration with our colleagues thus far, and a sensible, impactful approach we have crafted to ensure program success.

First, I would like to give a sense of the scope and nature of the situation in our program. The vast majority of refinanced loans are providing veterans with benefits. For example, one disabled veteran living on Social Security income and VA disability was able to reduce the interest rate and change terms to save over $500 a month. Another veteran who was a police officer with two children was able to reduce the interest rate and save over $400 a month.

Data from the last 2 fiscal years also show positive trends. Not only did the number of veterans who obtained two or more streamlined refinances in a given fiscal year decline significantly, approximately 80 percent year over year, the number of lenders engaging in notable habitual refinancing also declined from approximately a dozen in fiscal year 2016 down to only a handful in fiscal year 2017.

So, yes, there have been instances of lenders not using the streamlined refinance program for its intended purpose. Although we believe those instances are not indicative of a systematic problem, VA's steadily high loan volume reverberates to Ginnie Mae's investors. And, of course, one veteran being misled or taken advantage of is one veteran too many. So we are compelled to act and make an impactful change.

Our program's success is built on a longstanding history of employing policy actions that are appropriate for the given situation. We take measured approaches to policy interventions and complex situations.

A regulation has been drafted with due care. Our overarching concern in developing the rule was to ensure that our veteran borrowers receive a net tangible benefit.

In addition to analyzing seasoning requirements appropriate for streamlined and regular/cash-out refinance loans, we examined the long-term cost veteran borrowers could face in obtaining them. Meanwhile, we also collaborated with our colleagues at Ginnie Mae and the Consumer Financial Protection Bureau to employ non-regulatory actions that could quickly serve veterans, taxpayers in general, and mortgage investors alike.

The VA team has focused a great amount of time and energy in working with Ginnie Mae in a joint task force which has resulted in two all-purpose memorandums aimed at the frequency of refinance loans. We collaborated with the CFPB on a warning order which provided veterans with important consumer and financial information to consider when deciding whether to refinance an existing mortgage. We have held a number of meetings with the Mortgage Bankers Association and their members to discuss program policy and data as they relate to the underwriting, origination, and performance of VA guaranteed loans.

As the draft regulation makes its way to publication for comment, we have turned that eye to examining the impacts that recent market conditions may have on other segments of our business, more particularly, the Regular/Cash-out refinance program. We anticipate that, in response to market conditions, lenders will shift their business models to originating more purchase loans or more regular/cash-out refinance loans.

As a result, we will be keeping a close eye on trends in these programs to ensure they are being stringently underwritten to our established standards and the loans provide the intended benefit to our veteran borrowers.

Members, despite the concern that others may have expressed about the heading we have followed and the speed at which we have traveled, I am confident that the road we have engineered is a sensible one and that it will have a net positive impact for our veterans, for lenders, and for the broader origination and secondary markets.

Thank you again for the opportunity to speak to you today. And as always, I thank you for your unwavering commitment to serving our Nation's veterans and servicemembers. I look forward to entertaining any questions you may have.

[THE PREPARED STATEMENT OF JEFFREY LONDON APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. London.

Now, from Ginnie Mae, Mr. Michael Bright. We yield 5 minutes for your introductory statement.

STATEMENT OF MICHAEL R. BRIGHT

Mr. BRIGHT. Chairman Arrington, Ranking Member O'Rourke, and Members of the Subcommittee, good morning, and thank you for inviting me here today.

My name is Michael Bright, and I am the executive vice president and chief operating officer of the Government National Mortgage Association, or Ginnie Mae. I thank you very much for inviting me here to testify on this critical issue.

For background, Ginnie Mae is a Federal agency, chartered by Congress in 1968, responsible for providing liquidity to the market for mortgages in the Veterans Affairs, Federal Housing Administration, and USDA rural housing programs. We do this by applying a full faith and credit government guarantee to loans that qualify for delivery into our security.

Qualifying loans are those guaranteed by the USDA, VA, and FHA under their respective program guides. These loans are then pulled into our mortgage-backed securities, or MBS.

The Ginnie Mae guarantee and the Ginnie Mae brand is globally recognized and trusted. The strong value of our brand leads to investment in the U.S. housing market from large asset managers, pension funds, and central banks across the globe, all of which makes lending to low-income, first-time, rural, and veteran borrowers possible.

It would be very difficult for me to overstate the consequences for the U.S. housing market if Ginnie Mae and our partner Federal agencies, the USDA, VA, and FHA, did not successfully police our programs. Global capital is drawn to our market in part because of the strength of the United States and its credit worthiness. But if our program is abused or taken advantage of, this capital can and will find other investment vehicles. That would drive up interest rates and make mortgage credit less available for millions of Americans.

As such, it is imperative that we all work together, those of us here on this panel as well as Congress, to solve the issue we are here to discuss today.

We believe we are seeing abusive practices by some lenders in the VA program, namely the rapid refinancing of borrowers multiple times without significant economic benefit. We believe, and our data shows, that this practice is the result of a relatively small percentage of lenders. But, importantly, it has become endemic enough in the market that it threatens the health of our security, and so action to curb this behavior is imperative.

Abusive lending practices in the VA market are alarming on so many levels. First, as I mentioned before, if this behavior persists, we run the risk of losing the capital needed to fund critically important home ownership programs.

Second, to watch behavior that is borderline predatory in nature return to our country is terrifying. Much of this behavior is too reminiscent of the lending practices used by many in the industry prior to the 2008 financial crisis. And finally, the fact that this behavior is targeted at veterans should be sickening to all of us.

The best way to stop this behavior is to put in place more stringent rules and to say that it will not be tolerated.

For Ginnie Mae's part, we have already announced that we are putting in place the following new requirements.

One, no loan can be refinanced and delivered into a Ginnie Mae multi-issuer security within 6 months of the first payment due date of the original loan.

Two, no loan that is more than 150 basis points or 1.5 percentage points above what we define as par will be eligible for delivery into a Ginnie Mae multi-issuer security.

And, three, lenders who are clearly and demonstrably abusing our program will be put on notice.

Ultimately, under forthcoming rules, some pools will no longer enjoy the benefits of delivery into our flagship security and instead will be forced into what we call custom pools. This is a powerful tool that Ginnie Mae can and will use.

Let me repeat: Issuers who produce pools of loans that perform materially different than our average will need to find their own investors. This action will help prevent the bad actions of some issuers from filtering into poor security pricing for those who use our program in a responsible manner.

I believe that 2018 will be a critical year for this issue. If we cannot get a handle on this behavior, abusive lending will continue to infect our market and our program. That could drive away important sources of capital and may create an environment where veterans are viewed as suitable prey for aggressive lending.

I would like to take a moment and also say to veterans that you have the right to make unwanted calls or solicitation stop. Refinancing your loan multiple times likely has consequences that you may not be aware of. And if you see terms on a loan that appear too good to be true, they probably are. Veterans should feel free to contact me or any other official at Ginnie Mae at any time if they feel they are being harmed.

In conclusion, let me thank you all once again for bringing attention to this issue. At Ginnie ae, we are here to work with all of you in doing everything that is needed to root out abusive behavior from this important loan program.

Thank you, and I am happy to answer any questions that you have.

[THE PREPARED STATEMENT OF MICHAEL R. BRIGHT APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. Bright.

Mr. Motley, you now have 5 minutes.

STATEMENT OF J. DAVID MOTLEY

Mr. MOTLEY. Thank you.

Chairman Arrington, Ranking Member O'Rourke, and Members of the Subcommittee, I appreciate the opportunity to testify this morning on behalf of the Mortgage Bankers Association.

My name is Dave Motley, and I am president of Colonial Savings, a privately held, federally charted thrift headquartered in Fort Worth, Texas.

For over 65 years, we have been originating loans for veterans. In fact, our founder, a veteran himself, saw the opportunity to serve veterans returning from World War II.

Today, roughly 10 percent of our origination volume is to veterans, and we service over 6,000 loans for VA borrowers.

I am also Chairman this year of the MBA. I am a certified mortgage banker, and I previously served as a board member of the Texas MBA and a member of the Community Bank Advisory Council for the Consumer Financial Protection Bureau.

I would like to begin by applauding this Subcommittee for its efforts to better understand problematic practices with respect to certain mortgage refinances marketed to servicemembers and veterans of the U.S. military. The VA's mortgage loan program plays an important 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.

While those borrowers seeking to refinance their VA loan may apply and be evaluated by their lender's full underwriting process, the VA Interest Rate Reduction Refinance Loan, IRRRLs, allows for a streamline refinance process that is often faster and entails lower costs.

Generally, refinancing with an IRRRL allows the borrower to lower the interest rate on the mortgage. And in doing so, the borrower incurs fees from the lender which are either paid by the borrower at origination or rolled into the principal balance of the new loan.

Recently a small number of lenders have undertaken aggressive and potentially misleading advertising campaigns to generate increased IRRRL volumes and fees. In some cases, this advertising targets VA borrowers who have just recently engaged in an IRRRL, convincing them to refinance yet again to lower their interest rate by a modest amount while adding even more fees to the principal balance on the loan.

Such serial refinance refinancing, or churning, strips borrowers' equity and often further extends the time period it takes for the cost to be recouped through lower payments. Some lenders also use the IRRRL to lower the rate, but only by moving the veteran from a 30-year fixed rate to a 3-year adjustable rate mortgage.

Many borrowers may not fully comprehend the net economic impact of their decision to refinance, leaving them vulnerable to situations in which they add substantial amounts to their overall loan balance while achieving only small reductions in their monthly payments. This is not what the program was intended to do, and these practices should be put to an end.

Aggressive use of IRRRLs by some lenders also threatens to weaken investor demand for Ginnie Mae securities that are partially backed by VA loans. This outcome increases costs and negatively impacts access to credit for a wide range of borrowers.

It is worth noting that IRRRL churning is not a widespread problem among the mortgage lending community, but rather an activity that is confined to a small subset of lenders. MBA fully supports supervisory efforts to improve the policing of the market as well as new rules to remove the ability or incentive for any lenders to engage in churning.

We applaud Ginnie Mae for taking important steps to both study and address this issue. However, the problem of loan churning cannot be solved by Ginnie Mae alone.

Fortunately, many practical options fall within the existing authority of VA to implement. For example, instituting a maximum recoupment period would inhibit lenders from charging substantial fees in exchange for minor reductions in mortgage interest rates.

Similarly, requiring a net tangible benefit test, which is already required for FHA streamline refinances, could more effectively ensure that the terms of the refinance produce real benefits for borrowers. Limits on the amounts that can be added to the principal balance would reduce equity stripping. And finally, targeted consumer financial education about churning can better inform borrowers about the potential for abuse.

It is important to focus on options that target churning while not impeding the ability of servicemembers and veterans to obtain a beneficial refinancing. We recognize that the VA program is a unique program: an entitlement program for veterans who have served our country. As such, while we support quick action to limit abuses, it needs to be done thoughtfully to ensure that legitimate low-cost refinancing options for veterans are retained.

MBA is committed to the promotion of best practices and standards that generate a healthy and responsible mortgage market, and we stand ready to assist in developing and implementing solutions to the problems we have discussed today.

[THE PREPARED STATEMENT OF R. DAVID MOTLEY APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. Motley.

I yield 5 minutes now to Mr. Cooper for his opening remarks.

STATEMENT OF BROCK COOPER

Mr. COOPER. Good morning, Chairman Arrington, Ranking Member O'Rourke, and other Members of the Committee. My name is Brock Cooper, and I am general counsel of Veterans United Home Loans. I would also like to thank the rest of the Members of the panel for being here today to address this issue.

Thank you for allowing me the opportunity to come here before you today to discuss lending practices that impact our Nation's servicemembers and veterans.

I have worked for Veterans United for nearly 10 years and have headed VU's legal department for that entire time. I am a veteran myself and have used the VA loan several times, including an IRRRL. I have a VA loan today, and I have seen firsthand the aggressive and misleading refinance practices employed by some in the industry.

Veterans United is a full-service family-owned lender. We are headquartered in Columbia, Missouri, and we make VA loans in all 50 States and the District of Columbia.

Our primary mission is helping veterans, servicemembers, and their families achieve the American Dream of home ownership. We have been the Nation's number one VA purchase lender the past 2 years, closing more than 37,000 purchase loans in 2017. Veterans United now represents approximately one out of every seven VA purchase loans made in the country among the top 100 VA purchase lenders.

If I could impress one thing upon you today, it is that the VA loan is not like other mortgages. It differs from FHA loans and all other mortgage programs because it is an earned service benefit to our veterans and our Active Duty personnel and surviving spouses. It is part of a deep bond between those who serve and the Nation these veterans pledged to defend.

As we work to find solutions to the issues discussed here today, I implore the Committee to examine whether or not particular solutions may result in fewer earned benefits for veterans.

The VA loan program stands out as a true success story. Before the mortgage crisis, the VA loan was a little-used product. But due to unique underwriting, VA loans were the only shining light through the mortgage crisis, performing better than any other program.

Today, VA loans represent about 10 percent of the mortgage market. The program has featured the lowest average interest rates for more than 3 years, along with the lowest foreclosure rates for about 10 years. In particular, the IRRRL program has helped hundreds of thousands of veterans save money in their monthly mortgage payments.

Unfortunately, as the Members of the panel stated before, some IRRRLs fail to live up to the spirit and intent of this program. The idea behind the IRRRL is to put veterans in a better financial position today than they were yesterday. We are here today to discuss improvements to this program that will ensure this spirit is carried out in every IRRRL.

We have seen many, many veterans harmed by this activity. And in many situations, the veteran is left so far underwater, they may have difficulty selling their home in the future. Still others are left with adjustable rate loans that they don't understand and could result in higher payments down the road. And others have costs that could just never be recouped.

We commend the VA and Ginnie Mae for their active engagement on this issue, and we salute their commitment to protecting veterans.

We are here to talk about next steps. Going forward, the VA is in the best position to solve this issue without compromising veterans' benefits. However, the VA inhibited from moving with solutions due to administrative requirements that are part of the VA program.

Unlike VA, other agencies, such as Ginnie Mae, Fannie Mae, Freddie Mac, and FHA, can make changes more quickly. We support legislation that would empower the VA to make program changes in a similarly expeditious manner, potentially including seasoning and recoupment periods for IRRRLs. Additionally, policymakers should ensure that non-cost-saving reasons are considered through the process to protect benefits of our deserving veterans.

Thank you again, Mr. Chairman and Ranking Member and the Committee, for allowing me to come before you today, and I look forward to questions.

[THE PREPARED STATEMENT OF BROCK COOPER APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. Cooper.

I now recognize and yield myself 5 minutes. I may have to leave early. I would rather yield to my colleagues, but in the event I have to leave, I wanted to go ahead and put my thoughts out there and ask you guys some questions.

I spent 4 years as a regulator here in Washington during the Bush administration, George W, at the FDIC, and my philosophical view of regulation is that the best way to regulate in a private market is to have full transparency and robust competition so that people know what they are getting and they have choices.

Because, presumably, if people are buying things, if they are choosing to enter into these transactions, there must be a need. There is no market if there is no need. And I think that Mr. Motley would understand that being in the industry.

But this isn't a private market. This is a government market. Explain that to me more, Mr. Bright, explain the difference between the sort of light touch, limited intervention with the sort of transparent, robust competition that free marketeers like me believe in and rely on as the best way to weed out the riffraff. Now we got a government market. What is different about it? What is skewed in that dynamic?

Mr. BRIGHT. Yes, sir. Thank you for the question.

It is true that in the mortgage finance base, in particular in FHA, VA, and USDA lending, the term "market" we use a little bit loosely, because you have originators who are originating a loan and they are purchasing government insurance on that loan, in this case, in terms of the VA, and then they are purchasing another form of government insurance to wrap the mortgage-backed securities. So you have actually two taxpayer layers of involvement to ensure that there is no credit risk at the end product.

Mr. ARRINGTON. So the full faith and credit of the United States Government is now brought to bear in this.

Mr. BRIGHT. Absolutely.

Mr. ARRINGTON. We created this market with the full faith and credit of the taxpayer backing up not just once with the guarantee—

Mr. BRIGHT. Yes.

Mr. ARRINGTON [continued].—from the VA program but—

Mr. BRIGHT. Twice.

Mr. ARRINGTON.—with Ginnie Mae.

Mr. BRIGHT. Yes. So, absolutely, a policy decision was made that we want to as a country make sure that, in this case veterans, but in the FHA's case low-income Americans, have access to loans on terms that they otherwise would not have. In order for that to be successful, we have to police our program. So we have created, as you say, a double-layered government market.

Mr. ARRINGTON. So in the absence of robust market forces, we have to play a greater role to protect those stakeholders, but namely the veteran and the taxpayer as the backstop here.

So I am curious, is this an issue of safety and soundness for the program, for the taxpayer ultimately, or is this an issue of consumer protection or what we might refer to as an unfair and deceptive practice?

So let me ask Mr. Cooper, are they disclosing, these folks that we are talking about as churners, are they disclosing that they are churning? Are they disclosing everything that they are going to do? Or are they being deceptive and unfair, in your opinion?

Mr. COOPER. Thank you.

I personally don't know if these things are deceptive initially. But I can tell you that we see disclosures that come through that don't put the veteran in a better financial position. So they may be disclosing it, but we feel like that they are being pressured to make these loans in certain situations.

Mr. ARRINGTON. So here is my problem with that. And, I mean, I feel like our veterans are some of the toughest, mentally strong, mentally competent, mature, wise. These folks have borne tremendous responsibility. And now all of a sudden, if somebody is disclosing things to them, I have a hard time believing that they are being necessarily taken advantage of. They may, but I struggle with that.

Now, if they are being deceived and folks are putting out, holding out to do one thing, and then they are doing another, that is a problem. And if you can't stop that at the VA and Ginnie Mae, let's figure out how we can have an act of Congress to do that. But to suggest that they can't fend for themselves when reading about what they are getting into, I struggle with that.

My last question, then I am going to yield to my colleagues that is on the consumer protection side. So if there is not the disclosure, if there is not transparency, we need to know that and if you don't have the tools to deal with that.

The other issue is the safety and soundness. So whether they are disclosed fully and they are completely transparent or not and know what they are getting into or not, if it puts greater risk to Ginnie Mae and to the VA and the taxpayer, that is a real problem for me regardless.

So would the panel just kind of opine on that? I would ask Mr. London and Mr. Bright to just make some comments on that. And then I am going to yield to the Ranking Member for his remarks. And thanks for being a little generous here on my time.

Mr. LONDON. Yes, Mr. Chairman. Thank you for the opportunity to respond to your question.

Mr. ARRINGTON. And, by the way, if you want to also comment on what I said about the veteran reading and understanding versus deceptive, I think there is a real difference there. So feel free to opine on any of what I said.

Mr. LONDON. Sure. And I have to start by saying, like, you spent 4 years at the FDIC. Four or 5 years of my time with the VA was in oversight and compliance. So I share your sentiments about making sure that there is safety and soundness in a program. That is just built in my DNA.

And if you look at the outcomes that our program has, the numbers do not lie. The VA program is a sound program. Mr. Cooper mentioned that for the last 10 years we have had the lowest foreclosure rate and the lowest series delinquency rate. That is an indicator of the safety and soundness of our program.

And as I mentioned in my opening statement, the actions that we have taken over the years to ensure that we continue to have those type of performances is exactly what we need to do for the issues that are brought out today.

So I do believe that VA has the statutory authority to address the issues. I agree with you about consumer education. And our veterans can make sound decisions on their own. It is our job in the VA to make sure that we give them the tools to make those decisions.

Mr. BRIGHT. I agree. I would add it is entirely true that the VA loan program has low delinquencies, and I think that is a testament to the VA, I think it is a testament to the deal that officers and enlisted folks make with themselves when they apply for this program. There is a very strong sense that, "Hey, this is an earned benefit, but we have to continue to earn this benefit by performing on our loan," and that is a great pact. The problem is we have some lenders who don't seem to be living up to that pact as well.

Absolutely this type of behavior puts taxpayers at risk in a couple of very concrete ways. The first is that at Ginnie Mae we wrap the mortgage-backed security. Our recourse, meaning if a lender fails to remit principal and interest on time, we have to make that payment for them. Whether the borrower makes it or not, if a lender fails to make on time, we have to make that for them. That is what our guarantee is.

Our asset, the asset that we have recourse to, and you, as a former chief of staff of the FDIC understand you go in and you pull out an asset in the case that an institution fails to live up to its obligations, our asset is the MSR, the mortgage servicing rate.

When we have prepayment speeds that are inexplicable by any economic measure whatsoever, what that does is that drives down the value of the mortgage servicing rate or the MSR, which means the collateral that the taxpayer has, has access to and has recourse to in the event that our counterparty fails to live up to their obligations, that asset is declining rapidly in value because we have issuers who have prepayment speeds where their entire book turns over in 6 months.

And so it is a technical issue, and I don't mean to get too weedy on it. But absolutely 100 percent the asset that Ginnie Mae has recourse to falls in value because of this behavior.

And then the final small point would be, if you have lenders who are solely in the refi business and that goes away, those lenders face insolvency. And when they go insolvent, that is when Ginnie Mae's wrap kicks in, and we have to go in there and take their book. And as I just explained, the asset that we are taking has just fallen in value.

So this is a full ecosystem degeneration thing that we have got going that is separate and apart from the veterans who are doing a very admirable job of paying their loans on time.

Mr. ARRINGTON. I yield now 5 minutes, as much time as you may need, actually, to ask any questions and make any comments, Ranking Member O'Rourke.

Mr. O'ROURKE. Yeah. I thank the Chairman and take his point about ensuring that there is transparency and adequate information for the consumer, in this case the veteran, to make an informed decision.

As someone who has purchased a home with my wife, and I am not a veteran nor is she, and we have refinanced our home, I do have to say you are battling a mountain of that transparency and information. And I would be lying to you if I told you that I read every single page that I signed. I didn't. We trusted those who had helped us to facilitate the sale and the mortgage.

And so when you pit the veteran against those who would practice churning, serial refinancing, abusive lending, and they have got their marketing teams, they have got the folks in the call rooms who are calling these veterans within days, maybe hours, after they have already refinanced a loan, I think we need to do more than just ensuring that they have information.

And I wonder if there is a way to prioritize this information. And, Kathy, if you don't mind, I will disclose you and I were talking about this yesterday and talking about whether—there is just one page with four bullets on it in 16-point type that says this is your principal right now, this will be your principal with the refinancing costs that you will incur if you move forward in this process. This is the consequence.

I mean, no more than those four, not in 9-point type, not in addition to everything else, especially if this is your second or third or fourth refinancing, here is how your principal has grown over that time.

And then if you want to make that very bluntly informed decision to proceed, so be it. You have assumed the risk with the taxpayer backing that up.

And so I wonder if that might make it a little bit more of a fairer engagement between the veteran borrower and the originator of the mortgage.

Mr. Motley, you said the net economic impact, which is what I am trying to get at, may not be understood by the borrower, and you said perhaps some more targeted consumer information. Are we getting at the same thing in terms of this prioritizing? Like, look, this is what you are about to take on. I want to make sure you are good with it because it may not be clear from what the person trying to sell you on this originally told you.

Mr. MOTLEY. Yeah. Thank you, Congressman.

I think we are moving in the right—in the same direction there. I believe that some sort of a net tangible benefit test that is shown to the veteran is the way to go, because it is going to show him what the actual costs associated with that new refinance are going to be against the timeframe it is going to take to recoup those costs through lower payments.

And so if that time horizon is outside of his time horizon, then that deal makes no sense for that veteran. It is a decision, though, that he can make or she can make.

So I think that there is definitely a need to establish some kind of a net tangible benefit test, similar to what the FHA has, to demonstrate to the borrower that this refinancing makes some sense.

And if we have that in place, then you either abide by it or you don't abide by it. And if you don't abide by it, then you, as the lender, are subject to sanctions or maybe getting out of the program.

But at least you have provided that disclosure to the borrower and he has been able to make that decision himself based on his circumstances, his terms, and his expected term of living in that house.

Mr. O'ROURKE. Yeah. And so Mr. Motley is talking about consequences to bad actors in the system.

Mr. London, can you talk a little bit about that and how we hold people accountable for churning and taking advantage of veterans who may not be told in the clearest or necessary terms just what they are taking on?

Mr. LONDON. Sure. Before I answer that question specifically, I do want to touch base on what you were talking about, about the disclosure, and share some good news with you.

Mr. O'ROURKE. Great.

Mr. LONDON. Today in our program we have a requirement that lenders do exactly what you described. We call that the IRRRL worksheet where, on the company's letterhead, they have to disclose the terms of the loan to include the recoupment of that new transaction. So we do that today.

Unfortunately, what happens is the veteran gets that at the closing table, like you described, with a mountain of paperwork that they don't read.

Mr. O'ROURKE. Right.

Mr. LONDON. So a decision that I have already made is to ensure that that disclosure is provided up front to the veteran. VA will also get a copy the same time the veteran gets a copy so that we can be that partner with the veteran, if he or she has questions about those terms that we can advise him or her, and they can make their own informed decision.

That is something I can do today administratively without any regulation or statutory changes.

Mr. O'ROURKE. When does that start?

Mr. LONDON. We have to make some system changes. And, obviously, we have to put out some guidance to lenders on what information we need to make that happen. And my goal is to have that happen this year, this calendar year.

Mr. O'ROURKE. Okay. It seems like—again, you know this far better than I do—seems like a relatively easy fix to make. And, first of all, thank you for doing it. And I love that it wouldn't require an act of Congress to get that done. So first and foremost, thank you.

Secondary, the sooner the better, obviously, right?

Mr. LONDON. Absolutely.

Mr. O'ROURKE. And we would love to be kept appraised of your progress on that. And maybe just to the staff, if we could have something that triggers a request to see what the progress made on this is within the next few months, I think that would be helpful.

And then lastly, again, and sorry to be so specific on this, but the larger that information is made and the less surrounding information within which it is buried, the better chance that the consumer is going to understand exactly what those consequences are.

But I love the idea that you are going to move this up to the front of the process. And I think, to the Chairman's point, you are going to have a much more informed, much more transparent transaction. So I think that is good news.

I am going to yield back to the Chairman, but I do hope that in the questions from the other Members we get to hear from Mr. Cooper. He said that he had some specific program changes in mind, and I would love to know what those are as well.

But thank you, Mr. London.

Mr. ARRINGTON. Great line of questions. And now we will yield 5 minutes to Mr. Banks for any questions he has.

Mr. BANKS. Thank you, Mr. Chairman.

Mr. London, my wife and I's experience with our VA loan has been tremendous, and we appreciate the service that we have received through the process as we have taken advantage of that opportunity for us as a family.

But I wonder, could you tell us what level of attention have some of these problems been raised to the higher levels of your organization's leadership? Has Secretary Shulkin been briefed? Is he well aware of these issues? Is he in tune with your strategies to combat them?

Mr. LONDON. Absolutely. And myself, along with the actingacting undersecretary, have spoken to the Secretary about this very issue, so he is personally aware. Also, our deputy secretary is well versed on this issue and, in fact, couple weeks ago met with Mr. Bright and others to discuss this issue. So this issue has the attention at the highest levels of VA, and they are extremely supportive of what we are doing.

Mr. BANKS. Very good. I appreciate Secretary Shulkin's leadership more and more every day. And that testament of his interest in issues like these is a great compliment even more so of his leadership.

Mr. Cooper, I wonder if you could talk about your company's ethics, how you arrived at a place to be an ethical company, not to take advantage of some of these predatory examples we have heard about in the testimony.

Mr. COOPER. Sure. Thank you, Mr. Banks. That is a great question.

We, as a company, are based on a set of values that we worked really hard on as a group, as all of our employees, to set how we wanted to act as a company. And we carry that out every day. And it is something that we believe strongly in.

And we came up with a mission as well, that we want to help get veterans into homes, and we are very focused on that. We offer IRRRL refinances. We offer traditional cash-out refinances.

But our marketing practices don't focus on bringing those people right after closing to churn through them. And that is just something we felt is always in the best interest of—we are looking out for the best interest of the veteran in what we are doing, we feel like, is we want to educate veterans on the VA loan and how they can best make use of the program.

Mr. BANKS. Have you seen a decline in those values among your competitors during your time in the industry?

Mr. COOPER. I wouldn't say that I have seen a decline. I think the other Members of the panel have said that there are a few actors out there, and this is not something really new. It just becomes more prevalent when certain market factors change, interest rates tick up slightly or tick back down. It is very interest-rate dependent.

Mr. BANKS. So what would be your advice to us how do we model those ethics and values that your company has taken so seriously in your business in hopes that other companies will adopt those values as well?

Mr. COOPER. I mean, I think that in and of itself is very difficult from a congressional standpoint to model. I like what the Chairman has said about the veteran being able to make decisions for themselves. I like the idea of disclosures, being as transparent as we can be. There is always room for improvement in that area.

I really like what Mr. London was saying about the VA being able to step in. They have been very successful with that kind of process on early intervention for servicing. And so if they implement a similar process there, I think that can be very helpful to kind of rein this activity in.

Mr. BANKS. Okay. Thank you. You give me great hope that other companies will emulate the same values and principles that your company does as well. And at the very least, our hearing today will publicize that, give a public hearing to those thoughts, and hopefully some of your competitors will raise that threshold as well.

So thank you very much, Mr. Chairman. I yield back.

Mr. ARRINGTON. Thank you, Mr. Banks.

I now yield 5 minutes to the gentleman from California, Mr. Takano.

Mr. TAKANO. Thank you, Chairman Arrington.

Chairman Arrington, I just want to express my gratitude for this hearing. I am impressed that you are focusing on an area of consumer protection and that you have made this distinction between an absolute free marketplace and a government marketplace and that the government marketplace is defined by money that is backed by the taxpayers or subsidized by the taxpayers.

And, therefore, the question of the veteran being able to make a complete decision all by himself is a bit modified here, because that veteran is not making a decision that only solely affects his or her assets. It is also the assets of the taxpayer that are at stake.

So we have a duty to make sure that the program is set up properly and that there isn't—I am forgetting the term when there is a moral liability, that there is a lack of—a moral hazard. There is a moral hazard here because the risk has been reduced greatly on the person benefiting from the decision.

I hope, Mr. Chairman, we can hold some hearings into another area where I think the government marketplace distinction applies, and that is in our educational benefits. I am disturbed that in another Committee forum there is a proposal to do completely away with 90/10 and allow educational institutions to take 100 percent, 100 percent of the revenue from the Federal Government, including federally backed student loans. So I hope we can delve into that area.

But I want to ask this question of—I can't see the name back there, but the guy at the end.

Mr. Cooper, as we approach the situation, I want to be careful that any action we take does not have any unforeseen consequences. And one proposal that has been discussed is capping lender fees and tying the cap to the benefit of the loan for the veteran so that the lender would not be able to collect fees in excess of what the veteran saves over a period of time.

Now, would such a proposal or others like it, to cap origination fees, somehow help this problem of loan churning, or do you think that as long as there are any fees permitted, lenders will still seek to churn?

Mr. COOPER. Thank you for the question.

I believe personally that there are already restrictions in place in the amount of fees that can be charged. The difficulty becomes when you are buying down the interest rate in the form of discount points that can then be rolled into the loan, those things become another disclosure issue. It is how far down did your rate go when you purchased these points, so to speak.

And so I think it does fall in line with the other pieces that we have talked about already, is that there may be other ways to handle it. I don't know specifics of what the caps might look like in addition to what is already there. But it could be one solution.

Mr. TAKANO. Mr. London, have there been financial service organizations that have been fined by the VA for predatory behavior? Is there an ability to do that? And have they been fined at all?

Mr. LONDON. We do have some ability. We have civil penalties that we can apply. But that is in reference to lenders who actually try to defraud the veteran or to mislead the government through forgery, so it is very specific.

Mr. TAKANO. Very specific.

Mr. LONDON. Yes.

Mr. TAKANO. But does Ginnie Mae—can someone answer about Ginnie Mae being able to have this capacity in this, an analogous circumstance?

Mr. BRIGHT. We do have a decent amount of authority at Ginnie Mae in terms of policing access to our security. And that is authority that we have been using and are going to continue in the next weeks to expand.

Mr. TAKANO. Can you tell me whether or not you have actually fined companies for this analogous—

Mr. BRIGHT. We have. We have fined companies for violation of our program in this space, yes.

Mr. TAKANO. And do you publish the names of those companies that you have fined?

Mr. BRIGHT. No.

Mr. TAKANO. Why not?

Mr. BRIGHT. I don't know, but I will find out. And I am happy to speak with you offline with that specific information.

Mr. TAKANO. Mr. London, would this sort of authority be useful to the VA if we were able to provide that authority?

Mr. LONDON. We will be happy to meet with you and your staff and provide technical assistance for any type of legislation that you think may be helpful in this regard. We are ready to assist you.

Mr. TAKANO. I would be interested in meeting with both of you offline and to discuss this matter further.

Mr. ARRINGTON. Thank you, Mr. Takano.

And now yet another gentleman from California, Mr. Correa, we yield 5 minutes.

Mr. CORREA. Thank you, Mr. Chairman, for having this most important hearing. I want to thank the folks here as well.

Just a little bit about my background. I am a licensed realtor and a former loan broker. And, gentlemen, as you know, this can be one of the dirtiest businesses that there is out there, real estate, real estate loans.

And, Mr. Cooper, have you ever had to fire anybody?

Mr. COOPER. I have not personally had to fire anyone, no.

Mr. CORREA. That is impressive, because most of time there are a lot of bad apples out there, and you end up firing folks out there because sometimes it doesn't matter what your mission statement is, the interest of making a buck sometimes outweighs the interest of following your mission statement.

In reference to what my colleague Mr. Takano brought up, which is do you put this online, the State of California, if you have a doctor that is civilly fined, that goes online. The Bureau of Automotive Repairs, any violations go online. So you as a consumer have any issues, you immediately go online, see who the heck it is that you are dealing with, and that information is disclosed to the world. It is not rocket science, folks. We can do this very easy.

You know, it is very hard also to try to second guess the economic motives, the financial motives, for a veteran to refinance. You know, buy-downs, interest loan, fees, points. And as you know, sir, sometimes what with these folks do is they will give you discount on the points but they will jack you up on the fees. And at the end of the day, you get hit one way or the other.

It would be interesting if you come up, not rocket science, but an application, an app somewhere so a veteran consumer can punch in a couple of numbers and come up whether this is good or bad.

And another question I would have, Mr. London, is do you keep records of the folks, the loan originators, and how many loans that they are originating so that you can detect whether there is a pattern there of churning or not?

Mr. LONDON. We do keep a record of every loan that is originated, but I am glad that you asked that question, so thank you for asking, because one of the things that Mr. Cooper mentioned was that we have, on the back end, if you will, for servicing of loans, when a veteran goes into default, we have a comprehensive system where on every single defaulted loan we have tremendous amounts of data so that we can see exactly what the servicer is doing and we can intervene on the veteran's behalf if we need to.

Unfortunately, we don't have a system like that on the front end. However, we have recently let a contract where we reengineering the entire system that I just described and we are building the capability on the front end to get information on every single loan origination to have the same type of intervention and monitoring that we have in servicing a loan. So we are very close to having that.

Mr. CORREA. And I am glad to hear that, and I am hoping you put as much of that information online and you direct our veterans to that Web site so that they can be a better educated consumer.

Good faith estimates, don't we still have those out there, that when you originate a loan you give people something that says what that loan is going to cost them? Do we still have that?

Mr. LONDON. Yes. The borrower will get what is called a loan estimate with that type of information.

Mr. CORREA. And, again, I hope that you keep some kind of a database, work on it up front, so that if any of these folks are out there originating loans and begin to see a pattern that every 2 or 3 months they are churning a loan, and if you can look at it then, whether they are doing it for their own benefit or the consumer actually benefits.

Mr. LONDON. Absolutely.

Mr. CORREA. A lot of neat stuff we can do here to protect our veterans.

Mr. Chair, I yield.

Mr. ARRINGTON. Thank you, Mr. Correa.

I will yield myself another 5 minutes. I think this already proved to be a very productive discussion. I think we should continue it.

Most of my thoughts and comments and questions were philosophical. I mean, I just truly believe that choice for the consumer and disclosure is generally the best way to regulate.

Mr. ARRINGTON. Again, and Mr. Takano articulated it better than I could, the market is skewed because government is intervening. In fact, without government or the taxpayer there wouldn't be this market, presumably, because if there would, we shouldn't do it.

So now comes the question of so we should regulate and engage more readily in this on behalf of the taxpayer. And certainly if there are ways to have better disclosure and a simpler, easier way to digest what product and transaction that they are about to engage in, by all means, I am hoping you guys are reviewing that and constantly thinking of ways to do that, although oftentimes more regulation to protect the consumer ends up with more paperwork for the consumer and I think makes it more difficult and burdensome.

But I would like to see that new disclosure product that you guys are working on. And as the Ranking Member suggested, if you all could submit that, it would be good for us all to look at it.

But trying to regulate in this space a way those products that we deem bad for the veteran, because they are churning, because of some definition that we agree is bad, versus—and doing that without diminishing the opportunity for products that they may need, real products that are good, safe, sound, useful to the veteran so that they can maybe lower their payments. Maybe they need to lower their payments. Maybe they know exactly what they are doing and they need that.

Help me, Mr. Motley and Mr. Cooper, tell me where the line is, where it is a good product, it is useful, it is safe, it is sound. I mean, there is always a transaction cost for the institution. And if there is more risk, then the institution has to charge commensurate with the risk. We see that in payday loans all the time. I know folks that without a payday loan couldn't fix their car and go to work again because a bank won't finance them.

Anyway, what are your thoughts about the line between the appropriate and sound versus the not-so-sound churning? Where is that? Define that for me.

Mr. MOTLEY. Well, it is really not that easy to define because every situation is different. I think, as Mr. Cooper said earlier, we try to look at all of our borrowers in terms of what is best for them, what is the best outcome for them, for their particular situation. You have to take a lot of things into account.

And so I think that you want to have guardrails put in place on any program to avoid abuse, and you want to have transparency. So your point about proper disclosure is a good one, and having it done up front is also a very good one. But I think that we have to balance additional regulation with the benefit of that and the onerousness and the extra cost of providing additional disclosures.

But I think that the main point is, is that if we are sure that the veteran is benefiting from the refinance transaction, and we can do that by showing what the costs are, what the payment reductions, are how long it is going to take him to break even on that transaction, and if that makes sense in his situation, then we should have satisfied the net tangible benefit test and satisfied VA that we have done the right thing for that veteran.

Mr. ARRINGTON. So let's assume that we can define a reasonable, useful, sound product or transaction that allows the veteran to benefit, and the costs are commensurate, they are built in, the fee is commensurate with transaction costs. So let's say we can define that. Do you all, VA and Ginnie Mae, have the authority, legal authority, to define that and to regulate in this space in that regard? Do you have the legal authority? And cite for me the legal authority.

Because here is my thing. I want you to appropriately, because of the taxpayer, and I think it is sometimes necessary and appropriate, but I don't want you to make it up. I don't want you to just create it out of the ether. And so if we as Congress do need to act to give you that legal authority, that is the way this thing works, as you know.

So do you have the legal authority? Cite the legal authority for me, both you and Ginnie Mae, please.

Mr. LONDON. Yes, sir. Thank you for the question.

As I mentioned, we have a draft regulation that we believe is a measured approach to address this issue. And the specific statutory authority that we used, there are several, 38 U.S.C. 3710 is one, specifically subsection (e), you also have 37O3(c) and 38 U.S.C. 501, are the three specific statutory references that we believe gives us the authority to regulate this issue.

Mr. ARRINGTON. And summarize for me, if you would, what that legal authority is if you can. I mean, I can go back and look it up, and everybody here can. But give me one of the three, the best nexus to that authority from which you would promulgate a rule to define this net tangible benefit.

Mr. LONDON. Sir, I will be happy to provide you more detail for the Record, but the one that I will choose that gives the agency the broadest authority is 38 U.S.C. 501. And that specific reference gives the Secretary the authority to regulate VA programs across the board, and the other two references that I gave you were specific to the Loan Guaranty Program.

Again, I will be happy to provide you those details.

Mr. ARRINGTON. I have taken too much time already. Thank you for the answer.

Mr. Ranking Member, 5 minutes.

Mr. O'ROURKE. I think Mr. Motley made a really good point about ensuring that we do the right thing for the consumer without overburdening the lender. And I have heard from many lenders in El Paso about how really well-intended legislation to rein in the too-big-to-fail institutions inadvertently hurt the smaller independent originators.

They make a really good compelling case about, look, we know the community best, Beto, and when you make it more expensive and harder for us to originate, then those who don't know the community are left with those choices and you see less capital coming into the community.

So your point is very well taken.

I will say just in the example that we discussed and that Mr. London has committed to in terms of prioritizing the net economic impact disclosure at the outset and the O'Rourke addendum to that, that it be in 16-point type so that it is, like, really easy to see and you know what you are getting into, doesn't seem incredibly burdensome or onerous. It seems fair and seems very workable, again, from my perspective, not knowing your all's business as well as you do so.

So I hope that you could agree with that or that the industry would see that as well. But your point is well taken that we want to make sure that we don't in any way undermine the ability to get these loans made or these refinancing transactions completed for those who would benefit from them.

One of the last things, I think, Mr. Chairman, that we need to do is make sure that we are hearing from veterans on these proposals and the veteran service organizations who advocate for them. I want to make sure that there are no additional suggestions or ideas or proposals that have gone unheard or unimplemented.

Because in Texas alone we see just last year 60,000 total home loans, 21,000 of those were refinances, and we want to make sure that we are advocating and protecting those veterans who have done everything we have asked them to do and have earned this, and that we are able to follow through on it.

And lastly I want to say this, Mr. London. You really are a breath of fresh air. I just left the GAO High Risk List roundtable about VHA being able to implement corrections that will improve access to care, and some of the responses we got: Well, we are going to have a conference call on this. You can see something later this year. And in some cases, we have seen to progress on any of these.

So the fact that you came to this meeting with action already undertaken and specific proposals about what you are going to change, for example, moving up this information to the outset of the transaction instead of the moment when you sign and you are under all that pressure, very refreshing. I love seeing that, and I hope that you will follow up on that by keeping us informed of your progress on implementing this, I think we all agree, sooner better than later. And then would certainly love to hear back from the industry, and most importantly, veterans on the efficacy of those efforts.

So thank you all for what you are doing and your testimony today.

And I will yield back to the chair.

Mr. ARRINGTON. Mr. Takano, 5 minutes.

Mr. TAKANO. Let me just look at my notes here.

Mr. Bright, when we say that Ginnie Mae is able to fine companies in this space, does that space include the VA? I mean, am I misunderstanding that the VA and Ginnie Mae operate in partnership and together to operate this program?

Mr. BRIGHT. So Ginnie Mae has the authority to issue rules that pertain to lenders' ability to access our security. So we have broad statutory authority to write rules for access to our security as we need to protect it.

So if you actually look at Ginnie Mae's charter, of our top five mandates, the first four relate to making sure that there is liquidity in the mortgage market and the ability to promulgate regulations to ensure that liquidity maintains in the mortgage market.

Once we issue a rule to our issuers or the lending community and say, "Here are the rules that you need to abide by," we have about an 800-hundred page issuer guide, if there are violations of that guide, we can issue civil money penalties.

So our rulemaking ability is pretty much restricted to the ability to access the Ginnie Mae security and under what terms. We really can't issue civil money penalties for violations of the VA program itself. That would be the VA. Nor could we issue civil money penalties for violation of consumer protection laws. That would be CFPB or the FCC.

So what we have been doing in those cases is when we see instances where we think it is possible that some of those laws are being violated, we are making referrals to those relative agencies.

So our CMPs, they pertain to violations of the rules that we put in place for access to our security.

Mr. TAKANO. Mr. Cooper, you said earlier that during the financial crisis that overall the VA home loans held up the best. To what do you attribute that?

Mr. COOPER. Thank you for the question.

We attribute that to the underwriting that was in place from the VA from well before the crisis. And specifically the way the VA looks at it is not just at how much, what is their payment, what is their DTI. They are also looking at the back end of, like, how much money do you have left over, their residual income.

And so that is a really essential part of the program. Residual income, it protects the person from—at the end of the day, they still have money to live their daily life, and then they are still able to, hopefully, then they are still able to make their mortgage payments. That has been a really big part of the VA program. It is different from any other program that is out there. No one else requires that.

Mr. TAKANO. Mr. London, again, do you have any other thoughts on appropriate regulation or appropriate authority that you might need to police the bad actors that we are talking about today more effectively?

Mr. LONDON. Sure. As I mentioned in my testimony, we have a draft regulation that we believe will take into account the very recommendations that you have heard from other panelists today. We evaluated things like the net tangible benefit, seasoning requirements, and recoupment requirements, and many other actions to see what will best handle the issue.

But I definitely have to get one point on the table. All the panelists agree that we are talking about a relatively small number of lenders who are involved in this.

Mr. TAKANO. Very small. I realize that.

Mr. LONDON. And the fact that we have drafted a rule very carefully that is going to not only impact those small number of actors, it is also going to impact every single veteran's, potentially, their access to his or her earned benefit. It is going to have an impact potentially on every single lender and servicer that participates in the program. And as Mr. Bright and others say, it is also going to have a downstream effect on mortgage investors.

So there is not just one answer or one thing that can be done. We looked at it holistically. And as I stated to the Chairman, we believe we have the statutory authority to regulate in those areas.

Mr. TAKANO. And you haven't published it yet because it is a draft, and so is there a kind of a comment period from the public that has to be undergone before it is implemented?

Mr. LONDON. Yes. The rule is currently drafted as a proposed rule, and there will be an opportunity for public comment.

Mr. TAKANO. And you don't have any idea—I mean, you have been taking input from the industry in crafting the rule?

Mr. LONDON. Absolutely. The good news is in analyzing and thinking about the rule, we met, as I mentioned in my testimony, we met with the Mortgage Bankers Association and their members and many other stakeholders as we were contemplating and evaluating what policy actions we needed to take under this draft regulation. And obviously we will welcome additional comments that anyone has to offer once the rule is published.

Mr. TAKANO. And when do you anticipate the rule being published?

Mr. LONDON. Unfortunately, I don't have a specific timeline for you today, but I am happy to report that the rule, as I say, is in final draft, and that is a good indication that we are very close to having it publicized in a relatively short timeframe, but I don't have a specific timeframe for you today.

Mr. TAKANO. All right. Well, thank you very much.

And I yield back, Mr. Chairman.

Mr. ARRINGTON. Mr. Takano, I will give you more time if you have any follow-up questions or comments.

Mr. TAKANO. Mr. Chairman, just thank you very much for the spirit of this hearing, and I congratulate you on that. And I hope we can continue to work in this vein.

I really do respect your free market views. I actually do entertain the thought that some of these products could be useful to some veterans, and we don't want to be overly aggressive in regulation. But, again, we are talking about taxpayer resources that we have to protect.

Mr. ARRINGTON. That is right. That is right. And it is good that we can agree like this, huh? Somebody get a picture. Is somebody recording this?

No, it is true. I mean, this is a space where we need to engage on behalf of the taxpayer because of the full faith and credit, and we need to strike that balance.

And that is why I asked the question of defining it. You know, how do you define this? Because if somebody was charged any fee, they may say, "Hey, I shouldn't be charged for this." But there is a cost to the institution for that transaction.

So what is that threshold that is unreasonable and abusive and not a tangible benefit. Well, I feel like I have heard enough to know that the stakeholders, including the industry, can strike that and in fact have. And I give you credit and join the Ranking Member in his praising you and your team for the way you have conducted your business.

It is best that a regulator engages the stakeholders prior to public comment. I mean, you are going to have agreement here, it seems like. And we are talking about a few potentially bad actors, potentially, and maybe not bad actors, maybe they are just playing with the rules that exist. We just need to tighten them up so that we raise the bar of what we expect for safe and sound practices and the protection, if you will, and minimal standards for fair practices.

In this space, I am curious, because the FTC should be able to regulate unfair and deceptive practices. Have there been any cases referred to the FTC where there has been unfair and deceptive—and I understand there are lots of things going on here—they could disclose better, so let's do that? There is safety and soundness for the taxpayer and the program, but then there is real deception and unscrupulousness by offering one thing and it be really another thing.

Have those been referred to the FTC and have they acted upon those, Mr. London?

Mr. LONDON. I am not personally aware of any referrals that have been made.

Mr. ARRINGTON. Mr. Bright?

Mr. BRIGHT. Yeah. What we have been doing is collecting solicitation materials that are generally from actually brokers, not lenders themselves, but then what they do is they originate these loans and then sell them to a lender.

And what I would love to do is we have got a pile of them, so I have asked all the veterans at Ginnie Mae to sort of collect these solicitation materials they get. I will share them with you.

They are not lies, they are just—we will sit down and talk to them.

Mr. ARRINGTON. So I am trying to be real careful even in this hearing to not say "predatory" and "deceptive."

Mr. BRIGHT. Right. Right.

Mr. ARRINGTON. Because the FTC ought to pursue that and bring the full force of the law against people that are doing that.

And then where we need to tighten it up, where there is some fastness and looseness, that is what you guys can do. And then again for me ultimately, the safety and soundness of the program. This is offered because the taxpayers allowed this to happen, because they love their veterans and they want them to have this benefit, but they want it done in a safe and sound and a fiscally responsible way.

Mr. LONDON. Mr. Chairman, if I may, can I amend my comment that I made?

Mr. ARRINGTON. Yeah, please.

Mr. LONDON. Because your question was specific to the FTC.

Mr. ARRINGTON. Yes.

Mr. ARRINGTON. Okay. Thank you.

Thank you, colleagues. Great discussion.

Let's continue in your efforts as you described to tighten up in this space, and let us see whatever draft documents just for our information, as the Ranking Member requested, if you would, and continue to notify us if you need the authority where you don't and don't regulate where you don't have the authority. That is not your job. That is the United States Congress' job, Article I. But I feel good about what I have heard today. So good hearing.

This now concludes our hearing. And I ask unanimous consent that all Members have 5 legislative days in which to revise and extend their remarks and include any extraneous material on today's hearing.

Without objection, so ordered.

Thank you all again being here today. Great hearing. God bless.

[Whereupon, at 11:23 a.m., the Subcommittee was adjourned.]

A P P E N D I X

Prepared Statement of Jeffrey London

Good morning Chairman Arrington, Ranking Member O'Rourke, and other Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the Department of Veterans Affairs (VA) Home Loan Guaranty Service, certain lenders' home loan churning practices, and the effects of those practices on Servicemembers and Veterans. I am accompanied by Mr. John Bell, Deputy Director, Loan Guaranty Service.

Overview

The mission of VA's Home Loan Guaranty Service is to maximize opportunities for Servicemembers and Veterans to obtain, retain, and adapt their homes by providing viable and fiscally responsible benefits in recognition of their service to our country.

We empower Servicemembers and Veterans with information and access to innovative, high-quality products and services, and we engage industry partners to make loans in an efficient and effective manner. Through our focus on Servicemembers and Veterans, the partnerships we have developed, and our continuous drive to innovate in areas of operations and performance, we have built a high-performing program that has provided guaranties for more than 23 million loans totaling in excess of $2 trillion over the last 70-plus years. Last fiscal year alone, VA guaranteed an all-time record of over 740,000 loans, totaling more than $189 billion. Of those loans, over 380,000 were purchase loans (an annual record for purchase loans), nearly 191,000 were interest rate reduction refinancing loans (IRRRL), and about 167,000 were cash-out refinancing loans. Over the past four fiscal years, the vast majority of VA-guaranteed loans have been purchase and cash-out refinance loans; not IRRRLs. VA's purchase loan volume has ranged from about 62 percent of all guaranteed loans in Fiscal Year (FY) 2014 to just over 51 percent last fiscal year. Cash-out loans have ranged from roughly 16 percent of guaranteed loans in FY 2014 to just shy of 23 percent last fiscal year. IRRRLs were roughly 21 percent of guaranteed loan volume in FY 2014 and roughly 26 percent last fiscal year. VA has provided more loan guaranties over the past 5 fiscal years (approximately 3.1 million) than it did in the 10 years prior (approximately 2.9 million).

The overwhelming majority of VA-guaranteed loans (upwards of 98 percent) are sold in the secondary mortgage market with a full faith and credit guaranty from the Government National Mortgage Association (GNMA or Ginnie Mae). GNMA's role in the secondary market provides the necessary liquidity of capital so that lenders can then fund additional mortgage loans (e.g., additional VA-guaranteed loans to Servicemembers and Veterans).

Program Success

The VA-guaranteed home loan benefit helps provide Servicemembers and Veterans with access to a low-cost mortgage option. VA-guaranteed loans require low or no down payment, require no private mortgage insurance, and often have lower interest rates than other products. According to industry data, interest rates for VA-guaranteed loans have been the lowest in the marketplace for over 2 years.

VA loans perform very well compared to other government loan programs and conventional loans. During the worst housing-market crash since the Great Depression, VA helped almost 700,000 Servicemembers, Veterans, and their families retain their homes or otherwise avoid foreclosure. Cumulatively, for the period between fiscal years 2009 and 2017, VA worked with private sector loan servicers to avoid foreclosure for over 80 percent of Servicemembers and/or Veteran borrowers who defaulted on their home loans. This equates to the government avoiding over $22 billion in foreclosure claim payments. Further, VA's foreclosure inventory rate (the percentage of loans in foreclosure) outperformed that of even prime loans during, and immediately following, the market crash.

VA's portfolio of about 2.9 million active home loans outperforms or is on-par with other loan types. According to the most recently available Mortgage Bankers Association National Delinquency Survey data (Q3 2017), VA's overall delinquency rate of 4.24 percent is just slightly higher than the 3.97 rate for Conventional loans. This compares favorably to the 9.4 percent delinquency rate for the Federal Housing Authority's (FHA) loan program. In terms of serious delinquencies and foreclosure inventory, VA outperforms all other loan types. According to the most recently available Mortgage Bankers Association National Delinquency Survey data (2017 third quarter), VA has the lowest foreclosure inventory rate in the industry: 0.95 percent compared to 1.15 percent for Conventional loans and 1.76 percent for FHA loans. VA also has the lowest seriously delinquent rate: 2.08 percent compared to 2.28 percent for Conventional loans and 3.86 percent for FHA loans. This means that of the over 2.9 million active VA loans, only 2.08 percent are 90-days or more past-due and less than one percent are in foreclosure.

Refinance Loan Program Overview

There are two types of VA refinance loans. The first, an IRRRL, is generally used by Servicemembers or Veterans to obtain a lower interest rate than the current rate the Servicemember or Veteran is paying on his or her existing home loan. IRRRLs are sometimes called streamlined refinances because they have fewer underwriting requirements than other types of refinance loans. The purpose of an IRRRL is to place a Servicemember or Veteran in a better financial position than he or she is in on an existing mortgage, typically by reducing the interest rate on the existing loan, which lowers the monthly mortgage payments. An IRRRL may also be used in order to (i) reduce the term of the loan, thereby reducing the total of payments on the loan, (ii) to convert an adjustable rate mortgage to a loan with a fixed interest rate, or (iii) to make energy efficient improvements to the home. A Servicemember or Veteran may not use an IRRRL to obtain cash for the equity he or she may have in the property securing the loan.

A second type of VA refinance loan is one in which a Servicemember or Veteran may also use the home loan benefit to refinance an existing loan or other lien (not necessarily a VA-guaranteed loan) and borrow against the value of the property that is the security for the existing loan. In other words, a Veteran may "pull cash" out of the home's equity using a "regular," non-IRRRL, refinancing loan.

Refinance Loan Challenges

While the overwhelming majority of lenders (more than 1,500) who originate IRRRLs are conducting business with Servicemembers and Veterans in a responsible manner, we have in recent months identified a very small number of lenders (arguably less than 10) that appear to regularly close loans in a manner inconsistent with the program's intent. Instead of offering loan products that provide a tangible benefit to borrowers, these lenders appear to be targeting Servicemembers and Veterans who have made less than six payments on their original loan.

The practice of refinancing a mortgage multiple times within short timeframes is called "serial refinancing" or "loan churning," and it may cause Servicemembers and Veterans to prolong debt repayment by adding more payments and interest to the new loan. Serial refinancing of VA-guaranteed loans may also strip equity, increase the principal balance, and increase the loan-to-value ratio, which potentially raises the risk of loan default. In addition, the unpredictability of when and how often these refinances take place is causing investors to be pessimistic about purchasing GNMA-backed loan pools, due to the perceived risk associated with buying debt that will be paid off in a shorter time frame than the investors anticipated at the time of pricing. This risk of prepayment affects pricing, which could cause lenders to offset the difference by charging higher interest rates for VA-guaranteed loans.

In order to entice Veterans to refinance their mortgages, a small number of lenders have also implemented aggressive and often misleading marketing practices, such as phone solicitations or frequently mailed print materials. It is concerning that such loans can have terms that may not be in the Servicemember's or Veteran's best financial interest.

Our colleagues at GNMA have frequently espoused in recent months that the impacts felt by investors in the secondary markets have been acute. Lenders who systematically engage in serial refinancing, or "churning," VA loans have focused almost exclusively on IRRRLs, which, unlike VA origination and cash-out loans, do not require underwriting or valuation determinations. These lenders have focused their efforts on targeting Servicemembers and Veterans who have VA-guaranteed loans precisely because IRRRLs are relatively inexpensive and quickly completed. It is important to note that although VA's overall loan volume has been historically high over the past four fiscal years, on average, IRRRLs have represented about only a third of VA's overall volume for FY 2015 and FY 2016. VA notes, however, that only a small number of lenders are systematically engaging in churning practices, and a relatively small number of Veterans have been affected. VA estimates that approximately 8,000 Veterans obtained two or more IRRRLs (or about 4 percent of the IRRRL volume) in FY 2016. That number declined significantly in FY 2017 to approximately 1,600 Veterans who obtained two or more IRRRLs (or about 0.8 percent of the IRRRL volume). .

VA Focus on Serial Refinancing

Even though the serial refinancing issue is not systemic to our overall portfolio, VA has over the past several years been very concerned about serial refinancing or "churning," in the IRRRL program. In fact, when VA published an Interim Final Rule (IFR) on May 9, 2014, implementing provisions of the Dodd-Frank Act, VA defined the types of VA loans that are "qualified mortgages," and addressed this very issue. Pursuant to the Ability-to-Repay provisions of the Truth in Lending Act, qualified mortgages have either safe harbor protection or the presumption that the borrower is able to repay a loan. In the IFR, VA established that in order for an IRRRL to be considered a safe harbor qualified mortgage, the loan being refinanced must meet certain seasoning and recoupment requirements to prevent serial refinancing and equity skimming.

VA believed that the IFR would eliminate the demand for loans that did not receive the safe harbor protections. In other words, VA intended for the market to use pricing differentials to deter churning practices. However, this did not occur. Despite VA's intention to prevent serial refinancing, some lenders ignored the seasoning and recoupment guidelines because VA would still guarantee the loan if other requirements were met. In response, VA has been evaluating program and industry data related to IRRRLs to ascertain the overall impact on the VA Home Loan Guaranty Program and to determine what policy changes could be made to curb serial refinancing.

While VA's focus has been on serial refinancing of IRRRLs, we realize that some lenders may be shifting their business models in response to current market conditions. Although credit underwriting and appraisal requirements provide guard against affordability and valuation concerns, VA has been examining VA and other industry data to ensure that our Regular/Cash-out refinance programs are also serving their intended purpose as loans that benefit our Veteran borrowers. There are multiple factors that VA believes will contribute to the reduction of serial refinancing practices. In addition to longer-term measures like regulatory action, VA has also focused attention on policy changes that can be implemented rather quickly. For example, VA has worked closely with GNMA to curb some serial refinancing practices. This effort resulted in the issuance of an October 2016 GNMA All Participants Memorandum (APM). The APM established a 6-month seasoning requirement for streamlined refinance loans, which includes IRRRLs, to be eligible for certain GNMA issuer pools. Since the GNMA policy became effective in February 2017, VA's overall IRRRL volume has declined from over 35,000 loans per month to approximately 8,000 loans per month. VA also saw a decline in the number of potential serial refinance actions between FY 2016 and FY 2017. As mentioned previously, VA estimates that the number of Veterans affected by serial refinances is much smaller than the overall IRRRL portfolio, declining from approximately 8,000 in fiscal year 2016 to approximately 1,600 in fiscal year 2017. In short, there was a significant decline in the number of multiple loans by the same Servicemember or Veteran for the same property in a given year.

In October 2017, VA and GNMA established a "Joint Ginnie Mae - VA Refinance Loan Task Force." As stated in the press release announcing the partnership, "The task force will focus on examining critical issues, important data and lender behaviors related to refinancing loans, and will determine what program and policy changes should be made by the agencies to ensure these loans do not pose an undue risk or burden to Veterans or the American taxpayer." On December 7, 2017, the taskforce issued a GNMA APM, which established a 6-month seasoning requirement for streamlined and cash-out refinancing loans to be eligible for certain GNMA securities.

In addition to VA's work with GNMA, VA has worked with the Consumer Financial Protection Bureau (CFPB) over the last several years to address complaints from Servicemembers and Veterans about misleading solicitations to refinance VA-guaranteed loans. VA and CFPB's Office of Military Affairs have monthly meetings to discuss issues and establish plans to educate the Servicemember and Veteran communities about issues regarding VA-guaranteed loans. In November 2017, VA and CFPB issued our first Warning Order to Servicemembers and Veterans who currently have a VA-guaranteed loan. The Warning Order provided information on what to consider when receiving advertisements and when thinking about refinancing an existing VA-guaranteed loan. Specifically, the Warning Order advised Servicemembers and Veterans of the dangers associated with solicitations that promise extremely low interest rates, thousands of dollars in cash back, and skipped mortgage payments.

While the collaboration with GNMA and CFPB has helped to address the serial refinancing problem, VA plans to further address churning practices by issuing a proposed rulemaking. In determining what policy actions to take, VA is evaluating a range of possible measures - such as net tangible benefit tests, seasoning requirements, recoupment requirements, and others - and the effects that the measures might have on Servicemembers' or Veterans' access to their earned benefits, as well as, the impact on lenders, servicers, and mortgage investors.

Conclusion

Mr. Chairman, with the continued high volume of loans in the VA Home Loan Guaranty Program, the coming months at VA will continue to be busy and challenging, but I know we will continue to provide our country's Servicemembers and Veterans with a safe and viable loan guaranty option. Thank you for your continued support of our programs and for this opportunity to speak today.

This concludes my testimony, and I welcome any questions that you or other Members of the Subcommittee may have.

Prepared Statement of Michael R. Bright

Introduction

Chairman Arrington, Ranking Member O'Rourke, and Members of the Subcommittee, thank you for inviting me to appear today to discuss the important issues regarding aggressive practices by some lenders in the VA market, and the impact this is having on veteran borrowers.

Role of Ginnie Mae in the Market

For background, the Government National Mortgage Association, or "Ginnie Mae," was established in 1968 with the mission of bringing global capital into the U.S. housing market while at the same time minimizing risk to the American taxpayer. Ginnie Mae does this by guaranteeing the timely payment of principal and interest to our bond holders on behalf of borrowers who qualify for our program. By allowing these investors the opportunity to lend capital into the U.S. housing finance system with the knowledge that the federal government stands behind the credit risk of our mortgage-backed securities ("MBS"), Ginnie Mae provides access to global capital for lenders of all sizes and supports the federal mortgage insurance programs at the Federal Housing Administration, the Department of Veterans Affairs, the Department of Agriculture, and HUD's Public and Indian Housing. Ultimately, more than 98 percent of the loans insured by the FHA, VA, and USDA are financed through Ginnie Mae MBS.

Ginnie Mae provides this government backstop on qualifying MBS to protect against losses in catastrophic situations, and our securities are the only MBS to carry the explicit full faith and credit guaranty of the U.S. government. We are also responsible for policing our program to protect against loss. Our statutory mission is to provide liquidity to the U.S. housing market and to protect taxpayers.

Since 1968, Ginnie Mae has performed these twin missions successfully, growing to almost $2 trillion in outstanding principal balance guaranteed today. This has helped millions of low-and-moderate income, veteran, and rural Americans obtain financing that otherwise would not be available to them. Just as important, Ginnie Mae has never needed an emergency infusion of funds to do its job, even during the 2008 financial crisis. The design features of the Ginnie Mae model significantly limit taxpayer exposure to risks typically associated with secondary market transactions while still providing liquidity for the overall housing finance system.

The easiest way to understand Ginnie Mae's mission is that we oversee a process for ensuring the success of the government's MBS guarantee. To accomplish this, Ginnie Mae manages technology and infrastructure designed to track the payment of principal and interest, made by borrowers to their lenders, making sure it ultimately gets into our common security and to investors on time and in full every single month. When a low-income borrower in an FHA loan, a rural borrower in a USDA loan, or a veteran borrower in a VA loan makes a mortgage payment, we make sure the servicer of the mortgage submits that payment to the investor who owns the MBS. If we do our job well, veterans gain access to more affordable home financing terms, and the capital necessary to make these loans remain reliably available through all economic cycles.

VA Loan Churn Background

The issue we are here to talk about today - the rapid refinance of VA loans held in Ginnie Mae securities - has had a significant impact on Ginnie Mae MBS market trading and pricing dynamics over the past few years. I thank you very much for bringing attention to this issue. Hopefully increased Congressional and federal agency oversight can help effectuate some needed changes in behavior.

At times what we are here to discuss may seem like a technical issue, but the consequences are anything but. Without proper policing by Ginnie Mae or the VA, every single veteran who relies on our program will pay a higher rate than they should. If we take for granted the capital that makes our program work, it may not continue to flow into our market. That is not a risk we should take.

It is difficult to describe what is transpiring without using jargon or technical terms like "prepayment speeds," "loan seasoning," and "premium MBS pricing." But ultimately what we care about is the following: if our security is not functioning well, veterans will have difficulty getting a home loan, and if they do get a loan they will pay a higher rate. Since this "loan churn" problem began, Ginnie has recognized that failure to curtail these practices could ultimately harm borrowers in the form of higher interest rates. That is why we take this issue incredibly seriously, and why we pledge to you today that we are working hard to put an end to it once and for all.

In early 2016, Ginnie Mae and our investors first began to identify early loan repayments and serial refinancing as a problem with much greater incidence in the VA mortgages in our securities than loans insured by other agencies. Mortgage loans often prepay, especially when interest rates drop. But Ginnie Mae began to notice prepayments at speeds that could in no way be justified by economic factors.

Some strange pricing dynamics in our security - specifically a weakening of Ginnie MBS prices versus other MBS - further alerted us to the growth of anomalous refinancing behaviors. Clearly, Ginnie Mae investors had begun to take note as well. After some initial internal analysis, it became more obvious that some lenders had apparently found an opportunity to take advantage of service members and veterans to make a quick profit for themselves by aggressively pushing a series of loan refinance offers. These are done without any regard for the consequences for our security, other veterans, or other borrowers who rely on our program.

It seems that the core issue stems from two fundamental, underlying dynamics. First, we have an increasing number of veterans in the United States, and many of them fall prey to advertising schemes that give the appearance of coming from reputable sources. Second, the Ginnie Mae security trades at a premium price, and this incentivizes lenders to pull loans from pools at "par[1]" and deliver them into a security at a premium, booking a profit each time this occurs. We believe it may be the confluence of these factors that has enabled this new, unacceptable and dangerous market behavior.

Upon further investigation, we believe that some lenders have capitalized on these dynamics by employing two patterns of note. The first is the origination of a loan substantially above prevailing market interest rates, sometimes called a "premium loan." At times these loans may include debt consolidation, and at times they are provided to borrowers with very low credit scores, which explains some of the reasons that they carry high interest rates. But often our analysis has found that premium VA loans simply represent a business model of using aggressive marketing tactics to originate a loan at an interest rate higher than the veteran borrower should otherwise be paying, as proven by the rapid refinance that occurs almost immediately thereafter.

These loans are profitable for the company originating the loan and issuing the loan into a Ginnie Mae security because they can immediately sell the loan into a Ginnie Mae MBS pool at a high dollar price because of the high accompanying interest rate, and pocket the so-called "cash gain on sale." This essentially means those lenders who originate high interest rate loans charge veterans too much and book a large profit right up front, knowing that the veteran has a rate that is above market and knowing that the veteran will likely refinance in the future to obtain a true market rate. These loans not only give the borrower an interest rate half of one percentage point or more above what they could be paying, but they are ripe to be cher-

[1] Par simply means a bond that trades at 100 cents on the dollar, often denoted as "100–00." Most Ginnie MBS trade above this price today. Specifically, prices closer to 105. This means every time a lender pulls a loan from a pool at par and redelivers it into a new security at 105, it books 5 points (or 5% of the loan balance) as profit.

ry-picked out of a Ginnie security by that same lender or another lender looking to profit on a quick refinance.

And this is when we see another tactic used by many lenders - a quick refinance, or sometimes multiple refinances, of a premium loan. Soon after a veteran's first loan closes, veterans begin to immediately receive a constant stream of solicitations for refinance offers from other companies using the data from the first loan closing. These offers promise anything from skipping a few monthly payments to taking cash out to lowering a rate by getting into an adjustable rate mortgage. Many of the solicitations appear misleading, but many also prove successful, as we see veteran borrowers being convinced to refinance their loans multiple times in a year without much tangible benefit.

This entire scheme relies on a steady stream of veterans who may not be exceptionally financially savvy, or may be having financial difficulties making them desperate for some cash, which these offers often promise to help fix.

In many cases, a single veteran is refinanced multiple times in less than a one-year period, sometimes, according to our data, with very limited benefit to the veteran. Sometimes, in fact, with each refinance the veteran is seeing his or her loan balance grow. According to many of the flyers and advertisements we've collected, quite often the fees to refinance are buried or hidden. The refinances, advertised with teaser rates and no money down, are in many cases leaving veteran borrowers further and further in debt, while providing minimal monthly cost savings.

In reviewing recent months' data on VA refinances, we have found the average cost of doing a fixed rate to fixed rate refinance is approximately $6,000 in fees, for an average payment savings of $90 per month. That means it will take the veteran five and a half years to break even on the fees incurred for the refinance.

Another alarming development that you need to be aware of is that, with interest rates having bottomed out and opportunities to refinance from a fixed rate loan into a new fixed rate loan having been exhausted, we are now seeing a trend of brokers and lenders marketing the refinancing from a fixed rate loan into an adjustable rate mortgage. When veterans do this, the new loan may result in a short-term teaser rate that lowers the borrowers' monthly payment, but could also result in higher monthly payments for the borrower in the future. For refinances from fixed rate to adjustable rate loans, the average is $12,000 in fees for a monthly payment savings of $140 and seven years to break even, assuming the mortgage rate doesn't adjust upward.

Additionally, as home prices have risen in recent years, some lenders have come to specialize in the "cash out refinance" business. There is nothing wrong with helping veterans take advantage of this benefit. But our data raises some pretty serious questions, for example we see loans where borrower credit characteristics appear to change inexplicably from one month to another. And, we are seeing the creation of a large group of veterans who once had equity in their home but no longer do after the cash out refinance. In these instances, if a veteran borrower someday chooses to move, he or she might need to bring a check to the closing to do so. In our view, this is an area of concern.

Finally, we now also see offers by refinance lenders to refund the tax and insurance escrows normally maintained by the servicer and accumulated as part of the monthly "PITI" (principal and interest, taxes and insurance) mortgage payment. In these cases, the veteran is lured in by a scheme to skip a mortgage payment while the new loan is initiated, get an escrow refund, and look at the monthly payment without an escrow charge, with the closing costs folded into the loan. This tactic can lead to larger mortgages, more debt and the veteran paying a lot of money in fees for a riskier mortgage without sufficient escrows.

The bottom line is that marketing and promotional materials being received by many veterans today often include misleading terms that are too good to be true. These mailers are also frequently disguised as checks or documents appearing to be official correspondence from the Department(s) of Defense or Veterans Affairs, or the IRS, instructing the veteran to call the number listed to discuss their VA benefits, or a similar ploy.

Investors and the MBS Market

Beyond the problems created for individual veteran borrowers targeted for high rates or rapid refinancing, loan churning has serious implications for the broader mortgage market as well. In recent years, investors have priced Ginnie Mae bonds at a premium to the conventional market due to the explicit government guaranty. This premium directly translates into lower interest rates enjoyed by veterans as well as borrowers from the other government loan programs. As the VA loan program has grown as a percentage of the Ginnie Mae portfolio, the increase in loan churning activity has also become more apparent and an increasing area of concern.

Loan churning is a problem for investors because, as loans are refinanced, they are removed from MBS pools and with them, the return expected from the monthly principal and interest payments. Because of this increased prepayment risk, investors are today less willing to price Ginnie Mae bonds at a premium (or, as noted above, a price above "par"). A reduction in investor demand puts downward pressure on the prices of Ginnie Mae securities, which ultimately harms veterans by increasing borrowing costs, since as bond prices fall, interest rates offered to borrowers increase. And, because loans from the other government loan programs are comingled in Ginnie Mae securities, borrowers in the other government loan programs are paying the increased costs as well. This represents a direct wealth transfer from VA, FHA, USDA, and PIH borrows to a relatively small number of VA lenders who abuse our program.[2]

These challenges are not theoretical. They very much exist today and impact the rates that all FHA, VA, and USDA borrowers pay every month. As recently as December of last year, Ginnie Mae leadership spoke directly with several large foreign institutional investors regarding their ongoing investment in Ginnie Mae MBS. A common theme in every conversation was concerns about the VA loan churn issue and its impact on their investment in Ginnie Mae MBS. The foreign investor market, particularly central banks and government pension funds, has been a major source of capital for the Ginnie Mae program, and we have no choice but to take these concerns very seriously. The inability to model and price Ginnie Mae MBS due to the unpredictable nature of the rapid prepayment speeds on Ginnie Mae bonds is a serious challenge for any securitization program and all who rely on it. If this dynamic continues and investors choose to flee the Ginnie Mae market, it could very well cause even higher borrowing cost for all veterans and others in the coming years.

To mitigate this problem in the short-term, we have been outlining for these investors the additional steps we are taking. We must take these risks seriously at all times, and we must deliver on tangible solutions this year.

Ginnie Mae Changes, Task Force, and Upcoming Actions

Broadly, we believe the long-term solution to this issue comes in three steps. The first is through Ginnie Mae tightening its requirements for access to our security when we see patterns of injurious behavior. We have taken some steps here and more will be forthcoming throughout 2018, including the elimination of premium loans from our securities. The second is by VA establishing a solid framework that would ensure veterans are protected from predatory lending practices, including excessive fees, thereby ensuring any refinance represents a tangible benefit to the veteran. The third is the continuous surveillance of data collection and analysis to enforce adherence to the first two steps.

Looking at these steps in more detail, I will begin by outlining the actions that Ginnie took in 2016, but more importantly the actions we plan for 2018.

In late 2016, in order to attempt to combat these practices, Ginnie made an initial program change to the Ginnie Mae rules in an attempt to address the issue within Ginnie Mae's legal and regulatory authority. Specifically, we changed rules on how soon after one mortgage loan is originated, a streamline refinance transaction of that same loan could be pooled into a Ginnie Mae security.

Those initial measures were successful in stopping the rapid refinance practices with many lenders for a short period of time. However, after the first required six-month seasoning period lapsed following the effective date of the 2016 rule, in mid-2017 Ginnie Mae again saw an increase in loan repayments and securitization that strongly suggested further steps were needed. Notably, we also saw that some lenders had actively worked to evade the new rules Ginnie Mae implemented by changing their tactics. For example, some lenders starting using "cash-out" or other types of refinances, which were not addressed by the 2016 rule change.

As part of our ongoing effort to curtail these practices and to protect the health of our security, in December of 2017 Ginnie Mae announced a strengthened rule, saying that absolutely no refinances, including both streamline and cash-out refinance loans, will be permitted into Ginnie pools for six months after origination of the underlying loan, thus eliminating the loophole that some lenders used to evade

[2] Because the loan churning problem has been most pronounced in the VA loans in our pools, this testimony focuses on the veteran loan experience as we have observed it. However, Ginnie Mae single-family MBS pools comingle VA, FHA, RD and PIH loans in the pools. The consequence is that a detracting feature of one agency's program that results in a loss of value for that agency's mortgage loans, will have an effect on the price of the overall MBS and, therefore, all of the government loans will suffer a loss in value at the risk of entailing higher interest rates.

our original 2016 rules. We also announced the outline of the additional steps we will be taking in the coming weeks to continue to put a stop to this behavior, which I will discuss in more detail below.

As it has been widely reported, in late 2017 Ginnie Mae and VA formed the Ginnie Mae - VA Refinance Loan Task Force to continue and to intensify our work on this issue. The task force meets regularly and is focused on closely examining the issue as a team, gathering market data, and reviewing lender behaviors related to refinancing loans to determine the program and policy changes needed to stop detrimental market behavior. At its core, the task force is in place to make changes that stop bad actors from posing an undue risk or burden to veterans or the American taxpayer.

The first action to come out of the task force is the change Ginnie Mae announced early last month - the expansion of the loan seasoning requirements for cash-out refinance loans securitized into Ginnie Mae securities. But we do not intend to stop there. To help identify market outliers, we have also greatly increased the tracking and analysis of the prepayment rates of issuer portfolios. An inexplicably fast prepayment rate is an indication that the lender is aggressively churning borrowers without regard to whether or not a refinance actually benefits a veteran. As such, in 2018, any issuer with pool performance that appears materially out of step with market peers will receive increased attention and engagement from Ginnie Mae, and we will be putting such lenders on notice in the coming weeks.

Furthermore, we recently announced that prepayment information will be included in Ginnie Mae's internal Issuer Operational Performance Profile ("IOPP") scorecard. This scorecard is used to evaluate issuers against their peers, and it is the first set of data we look to in evaluating an issuer on a regular basis. Appropriate action will be taken against issuers found to be consistent outliers, potentially including removing them from the Ginnie flagship ("Ginnie II") security.

An additional change we are actively working to address is the definition of a premium rate loan as it pertains to their permissibility in the Ginnie Mae standard MBS pools. These loans, which I discussed earlier in my testimony, are identified as having an interest rate spread of more than 150 basis points in rate (or 1.50%) above prevailing market interest rates for Ginnie securities. We will soon be announcing definition and operational processes that will clarify our definition of a premium loan and enable the enforcement of this rule. We believe this will help to curtail abusive origination practices and slow Ginnie Mae prepayment speeds, lessen investor concerns over the health of our security, while at the same time helping prevent veterans from paying more on a loan than they otherwise should.

Finally, it is worth noting that we have received whistleblower calls from employees who work in firms that they believe are engaging in unethical churning of veteran loans. Ginnie Mae does not today have sufficient legal authority to offer whistleblower protections to these individuals, but, because our securities are traded, the SEC does, and so we have connected these individuals with the SEC. At the same time, we have been receiving complaints from veteran borrowers about aggressive solicitation practices, and we have alerted the Consumer Financial Protection Bureau (CFPB).

Conclusion

In conclusion, I believe that 2018 will be an inflection point for this issue. Changes must be made to finally put a stop to bad actors abusing the VA home loan program and the Ginnie Mae security, delivering harmful loan products to veterans, and jeopardizing the efficient borrowing costs for all government borrowers.

I very much appreciate the opportunity to discuss this critical issue and to work with Congress to bring increased attention to lending practices that are negatively impacting many Americans. At Ginnie Mae we are determined to continue our efforts until concrete solutions have been implemented that protect veterans, the Ginnie Mae program, and ultimately the American taxpayer. Thank you again, for inviting me to testify today. I look forward to answering your questions.

Prepared Statement of J. David Motley

Chairman Arrington, Ranking Member O'Rourke, and members of the subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA). My name is Dave Motley, and I am President of Colonial Savings, a privately-held, federally-chartered thrift headquartered in Fort Worth, Texas. I also currently hold the position of Chairman of the MBA. I am a Certified Mortgage Banker (CMB), and I have previously served as a Board member of the

Texas MBA and a member of the Community Bank Advisory Council of the Consumer Financial Protection Bureau (CFPB).

MBA is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. 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. MBA's membership of over 2,300 companies represents all elements of real estate finance, including firms serving both the single-family and commercial/multifamily markets. Our membership features commercial banks, community banks, credit unions, independent mortgage bankers, investors, brokers, conduits, and industry vendors, among others.

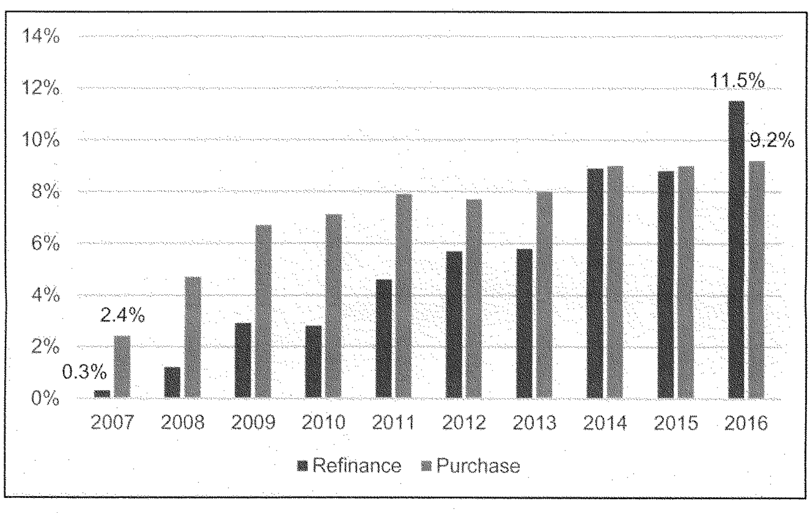
I applaud the subcommittee for its efforts to better understand problematic practices with respect to certain mortgage refinances marketed to servicemembers and veterans of the U.S. military. Servicemembers and veterans generally benefit from the streamlined process for refinancing mortgages backed by a partial guarantee from the U.S. Department of Veterans Affairs (VA). However, recent activity in this market appears to be resulting in increased fee income for a small group of lenders while leaving some borrowers in a worse economic position. Such conduct is unacceptable and should be put to an end.

The remainder of my testimony will describe the VA mortgage market, the mechanics of loan "churning," the harm caused to borrowers by such churning, and options for addressing the recent churning we have witnessed in the market.

The VA Mortgage Market

VA mortgage loan programs play an important role in increasing the availability of mortgage credit for servicemembers, veterans, and surviving spouses. By guaranteeing a portion of the loan balance, VA enables lenders to offer loans with more favorable terms, such as no required downpayment. The VA share of the mortgage market has grown over the past decade, constituting 10.3 percent of total originations in 2016 versus 1.2 percent of total originations in 2007. Among purchase loans, the VA share has increased from 2.4 percent to 9.2 percent over this period, while the VA share of refinances increased from 0.3 percent to 11.5 percent (see Figure 1).

Figure 1: VA Share of Total Originations (based on loan count)



Source: HMDA data

While borrowers seeking to refinance their VA loans may apply and be evaluated through their lender's full underwriting process, the VA Interest Rate Reduction Refinance Loan (IRRRL) allows for a streamlined refinance process that is often faster and entails lower costs. For example, IRRRLs do not require a traditional appraisal or credit underwriting package and can be originated with no additional funds provided by the borrower at the time of closing. IRRRLs are, however, limited to VA-to-VA refinances on properties for which the borrower has already used his or her VA loan eligibility, and the borrower cannot receive cash from the loan proceeds.

Generally, refinancing via an IRRRL allows the borrower to lower the interest rate on the mortgage. In doing so, the lender may charge the borrower origination fees, which are sometimes paid by the borrower at origination and in other cases are rolled into the principal balance of the loan. Depending upon the magnitude of both the fees and the interest rate reduction, it may take the borrower a number of years to recognize a net economic benefit on the refinance. The period of time after which the fees are fully recovered through lower interest payments is known as the "recoupment period." The longer the recoupment period, the less likely it is for a borrower to ultimately recognize a net economic benefit from the refinance.

Loan Churning

Most lenders with VA loan products offer both purchase and refinance loans to their servicemember and veteran customers. However, the recent extended period of low interest rates has encouraged some lenders to specialize in marketing and originating IRRRLs. A smaller subset of these lenders, who in many cases are not the lenders that originated the initial purchase loan, have reportedly undertaken aggressive-and potentially misleading-advertising and solicitation campaigns to generate increased IRRRL volume. In some cases, this advertising or soliciting targets VA borrowers who have already recently engaged in an IRRRL, convincing them to refinance yet again to lower their interest rate by a very small amount while adding even more fees to the principal balance on the loan. Some IRRRLs also move the borrower from a low, fixed-rate loan to a slightly lower, but now adjustable-rate, loan. In other instances, borrowers are promised "cash back" from their escrow account or the ability to effectively "skip a payment." Such serial refinancing, or churning, provides little or no long-term benefit to the borrower while essentially stripping their equity and further extending the overall recoupment period.

VA borrowers are particularly susceptible to churning in an environment of falling interest rates, as these lower interest rates present more opportunities for lenders to offer IRRRLs. And lenders engaging in churning target IRRRLs due to their much lower origination costs relative to fully-underwritten refinances. Many borrowers may be unaware or may not fully comprehend the net economic impact of their decision to refinance (or continually refinance), leaving them vulnerable to situations in which they add substantial amounts to their overall loan balance or lose their fixed interest rate while achieving only small reductions in their monthly payments.

The harm caused by loan churning is not limited to the financial condition of the individual borrower, however. Aggressive use of IRRRLs by some lenders threatens to weaken investor demand for Government National Mortgage Association (Ginnie Mae) securities that are partially backed by VA loans. This outcome would negatively impact access to credit for a wide range of borrowers.

The vast majority of VA loans are bundled into mortgage-backed securities (MBS) that receive a guaranty of timely payment of principal and interest by Ginnie Mae. These Ginnie Mae MBS in turn receive a full faith and credit guaranty of the U.S. government. Importantly, however, Ginnie Mae MBS are backed not only by VA loans, but also by loans originated through the Federal Housing Administration (FHA), the U.S. Department of Agriculture's Rural Development (RD), and the Public and Indian Housing (PIH) insurance programs.

And like other mortgage refinances, IRRRLs represent a prepayment of the original VA loan along with the origination of a new loan (with new terms). Those prepayments flow through to the Ginnie Mae investors. While these investors do not assume credit risk on the MBS due to the U.S. government guaranty, they are exposed to prepayment risk. More specifically, investors take into account the timing of future cash flows from a bond when determining the price they are willing to pay for that bond. If the rate of actual prepayments increases materially and beyond what was reasonably estimated by the investor, the anticipated income stream from the MBS will fall short of investor expectations. This outcome lowers demand for Ginnie Mae MBS, thereby decreasing the price of the bonds and increasing their yields.

The higher yields on Ginnie Mae MBS directly correspond to higher mortgage interest rates for not only VA borrowers, but also FHA, RD, and PIH borrowers. These higher interest rates broadly decrease access to credit and exacerbate affordability concerns in the housing market, particularly for first-time homebuyers and servicemembers and veterans.

It is worth reiterating that IRRRL churning does not appear to be a widespread problem among the mortgage lender community, but rather an activity that is confined to a small subset of lenders. Ginnie Mae has recently taken steps to meet with lenders that may be engaged in this practice, and to modify pooling requirements in order to limit the economic benefits of churning. While helpful, these efforts are not sufficient to end abusive activity.

MBA fully supports supervisory efforts to improve the policing of the market, as well as appropriate regulatory and legislative efforts to remove the ability or incentive for lenders to engage in churning. MBA is mindful that any changes must be carefully crafted so as to preserve legitimate refinancing options for servicemembers and veterans. Among MBA's core objectives is the promotion of best practices and standards that generate a healthy and responsible mortgage market, and the association stands ready to assist in developing and implementing solutions to the problem of churning.

Potential Policy Options

Many such solutions are available to address the problem. As noted, Ginnie Mae has already begun taking positive actions using its limited unilateral authority, first by issuing a six-month seasoning and payment requirement on all streamlined refinance loans prior to their eligibility for pooling, and then extending this requirement to all cash-out refinance loans, as well. Ginnie Mae and VA have also established a joint task force to analyze data and further develop coordinated policies.

While loan seasoning requirements and joint analysis are important steps, more is needed to fully prevent IRRRL churning. Fortunately, many other practical options fall within the existing authority of VA to implement. The most promising of these options target churning while not impeding on the ability of servicemembers and veterans to obtain a refinancing that does result in an economic benefit to them. For example, a maximum recoupment period would inhibit lenders from charging substantial fees in exchange for minor reductions in mortgage interest rates. Further, a requirement instituting a net tangible benefit test, which is already present for FHA streamlined refinances, would more effectively ensure that the terms of the refinance produce real benefits for borrowers. Limits on the amounts that can be added to the principal balance would reduce equity stripping that can leave borrowers worse off as a result of the IRRRL. And finally, targeted consumer financial education regarding loan churning would better inform borrowers about the potential for abuse. Such efforts should focus particularly on servicemembers and veterans who are vulnerable to abuses in IRRRL lending. MBA firmly believes that some or all of these options-if crafted carefully-can eliminate abusive activities while preserving appropriate streamlined refinancing opportunities for VA borrowers.

Once again, I appreciate the opportunity to present this testimony, and I look forward to working with the subcommittee to develop practical solutions that will curtail VA loan churning and better protect mortgage borrowers across the country.

Prepared Statement of Brock Cooper

Good morning, Chairman Arrington, Ranking Member O'Rourke and members of the Committee. My name is Brock Cooper, and I am the general counsel for Veterans United Home Loans.

I would like to thank you for allowing me the opportunity to come before you today to discuss this important issue regarding lending practices that impact our service members, our Veterans and our military families. Before working for Veterans United, I served in the Missouri Army National Guard from 2000 to 2006, achieving a rank of Sergeant E–5. During my service in the National Guard, I was called to active duty for an 18-month period from 2003 to 2005 for stateside military police law enforcement duty at Fort Bragg in North Carolina. Additionally, I was activated for Hurricane Katrina relief in 2005.

I purchased my first home in 2008 using the VA Loan, and used the VA Interest Rate Reduction Refinance Loan (IRRRL) program to help lower my monthly payment and interest rate on that initial home. I have subsequently used the VA Loan to finance the purchase of three other homes for my family. I have a current VA Loan, and fully understand the pressures of the marketing practices employed by some industry participants around the IRRRL program.

Two years after separating from the National Guard, I joined Veterans United. We are a full-service, family-owned lender, headquartered in Columbia, Missouri. We have nearly 2,400 employees nationwide and are licensed in all 50 states and Washington D.C. Our primary mission is helping Veterans, service members and their families achieve the American dream of homeownership. We have been the nation's No. 1 VA purchase lender each of the past two fiscal years, closing more than 37,000 purchase loans in VA fiscal year 2017 alone. We have now closed more than 165,000 VA purchase loans since originating our first VA loan in 2003. Today, Veterans United represents 1 out of every 10 VA purchase loans originated. These stats are reflective of our mission to help Veterans and their families get the most from their hard-earned home loan benefit.

The Success of the VA Home Loan Program

Since our first VA Loan in 2003, we can attest the VA Loan is not like other mortgages. It differs from conventional and all other federal mortgage programs in that it is an earned service benefit - not a federal discretionary program - available to our Veterans, qualified active duty personnel and qualified surviving spouses. It is part of a deep bond between those who serve and the taxpayers these Veterans pledge to defend.

The VA Loan program stands out as a true success story. In VA fiscal 2017, the program had a record 740,000 closings, hitting a record $189 billion in volume.[1] As of today, VA Loans represent 10 percent of the mortgage market.[2] The program has featured the lowest average interest rate on the market for more than three years, along with the lowest foreclosure rate for more than 10 years.[3] At the same time, VA purchase loans are closing within two days of the entire market - 47 days.[4] These statistics are powerful considering VA Loans represented about 1 percent of the mortgage market as recently as 2007. These facts demonstrate that by and large the VA Loan program is providing the desired benefit that it was designed to deliver.

This is the story we must protect. All decisions about the VA Loan program must be made to ensure we improve this hard-earned service benefit, while making sure the program continues to be healthy and sustainable as it continues to make homeownership possible for America's bravest.

Improvements to the VA IRRRL Program

Veterans United has been involved in the policy discussion surrounding the IRRRL program for many years. Our primary concerns remain that in some instances IRRRLs do not represent a true reasonable value to Veterans, and that serial abuse of IRRRLs could impact interest rates long-term, making it more difficult for Veterans to purchase homes.

At Veterans United, we offer IRRRLs primarily as a way to better serve the Veterans and service members who have initially come to us for purchase loans, and whose loan we are now servicing. As of the beginning of 2018, we service about $8 billion in VA Loans. To provide perspective, IRRRLs accounted for a little more than 6 percent of our overall loan volume in VA fiscal 2017.

It is critical to remember that first and foremost, the whole idea behind the IRRRL is to put Veterans in a better financial position today than they were yesterday. This is what guides our approach - is this new loan making the Veteran's life better today and in the future? No lender should look only at immediate or long-term benefits. The lender must understand how long the Veteran intends to live in the home, the consequences of interest rate increases or decreases and the overall financial makeup of each customer. It does not matter how much a refinance purports to save a Veteran homeowner if it will take them a decade to recoup loan costs and fees that swell their loan balance. That does not put Veteran homeowners in a stronger financial position because they have less equity or may even be upside down on their home when they go to sell. The same could be said for convincing someone to refinance into an adjustable-rate mortgage without discussing the possibility for future rate increases or the potential for additional costs and decreased equity when later refinancing back into a fixed-rate mortgage.

We believe there is a clear value when Veterans lower their mortgage payments or when they can move from adjustable-rate mortgages to fixed-rate mortgages, as long as they can recoup the costs and fees from that new loan within a reasonable time frame and do so after a reasonable time period from the initial close.

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[1] Veterans Benefits Administration's VA Home Loans web page. https://www.benefits.va.gov/HOMELOANS/Lender—Statistics.asp

[2] EllieMae Origination Insight Report. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie—Mae—OIR—NOVEMBER2017.pdf. Page 3.

[3] EllieMae Origination Insight Report. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie—Mae—OIR—NOVEMBER2017.pdf. Page 5 & Mortgage Bankers Association National Delinquency Survey.

[4] EllieMae Origination Insight Report. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie—Mae—OIR—NOVEMBER2017.pdf. Page 4

This is an important way we look at refinance loans - there is not a strict, one-size-fits-all savings because there is a not a one-size-fits-all Veteran or military family.

In addition, an IRRRL serves a valuable function outside of reducing interest rates - it accounts for life's changes and challenges. Veterans and service members have a unique service benefit in using IRRRLs to account for these changes and challenges, such as the death of a spouse, marriage or a divorce. These are three common reasons to use the IRRRL to clean up a title, and we feel strongly they should be maintained.

We all know of serial refinance companies that are aggressively contacting Veterans and their families with misleading mortgage offers. Three primary problems are caused by this activity: long-term financial harm to the Veteran; increased interest rates for Veterans purchasing a home; and long-term harm to the VA Loan program.

The harm to the Veteran homeowner may be a recoupment period that is unjustifiably long, leaving them owing more than their home is worth or higher future costs because they've been convinced to refinance their fixed-rate loan into an ARM.

The harm to Veterans purchasing a home is higher interest rates. When Veterans with a VA Loan are convinced to refinance again and again, the company making the original mortgage must buy it back from the secondary market, often paying steep penalties. While hard to quantify, this cost is inevitably passed on to Veteran homebuyers in the form of higher interest rates.

These higher interest rates are also a negative to the overall program. High interest rates make the program less competitive in the marketplace, and that hurts the VA Loan program's ability to invest for the future.

Maintaining Strong Service Benefits for Veterans, Service Members and their Families

We appreciate that the VA Loan Program's leadership and Ginnie Mae's leadership are actively engaged on this issue and committed to protecting Veterans while ensuring they have full access to their hard-earned benefits. We support the agencies' joint task force, and we believe that Ginnie Mae's recent decision to pool IRRRLs made within six months of the original closing differently is a step in the right direction. We support the quick call to action Ginnie Mae has made to address churning of VA loans, including Ginnie's move this past month to incorporate cash-out refinances into their refinance pooling policy. These rules would appear to address most of the problems affecting Veterans using their IRRRL benefit; the only portion we feel is still missing is the recoupment of refinance costs and fees within a set time frame.

We support efforts to empower the VA to make program changes in a more expeditious manner. Today, Ginnie Mae, Fannie Mae, Freddie Mac and the FHA can make corrective program guidance decisions relatively quickly for a wide range of topics pertaining to the programs they administer. Alternatively, the VA has to go through a full, formal rulemaking process for relatively narrow, technical program changes that could be much more easily corrected through these other programs. This can prevent needed narrow fixes that would benefit our Veterans from ever taking place. While rulemaking should still be required for extensive program changes, we support a more expeditious process for lesser ones.

We would urge that any Congressional fixes not become too "in the weeds" or prescribe specific requirements that could potentially cut off the VA Home Loan benefit for some Veterans who have earned it. Instead, Congress should empower the VA to quickly implement new reasonable guidelines for IRRRLs given the VA's vast experience with the program and the Veterans it benefits, and those guidelines can be adapted over time. Mortgage markets do change and Congressional legislation, once enacted, can be set for 10 or even 20 years. A solution must work well this year, next year and 10 years down the road. We see instances time and again where rules that consider the unique circumstances of each Veteran create real value for our military families.

The Next 70 Years of the VA Home Loan Program

Members of this Committee, the IRRRL is an important aspect of a hard-earned service benefit created more than 70 years ago. The entire premise of the IRRRL is to provide a no-frills, low-cost loan to help Veterans save money, strengthen their overall financial health and adjust to life's unforeseen events, while not hurting the ability of fellow Veterans to make their own homeownership dreams a reality. Unfortunately, loans are being made that fail to live up to the spirit and intent of this long-cherished service benefit.

Veterans United believes reasonable seasoning and recoupment periods are essential to protect Veterans and the long-term viability of the VA Loan program and to ensure Veterans are clearly benefitting from a VA refinance. To date, Ginnie Mae has addressed the seasoning requirements, and we believe VA is best suited to address a recoupment period. We look forward to helping the VA Loan Guaranty Program, Ginnie Mae and other stakeholders in any way we can to best serve those who have served us.

Finally, it's worth noting that those entering the military take an oath of office very similar to the oath taken by Members of the House: all swear to "support and defend the Constitution of the United States against all enemies, foreign and domestic, bearing true faith and allegiance to the same."

All serve, of course, but those in the military pledge their very lives in the process. We are all here to ensure that those pledging so much receive the very best from us in return.

Thank you again, Mr. Chairman and the Committee, for allowing me to come before you today.

Statements For The Record

QUESTIONS & ANSWERS FOR THE RECORD

Ginnie Mae Responses

1. Please explain in detail the reason that Ginnie Mae does not publicly publish on its website the names of lenders that it has fined in the past, including those it has fined for breaking the 2017 Ginnie Mae policy that required VA loans to be at least six months old before being refinance.

Ginnie Mae has the statutory authority to levy Civil Money Penalties (CMP) for many types of program violations. Typically, Ginnie Mae's use of CMPs focuses on violations that relate to reporting and remittance of principal and interest, as those are clear cut program violations and are critical to Ginnie Mae operations. As noted in the hearing on January 10, 2018, Ginnie Mae has issued CMPs for violations of All Participants Memorandum (APM) 16–05, but has not made public the list of issuers who received CMPs.

Ginnie Mae is not statutorily required to publicize CMPs, and historically it has chosen not to do so. The two principal reasons for this are:

- Most Issuers take program violations seriously, and they are usually responsive to Ginnie Mae enforcement actions.
- For publicly traded companies or companies that rely on borrowing facilities, the introduction of reputational risk into Ginnie Mae enforcement activities could result in market consequences for issuers that would be harmful to the overall management of the Ginnie Mae MBS program.

2. Please state whether, in the future, Ginnie Mae would consider publicly publishing the names of lenders it has fined for breaking its policies.

There are circumstances where it could be in Ginnie Mae's interest to publicize a CMP enforcement action. Ginnie Mae reserves the right to do so if it deems such action would be warranted, helpful, and appropriate. Ginnie Mae is currently examining the benefits and drawbacks of publicizing CMPs in relation to the VA loan churn APM.