



The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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Veteran Affairs Loan Programs

The VA's mission. The objective of the Department of Veterans Affairs' loan programs is to facilitate and encourage the extension of credit on favorable terms to eligible veterans for the purchase, construction, repair, or improvement of homes. This is accomplished through private lenders for guaranteed loans or the VA itself for direct loans.

The VA has provided enhanced housing access to veterans for over 60 years. The VA loan guaranty programs originated in

1944. Congress wanted to provide World War II veterans with a means to quickly make the transition to civilian life. The program was significantly expanded in the 1970's in order to include veterans of all wars.

VA Housing and Vocational Education

Guaranteed Loans Outstanding: \$350.9 billion

Guaranteed Loans Originated FY2004: \$35.6 billion

Direct Loans Outstanding: \$1.1 billion

Direct Loans Originated FY2004: \$0.1 billion

Statutory Taxpayer Exposure*: \$119.1 billion

Budget Cost of Loan Programs FY 2004: \$293 million

* Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

Structure and Functions

Nuts and bolts. The Department of Veterans Affairs' loan programs are run by the Under Secretary for Benefits. The VA's loan program guidelines are set by Congress pursuant to 38 U.S.C 37. Each year Congress appropriates funds for the operating costs of the loan programs. The VA's housing programs are overseen in Congress by the House's Financial Services committee and the Senate's Banking, Housing, and Urban Affairs committee.

The VA's credit functions. Veterans Affairs provides both guaranteed and direct loans to veterans. Virtually all of these loans are for housing, either guaranteeing a mortgage against default or directly providing the mortgage itself. The VA also has several targeted programs

aimed at helping different subsets of veterans. The Native American Veterans Housing Benefit Program is aimed at Native Americans wishing to live on trust lands. The Transitional Housing Loan Program is for homeless veterans. The VA has a grant program for disabled veterans that offers up to \$50,000, in addition to guaranteed loans that they may be able to secure, helping them to become homeowners. Apart from housing programs, the VA also provides a limited number of loans for temporary vocational education assistance.

Guaranteed Loan Programs

The VA primarily supports homeownership by guaranteeing mortgages. The Veterans Housing Program targets veterans who wish to purchase, build, or improve a home. These loans have no upper limit on amount, though lenders are guaranteed against borrower default only up to 25% (with a cap of \$60,000) on the largest loans and 50% on loans smaller than \$45,000. The VA absorbs losses on defaults first, up to the guaranty limit on the loan, with the lender absorbing any loss over the loan guaranty limit. VA loans require no down payment, no prepayment penalties, and have limitations on closing costs.

Loan guarantee procedures. Prospective homeowners apply directly to VA-approved lenders. These lenders decide whether to make the loan. Lenders are individually approved by the VA and originate and execute the loans themselves. They provide and administer loans for circumstances stipulated by the VA and are required to structure to VA guidelines. The VA's loan guaranty is a guaranty against payment default, not against lender negligence or borrower misrepresentation. The VA guarantees a given percentage of the loan against default, in effect, sharing the risk with the lender and allowing the lender to provide loans to those borrowers who it otherwise would not, particularly those who cannot make a down payment.

Guaranteed Loan Sales Securities Program. This program tracks and accounts for the guaranteed portion of vendee loans (described in direct loans, below) once they have been sold.

Veterans Housing Benefit Program

Purpose: Purchase, construction, and improvement of homes for veterans and their families

Maximum Loan: Unlimited

Guaranty: 25% to 50%, up to \$60,000

Delivered by: Approved private lender

FY 2004 Originations: \$35.3 billion

Direct Loan Programs

The VA also provides assistance in the form of direct loans. The Native American Veterans Housing Benefit Program is designed to assist Native American veterans living on federal trust lands. The program is specifically meant to improve housing conditions on

Native American Veterans Housing Benefit Program

Purpose: Purchase, construction, and improvement of homes for Native American veterans and their families living on trust lands

Maximum Loan: \$80,000

FY 2004 Originations: \$6 million

trust lands, which have similar homeownership rates as the country but comparatively substandard physical housing conditions. The program makes available direct loans up to \$80,000 for the purchase or improvement of housing.

Transitional Housing. The VA has a pilot program in place which offers direct loan financing for transitional veteran housing projects. It is authorized to make up to 15 loans not to total over \$100 million.

Vendee and Acquired Loans. The VA has substantial direct loans that it has acquired from approved lenders in its guaranteed loan programs. It will sometimes take over these guaranteed loans in order to prevent foreclosure. These loans, often renegotiated with the borrower, are known as acquired loans. Should a VA home loan become foreclosed, VA typically purchases the property from the loan holder and then markets the property to the public through its contractor. VA provides financing for about 75% of the properties sold. These loans are known as vendee loans.

Vocational Loan Program. The VA provides temporary direct loans to veterans in vocational education programs. These loans do not accrue interest. They are repaid by reductions in future pensions and compensation and, therefore, have a low default rate.

Transitional Housing Loans for Homeless Veterans Program

Purpose: Construction of projects aimed at providing transitional shelter for homeless veterans

Maximum Loan: up to 15 loans totaling \$100 million

FY 2004 Originations: None, program will begin in FY 2005

Vendee and Acquired Loans

Purpose: In order to avoid foreclosure on veteran's homes the VA often will buy the mortgage and renegotiate with the homeowner or will finance the resale of the mortgage

FY 2004 Originations: \$121 million

Vocational Rehabilitation Loan Program

Purpose: Temporary financial assistance for vocational education

Maximum Loan: approximately \$1,000

FY 2004 Originations: \$3 million

Finances

Overall size. The VA currently has outstanding guaranteed loans in excess of \$350 billion and direct loans in excess of \$1 billion. [See Table 1.](#) The agency makes upwards of \$35 billion in new direct and guaranteed loans each year. [See Table 2.](#) It currently insures or directly administers more than 200,000 new mortgages per year.

Statutory taxpayer exposure. Total potential taxpayer exposure to the Veterans Administration's credit programs at the current time includes the net present value of its direct loans, \$1 billion, and the guaranteed portion of its guaranteed loans, \$118 billion, totaling to \$119 billion. This represents the total cost if all covered borrowers defaulted on their loans today and no recoveries were possible.

Table 1: Outstanding Loans

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Guaranteed Loans <i>in millions</i>				
Veterans Housing	\$ 323,130	\$ 350,852	\$ 386,315	\$ 424,475
<i>(proportion guaranteed)</i>	(34%)	(34%)	(33%)	(33%)
Direct Loans <i>in millions</i>				
Acquired and Vendee Housing	\$ 1,680	\$ 1,111	\$ 1,174	\$ 1,333
Native American Veterans Housing	\$ 25	\$ 23	\$ 32	\$ 58
Vocational Rehabilitation	\$ 1	\$ 1	\$ 1	\$ 1
	\$ 1,706	\$ 1,135	\$ 1,207	\$ 1,392
Totals <i>in millions</i>				
Total Loans	\$ 324,836	\$ 351,987	\$ 387,512	\$ 425,867
Total Guaranteed Portion plus Direct Loans	\$ 111,815	\$ 119,119	\$ 130,069	\$ 142,361

Source: President's FY2005-6 Budget

Note: Loan levels reflect financing and liquidating accounts

Table 2: Loan Originations

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Loans Originated <i>in millions</i>				
Veterans Housing Benefit				
Guaranteed Loans	\$ 65,790	\$ 35,315	\$ 43,802	\$ 46,173
Loan Sales Securities Guaranteed	\$ 283	\$ 297	\$ 404	\$ 297
Acquired and Vendee Direct Loans	\$ 555	\$ 121	\$ 913	\$ 1,035
Transitional Housing for Homeless Veterans				
Direct Loans	\$ 0	\$ 0	\$ 26	\$ 21
Native American Veterans Housing				
Direct Loans	\$ 11	\$ 6	\$ 2	\$ 2
Vocational Rehabilitation				
Direct Loans	\$ 3	\$ 3	\$ 4	\$ 4
	\$ 66,642	\$ 35,742	\$ 45,151	\$ 46,463

Source: VA's Budget Requests 2005-6

Loan program budgeting. Since 1992, loan programs have been reflected two ways in the budget. See COFFI's "Budgeting for Credit Programs: A Primer" at www.coffi.org for a fuller explanation on how federal credit programs are accounted for.

On-budget program accounts record the net cost or revenue of a loan program to the federal government. Costs and revenues are broken into two pieces: a "subsidy" cost and annual administrative expenses. Subsidies are calculated by projecting future cash inflows to and outflows from the government and discounting these flows back to today's dollars. The net "present value" represents the subsidy amount. A deficit is registered as a positive subsidy and a

surplus as a negative subsidy. Since the net present value relies on default rate estimates and a discount rate which is recalculated each year (varying with interest rates), subsidy reestimates are made yearly. Reestimates are reflected in program costs, but do not directly affect discretionary appropriations, as they fall under an indefinite, unlimited appropriations authority of their own.

Non-budgetary financing accounts record the actual collections from a loan program and the cost of defaults and losses. This is on a cash flow basis, meant to make it easier to understand a program's inflows and outflows. Loans existing before the 1992 law are kept in a third type of account, a liquidating account, which operates in a similar manner to a financing account but is on-budget.

In general, with a positive subsidy, the program account receives appropriations from general revenues to cover the net cost of administrative, subsidy, and subsidy reestimate costs.

In general, with a negative subsidy, the program account applies the negative subsidy to cover administrative expenses, any subsidy reestimate costs, or subsidy costs incurred by positive subsidy programs in the same account. In some cases, the negative subsidy is enough to cover all costs and no appropriations are made to the program account. In other cases, some appropriations from general revenues are made to cover the difference. Often, negative subsidy programs pay for their own administrative costs but subsidy reestimate costs are paid through general revenues.

VA budgeting. The VA's guaranteed loan programs are partially financed from funding fees and recoveries on defaults. The VA's direct loan programs are partially financed from interest, principal payments, and fees. The funding fee, based on the type of loan and size of down payment, is attached to all VA-guaranteed loans and is meant to help defray costs of the program.

The VA's credit programs have two divisions in the budget. The Vocational Rehabilitation and Employment Administration administers the Vocational Rehabilitation Loan Program. The loan program is part of the Administration's program account, and has a separate financing account. All other VA loan programs are administered through the Housing Program account, each with separate financing accounts. [See Table 3.](#)

The Veterans Housing Benefit Program, which originates approximately 99% of new VA loans, runs a positive subsidy. Since this program is so large as compared to the other loan programs, VA loan programs as a whole run a positive subsidy. In order to fund this subsidy, appropriations from the general revenues are made each year.

Mandatory appropriations cover subsidy reestimates, as is typical in all federal loan programs, as well as subsidy costs of mandatory loan programs. The VA's mandatory loan programs are the Veterans Housing Benefit Program, the Guaranteed Loan Sales Securities Program, and the Transitional Housing Loans for Homeless Veterans Program.

Table 3: Budget Costs

Fiscal Years	Housing	
	2004 Act.	2005 Est.
Costs in millions		
Direct Loan Subsidy	\$ 3	\$ 22
Guaranteed Loan Subsidy	\$ 199	\$ 15
Direct Loan Reestimates and Interest	\$ 1	\$ 1,670
Guaranteed Loan Reestimates and Interest	\$ 0	\$ 218
Administrative Costs	\$ 158	\$ 156
	\$ 361	\$ 2,081
Revenues in millions		
Discretionary (from general revenues)	\$ 157	\$ 156
Mandatory (from general revenues)	\$ 204	\$ 1,904
	\$ 361	\$ 2,060
Balance in millions		
Balance from previous year	\$ 52	\$ 52
Total Costs	\$ -361	\$ -2,081
Total Revenues	\$ 361	\$ 2,060
Other funds available	\$ 0	\$ 0
Balance carried forward	\$ 52	\$ 31

Source: President's FY2006 Budget Appendix

Discretionary appropriations cover administrative costs of all programs as well as the subsidy costs of discretionary loan programs. The VA's discretionary loan programs are the Native American Veterans Housing Loan Program and the Vocational Rehabilitation Loan Program.

The housing liquidating account, which records loans made before 1992, has a significant negative subsidy rate and, therefore, provides capital transfers to the general revenues each year. In FY 2004, this amounted to \$68 million.

Cost to general revenues. For FY 2004, the cost of the Veterans Housing programs was \$361 million, of which \$202 million was subsidy cost, \$1 million was subsidy reestimate costs, and \$158 million was administrative expense. These costs, minus the surplus from the liquidating account which totals \$68 million, represent the cost of the program from general revenues for the year.

This varies slightly from the total obligations, or costs, of the loan programs since they have a small amount of cash on hand (balances carried forward) that is accumulated or depleted each year. The total cost to the federal budget of the housing programs was \$293 million.

Subsidy rates. The subsidy rate for the largest program, Veterans Housing Benefit, which amounts to 99% of the volume of loans issued each year, was 0.50% in FY2004. In years past, it has been negative (meaning it was expected to take in more money than it was expected to spend). However, recently the subsidy rate for the program has been modestly positive, meaning

that general revenue appropriations are needed to support costs of the program. The President's Budget anticipates a return to negative subsidy rates. [See Table 4.](#)

Table 4: Subsidy Rates

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Subsidy Rates in %				
Veterans Housing Benefit				
Guaranteed Loans	0.81%	0.50%	-0.32%	-0.32%
Loan Sales Securities Guaranteed	5.06%	5.65%	3.69%	4.12%
Acquired and Vendee Direct Loans	-1.39%	0.86%	-5.12%	-3.52%
Transitional Housing for Homeless Veterans				
Direct Loans	N/A	N/A	82.16%	71.55%
Native American Veterans Housing				
Direct Loans	-8.96%	0.28%	-7.75%	-13.79%
Vocational Rehabilitation				
Direct Loans	1.33%	1.33%	1.14%	1.59%
Weighted Average	0.80%	0.54%	-0.28%	-0.22%

Source: VA's Budget Requests 2005-6

Current Issues

Proposed reforms. Auditors for the VA have recommended several changes to better achieve the Department's goal of facilitating widespread veteran homeownership.

They have suggested raising the maximum level of loans in order to increase participation rates and to reflect rising home prices in many markets (many markets with high veteran concentrations, including San Diego and Honolulu, are among the most expensive). New levels would be the same as the Federal Housing Administration's index which is based on local median housing prices.

Sources

VA: Program descriptions, budget submissions, audits; available via <http://www.va.gov> and <http://www.va.gov/budget/summary/index.htm>

U.S. Code: Full Text of 38 U.S.C. 37; available via <http://uscode.house.gov>

OMB: President's FY2006 Budget; available via <http://www.whitehouse.gov/omb>