



February 6, 2018

VIA ELECTRONIC MAIL

Senator Thom Tillis  
185 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senator Tillis:

We write to support the Protecting Veterans from Predatory Lending Act of 2018 and to recommend some improvements. The bill will establish important new protections for veterans to address predatory refinancing practices. The VA loan program has long been a valued source of safe home financing for veterans. Loan churning and deceptive marketing practices aimed at veterans with VA loans undermine the program's goal of sustainable homeownership while also raising costs for the program and heightening risk for the bond market. Recent reports have indicated that veterans are racking up thousands of dollars in fees as part of these refinancings, often while receiving loans more costly than the original loan.

The Protecting Veterans from Predatory Lending Act of 2018 would promote sustainable refinancings of VA loans by setting new program requirements. The bill ensures that a refinancing of a VA loan can only be done when certain prerequisites are met, such as ensuring that the borrower can recoup fees and costs within three years after receiving the new loan and establishing that the veteran has received a "net tangible benefit" from the new loan. The bill also requires that any refinancing provide the veteran with a lower cost mortgage. As a package, these measures ensure that a veteran refinancing a VA mortgage loan will receive a new loan that is beneficial and for which the cost of the refinancing is paid off within a reasonable amount of time.

Under the bill, a loan only can be refinanced with a new VA loan where it meets the bill's "seasoning" requirement. This requirement ensures that homeowners have had some time to establish themselves in the original loan before considering whether a refinancing is in order. It will inhibit predatory marketing that occurs immediately upon the origination of new VA loans.

The bill also enhances reporting by federal agencies regarding the health of the VA loan program, the state of the VA refinance market, and the nature of disclosures and advertising to

veterans obtaining refinancings. These provisions will promote the long-term health of the VA loan program as well as improve monitoring of how VA loans are marketed and sold.

To better ensure that the bill achieves these goals, we recommend a number of improvements.

- **Provide flexibility for specific measurements:** The bill specifies a number of measurements. These include the number of basis points by which an interest rate must change, a loan-to-value ratio, and time periods for seasoning requirements. We are concerned that establishing the values for these measurements by statute risks causing problems for veterans in the future if market conditions or other factors necessitate changing these values. Instead, we recommend directing Ginnie Mae or the VA to establish the appropriate values by regulation. The values should take into account the need to protect veterans. If the bill does continue to set some measurements, then the bill also should explicitly require Ginnie to change them as needed in response to market conditions.
- **Preserve the Administrative Procedures Act:** We believe this provision risks setting a dangerous precedent. The Secretary already has a variety of rulemaking options for making expeditious rule changes.
- **Clarify the net tangible benefit test:** Currently the bill requires a net tangible benefit test. But the bill neither specifies what the test is nor requires the loan to pass it. We recommend rephrasing this provision to say the refinanced loan must provide the borrower with a net tangible benefit, to be defined by the Secretary.
- **Remove ambiguity in loan references:** Our understanding is that this bill is intended to discourage VA-approved lenders from refinancing one VA-guaranteed loan with another too soon after the first loan has been originated. But the language used to refer to the old and new loans is ambiguous. We recommend clarifying this language.

Thank you for your work to protect veterans obtaining VA loan refinancings. We look forward to working with you to strengthen the bill as it moves through Congress.

Sincerely,

Center for Responsible Lending  
National Consumer Law Center (on behalf of its low-income clients)

cc: Senator Elizabeth Warren

