

Loan Guaranty (LGY) Transformation: VALERI Redesign

State Housing National Council Agencies

January 17, 2019

John Bell III, Deputy Director, LGY

Loan Guaranty Stats

Guaranteed Loans	FYTD 19	FY18	FY17	FY16
<i>Purchase Loan Volume</i>	91,178	383,115	380,437	353,002
<i>Total Refinance Volume</i>	39,513	227,398	359,951	352,472
<i> IRRRLs</i>	2,326	67,347	190,914	215,561
<i> Cash-Out</i>	37,009	158,846	166,878	135,379
<i> Other refinance</i>	178	1,205	2,160	1,532
<i>Total Loan Volume</i>	130,691	610,513	740,389	705,474
<i>Total Loan Value</i>	\$34.5B	\$161B	\$189B	\$179B
<i>Average Loan Amt</i>	\$ 264,354	\$ 264,197	\$254,866	\$253,243

VA Market share per MBA

VA Market Share (based on MBA mortgage finance futures forecast)	FY18	FY17	FY16
Percent purchase loans	10.00%	6.38%	6.03%
Percent of refinance loans	11.62%	11.04%	10.76%

Defaults

MBA Delinquency Survey Loan Data Q3 (CY)2018			
	Conventional	FHA	VA
<i>Total Past Due</i>	3.56%	8.96%	4.16%
<i>Seriously Delinquent</i>	1.82%	3.74%	1.95%
<i>Foreclosure Inventory Rate</i>	0.87%	1.63%	0.85%

Defaults	FYTD 19	FY 18	FY17	FY16
<i>New Defaults Reported*</i>	27,430	106,394	97,948	89,598
<i>Default Resolution Rate (DRR)</i>	88.21%	86.51%	85.31%	84.02%
<i># Borrowers Avoided FCL</i>	23,714	104,752	96,139	97,368
<i>Est. Claim Avoided</i>	\$.63B	\$2.24B	\$2.76B	\$3.08B
<i>Foreclosures Completed</i>	3,508	14,836	16,626	18,519

Background

- Economic Growth, Regulatory Relief, and Consumer Protection Act, Public Law 115-174, became law on May 24, 2018
 - Section 309 seeks to protect Veterans from predatory lending practices when refinancing home loans and ensure the loans are in Veterans' financial interests
 - Requires VA to promulgate regulations within 180 days for cash-out refinance loans
- Types of VA Refinance Loans
 - **Interest Rate Reduction Refinance Loans (IRRRLs)** – lowers an interest rate by refinancing an existing VA home loan
 - **Cash-Out Refinance Loans** – typically increases the overall loan balance and results in the Veteran receiving some amount of money (i.e., the “cash-out”) at closing for personal use

Summary of Regulation

- On December 17, 2018, VA published an Interim Final Rule addressing VA guaranty requirements for cash-out refinance loans (83 FR 64459)
 - Rule effective February 15, 2019
 - Public comment period will be open for 60 days through February 15, 2019
 - Current guidance on rule published in LGY circular 26-18-30 (available on VA internet website from the “Lenders” page)
- Summary of Major Changes for VA Cash-Out Refinance Loans
 - Loan Seasoning
 - Net Tangible Benefit Test

Summary of Regulation, cont.

- **Loan Seasoning**

- Veterans must wait a specified period of time before refinancing an existing VA-guaranteed or insured loan
- **Benefit:**
 - Discourages aggressive marketing from lenders (i.e., contacting Veterans weeks after closing on a home loan to offer refinance loans); enables Veterans to realize the benefits of their current loan

- **Net Tangible Benefit Test**

- Lender must demonstrate that the refinance loan results in at least one financial benefit to the Veteran (other than the withdrawal of cash for personal use) *and* provide Veteran with a comparison of key loan characteristics for both the existing and new loan
- **Benefits:**
 - Eliminates refinance loans that are not in a Veterans' financial interest
 - Ensures that Veterans are better informed about the costs and benefits of refinancing their mortgage

What's Happening at LGY?



**LGY is
Transforming the
Guaranty Home
Loan Program and
Redesigning the
VALERI System**

Modernization necessary to remain a competitive and effective industry leader within the housing finance environment

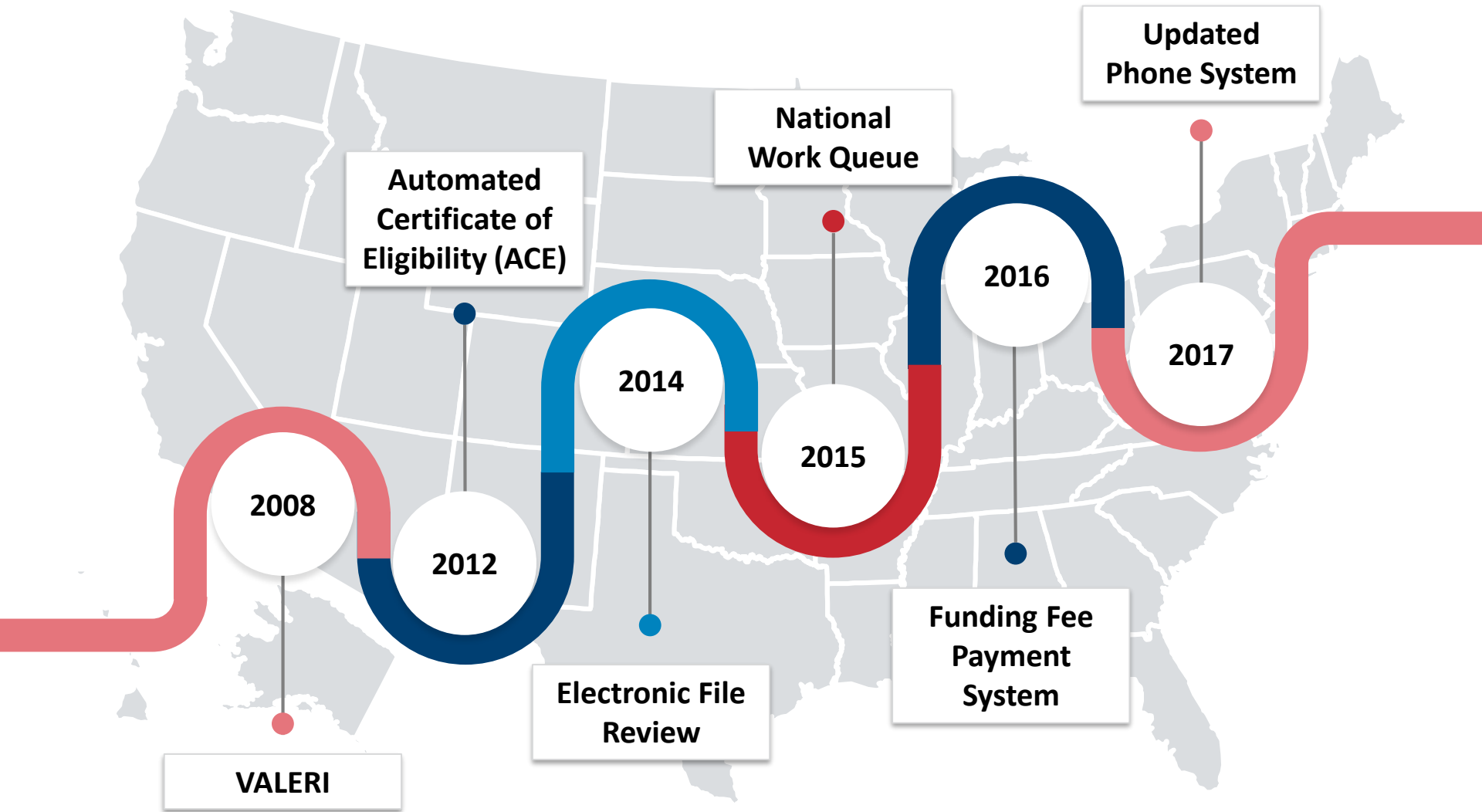
VALERI moving from an outsourced platform to a Commercial Off-the-Shelf (COTS) Salesforce solution

Servicing business component began development in October 2017

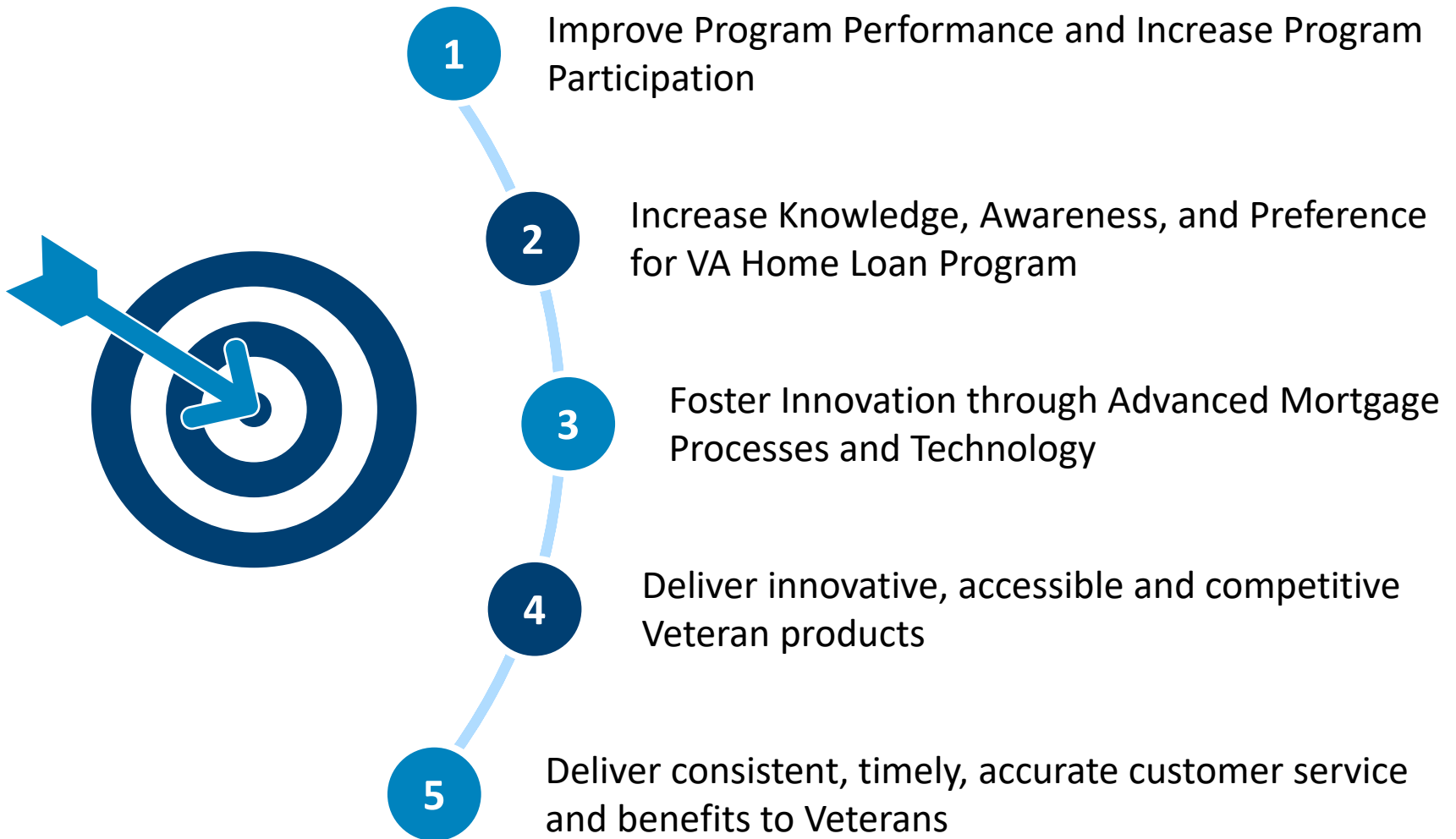
Additional functionality will be developed once Servicing rolls out

Collaboration with stakeholders is key to creating an effective program for our Veterans

Progressive VALERI Enhancements Have Peaked



Objectives of VALERI Redesign



VALERI Redesign Guiding Principles

Automate



- Complete overhaul of currently deployed servicing system
- Expands the footprint of loan origination, property acquisition, and oversight functions
- Improves performance efficiency through automated processing

Collaborate



- Standardize disparate data sources (including legacy VALERI data)
- Integrate third-party systems
- Connect external stakeholders
- Create transparent and holistic view of a loan lifecycle
- Enable stakeholders to efficiently and effectively deliver VA's home loan guaranty benefit to Veterans

Evaluate



- Provides oversight and transparency of lender and servicer performance through advanced analytics and reporting
- Enables Veterans to better evaluate loan options and statuses while VA addresses high-risk programmatic challenges with data driven solutions

LGY and Mortgage Industry

- VA aims to be unobtrusive to industry operations
- VA wants to add value and efficiency throughout the Loan Process

High-Level Impacts of the VALERI Redesign

The VALERI Redesign effort will have the following impacts for VA stakeholders.



Saved Time and Costs

VA will experience time and cost savings as a result of advanced automation and oversight, improved data integrity, and consolidated data.



Improved Veteran Experience

Customer Relationship Management (CRM) best practices enable VA technicians to see real-time loan information.



Modernized Business Processes and System Usability

Users of the redesigned VALERI experience business agility, data integrity, cost improvements, risk reduction, user productivity, and system transparency.



Expanded Oversight and Transparency

Targeted risk-based oversight model enables VA to remain informed and to ensure program integrity.



Enhanced Business Intelligence, Data Analytics, and Reports

The redesigned VALERI collects sizable, robust, integrated meta-data throughout all loan lifecycle phases and utilizes business intelligence tools to create dashboards in areas new to VA.



Advanced Program Management

The redesigned VALERI's enhanced analytics and functionality enable VA to better manage organizational risk and plan for future policy, legislation, and regulation changes.

Questions

