

**STATEMENT OF  
KEITH PEDIGO, DIRECTOR  
LOAN GUARANTY SERVICE  
DEPARTMENT OF VETERANS AFFAIRS  
BEFORE THE  
SUBCOMMITTEE ON HOUSING & TRANSPORTATION  
SENATE COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS**

**AUGUST 2, 2006**

**\*\***

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the VA Loan Guaranty Program. In my testimony I would like to highlight VA's commitment to meeting the housing needs of our nation's veterans. I am pleased to be accompanied by Mr. Pete Dougherty, Director, Homeless Veterans Programs. Mr. Dougherty will discuss issues pertaining to homeless veterans.

The Department of Veterans Affairs home loan program serves a clientele which is diverse in many ways. The only common denominator of this clientele is service in the Armed Forces of the nation. Since the inception of these programs in 1944 the objective has been to assist eligible veterans to become homeowners. Veterans are assisted by increasing their competitiveness in the marketplace for credit. The VA programs are intended to benefit men and women because of their service to the country.

The Loan Guaranty Program provides a guaranty to lenders making loans to veterans and servicemembers to purchase homes. Other important program benefits include making direct loans to Native American veterans living on trust lands, and providing Specially Adapted Housing (SAH) grants to severely disabled veterans. Additionally, services and assistance are provided in coordination with the Vocational Rehabilitation and Employment (VR&E) program for disabled veterans eligible for Independent Living Services and SAH benefits.

Since the home loan guaranty program was enacted, as part of the original Servicemen's Readjustment Act of 1944 (the GI Bill), VA has guaranteed over 18 million home loans totaling almost \$900 billion to veterans to purchase or construct a home, or refinance another home loan on more favorable terms. The VA home loan program has made mortgage credit available to many veterans whose loans otherwise would not have been made.

VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home which must be for their own personal occupancy. To get a loan, a veteran must apply to a lender. If the loan is approved, VA will guarantee a portion of it to the lender. This guaranty protects the lender against loss up to the amount guaranteed and allows a veteran to obtain favorable financing terms. There is no maximum VA loan, but lenders will generally limit VA loans to \$417,000. This is because lenders sell VA loans in the secondary market, which currently places a

\$417,000 limit on the loans. In certain high cost areas, such as Hawaii and Alaska, Guam and the U.S. Virgin Islands, this conventional loan limit is currently \$625,000. For loans up to this amount, it is usually possible for qualified veterans to obtain no downpayment financing. A veteran's basic entitlement is \$36,000 (or up to \$104,250 for certain loans over \$144,000). Lenders will generally loan up to 4 times a veteran's available entitlement without a downpayment, provided the veteran is income and credit qualified and the property appraises for the asking price.

Currently, eligible veterans and service personnel may obtain loans for the following purposes:

- To buy or build a home;
- To buy a residential unit in a condominium project;
- To repair, alter or improve a home;
- To refinance an existing home loan.
- To buy a new or used manufactured home and/or lot;
- To buy and improve a manufactured home lot on which to place a unit owned and occupied by the veteran;
- To improve a home through installation of a solar heating and/or cooling system or other energy efficient improvements;
- To refinance a loan currently guaranteed, insured or made by the VA for the purpose of lowering the interest rate; and

- To refinance a manufactured home in order to purchase the lot on which the home is or will be placed.

Like other homeowners, some veterans experience financial hardships that affect their ability to make loan payments. When this occurs, VA helps veterans retain their homes through supplemental loan servicing efforts. VA offers financial counseling, and may even intervene directly with the lender on behalf of the veteran to work out a repayment plan. In limited circumstances, VA buys the loan from the holder and allows the veteran to make payments directly to VA. In the event of foreclosure, VA usually acquires the property from the mortgage loan holder. The property is then transferred to a private contractor to be sold on VA's behalf.

Successful interventions help veterans and save substantial amounts of money by avoiding claim payments. In 2005, VA avoided claim payments totaling \$175 million through supplemental servicing efforts. It should be noted that while this savings is not part of the program's operating budget account, it exceeds the total amount requested for 2007.

Mr. Chairman, this concludes my testimony. I greatly appreciate being here today and look forward to answering your questions.