

FARM AND HOME LOAN PROGRAM

Little Hoover Commission Hearing

Written Testimony

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Division Overview:

Since the establishment of the Farm and Home Loan Program (the Program) in 1921, the California Department of Veterans Affairs (CalVet) continues to help California's Veterans achieve the American Dream of homeownership. Our guiding principle is providing the best product for the lowest possible cost, without costing the California taxpayers one cent.

Since its start the program has helped more than 422,000 Veterans and their families achieve the dream of home ownership. Last fiscal year CalVet funded over \$136 million in loans helping 485 Veterans purchase homes. In the first two months of this fiscal year CalVet has funded over \$41 million in loans helping 141 Veterans purchase homes. After the long years of the Great Recession that crippled the mortgage industry, where few Americans bought homes and were unable to qualify for a loan from many lenders, we came through it stronger than ever thereby allowing loan production to quickly rebound. The CalVet Home Loan program continues to fund home loans for deserving veterans who were being overlooked by the tightening of credit standards and the automated decision making of today's private sector lending industry.

In addition, the Program has pioneered a new and innovative program aimed at providing low income veterans with affordable homeownership through the CalVet REN (Residential Enriched Neighborhood) Program.

Program Structures

Farm and Home Loan Program – utilizes tax exempt, self-liquidating general obligation bond proceeds to loan money to Veterans to purchase a home. This type of program is made possible by a special section in the federal tax code that allows only five states to provide loans through tax exempt financings.

Requirements:

- Veteran must be discharged under Honorable Conditions;
- Served a minimum of 90 consecutive days or other defined special circumstances;
- Purchase a house in California; and
- Credit worthy with an income to support the loan.

Program Benefits:

- Down payment of zero percent (0%) if using the VA Guarantee, otherwise it's three percent (3%);
- Veteran friendly underwriting terms, not solely reliant on FICO scores but entire circumstances for

the Veteran; every loan is manually underwritten;

- No monthly Private Mortgage Insurance (PMI) costs;
- Loans available up to \$521,250, and in certain high cost counties, up to \$781,875, without increased interest rates (as Jumbo loans are typically priced);
- Group rate Fire, Hazard, and Disaster Indemnity Insurance with guaranteed replacement cost coverage and low deductibles;
- All loans are held and serviced by CalVet for the life of the loan.

Program Highlights

Loan Production: a year-over-year comparison for 2015-16 FYTD to each of the prior fiscal years:

FY	No. of loans	Dollar Value
FYTD 2015-16*	141	\$41,969,217
2014-15	485	\$136,781,892
2013-14	284	\$71,523,612
2012-13	69	\$8,700,543
2011-12	87	\$11,329,222
2010-11	176	\$21,588,775
2009-10	236	\$35,305,526

*As of August 31, 2015

Statistics:

- Single Family Homes are more than 76 percent of our portfolio. Condos, farms, mobile homes, and home improvement loans make up the remainder (as of 6/30/15).
- Of the loans originated from 1/1/2008 to 6/30/15:
 - approximately 57 % of our loans are for homeowners aged 30 to 59 and 29 % are over 60 years old;
 - 43% of borrowers served in conflicts since the start of the Gulf War and 36 % are Vietnam Era;
 - 45 % are first time home buyers; and
 - 58 % of loans generated are for \$250,000 or less.
- Since July 1, 2013 to June 30, 2015, approximately 59 % of all new loans are to Veterans who have served in conflicts since the Gulf War in 1990.
- Since July 1, 2013 to June 30, 2015, more than 53 % of the new loans are to veterans aged 30-50.

Enhancing Veteran Housing Opportunities:

- CalVet Home Loans and the non-profit organization Homes for Families joined forces to provide affordable single-family home ownership to low-income Veterans. These developments are called “CalVet Residential Enriched Neighborhoods” or CalVet REN.
- Through the CalVet REN Program:
 - 38 veterans and their families in Sylmar and Santa Clarita own their first home; and
 - 150 additional homes, in four communities, are in development in Santa Clarita and Riverside communities, with 52 of the homes currently under construction in Santa Clarita.
- CalVet Farm & Home Building Fund of 1943 (1943 Fund):
 - In 2014-15 alone, CalVet saved more than \$7.6 million in annual interest payments and reduced negative arbitrage by calling or redeeming \$90.4 million in bonds.
 - Maintains a debt-to-asset ratio above 1.13 for the past 5 years.
 - Maintains high AA credit ratings from all three rating agencies that is based on the credit strength of the 1943 Fund and historical record of accomplishments.

Loan Program Enhancements:

- Offers both 20 and 30-year terms.
- Established a Loan Origination Counseling desk to assist Veterans who need additional assistance and counseling in obtaining a CalVet Home Loan.
- Developed and implemented a new CalVet Home Loan website with an easy application process including: mortgage calculators, a user friendly interface for our current customers, and a new competitive edge to compete with outside lenders.
- Implemented a new loan origination system that streamlines the origination process and increases efficiency in loan production.
- The CalVet Insurance program continues to provide low cost/low deductible policies with Guaranteed Replacement Cost coverage. Currently, there are few commercial insurance companies in California providing Guaranteed Replacement Cost coverage on a home and none that offer it with deductibles lower than CalVet’s.

Helping Veterans Keep Their Homes:

We strive to keep our Veteran in his or her home:

- We partner with our Veterans from first contact. During a hardship we use every avenue available to keep them in their home. Before the housing crisis and the bank bailout, CalVet was regularly doing loan modifications to help our Veterans. As the aid flooded out from the Federal Government to end the Great Recession, CalVet explored how these funds could help our Veterans; and working with our partners at CalHFA, we began utilizing the “Keep Your Home California” (KYHC) program.
- KYHC is a home loss-prevention program providing funds to make monthly payments, bring delinquent loans current, or reduce principal balances a maximum of \$100,000. Since March 2011, CalVet assisted 448 Veterans to keep their home through the receipt of approximately \$13.3 million in KYHC funds as of August 31, 2015.
- Throughout the financial crisis, CalVet had and continues to have the lowest foreclosure rates as compared to FHA, VA and conventional loans in the United States and in California, as is evidenced by our foreclosure rate of 0.45% compared to others in the table below:

	CalVet	FHA	VA	Conventional
California	0.45%	0.95%	0.51%	0.56%
Nationally	0.45%	2.68%	1.37%	1.19%
Data from the June 2015 quarterly report of the National Delinquency Survey of lenders’ Conventional, FHA and VA Foreclosure data provided quarterly from the Mortgage Bankers Association.				