

November 2016

A snapshot of servicemember complaints

A review of issues related to VA mortgage refinancing



As of November 1, 2016, the Consumer Financial Protection Bureau had received over 12,500 mortgage complaints from servicemembers, veterans, and their dependents. Based on a key word search of complaint narratives, approximately 14% (about 1,800) of servicemember mortgage complaints concern the topic of refinance.¹

Since 2011, homeowners' equity has grown and nearly recovered to the 2005 pre-mortgage crisis highs. During late 2015, the 30-year fixed-rate mortgage rate hovered around 4% but has dipped notably since the start of 2016, reaching near-historic lows in July and August.² Increased equity, coupled with low interest rates, sets the stage for a market primed for refinancing. Consumers and lenders alike have an interest in refinancing – even more so for the thousands of qualified veteran homeowners³ who have access to the additional refinance programs offered by the U.S. Department of Veterans Affairs ("VA").⁴

The VA offers two different refinance options to qualifying borrowers, the VA Cash-Out Refinance and the VA Interest Rate Reduction Refinance Loan (IRRRL). The IRRRL allows current VA home loan borrowers to potentially refinance up to 100% of their home's value with "no money out of pocket"⁵; while the VA Cash-Out Refinance can be used by VA borrowers to

¹ We identified complaints that were related to refinance topics by conducting a word search of consumers' narrative descriptions of their complaints using the term, "refinance." There may be additional complaints about refinance topics among the entire sample of servicemembers' mortgage complaints that were not identified because the narratives did not contain the search term.

² Data Source: Freddie Mac Primary Mortgage Market Survey via Bloomberg LLC.

³ While VA Home Loan eligibility extends to, among others, active duty personnel, this report will refer to eligible borrowers as "veterans". For a complete list of VA Home Loan eligibility categories see http://www.benefits.va.gov/homeloans/purchaseco_eligibility.asp.

⁴ Among other factors, increased homeowner equity may have contributed to the large growth in VA Cash-Out refinances since 2011, most especially in 2015. For reference to the VA Cash-Out growth, not the conclusions drawn, see U.S. Department of Veteran's Affairs, FY 2015 Annual Benefits Report, Home Loan Guaranty Section, page 8, at <http://benefits.va.gov/REPORTS/abr/ABR-LoanGuaranty-FY15-01272016.pdf>.

⁵ <http://www.benefits.va.gov/homeloans/irrll.asp>, "No money out of pocket" may mean that all closing costs are rolled into the new loan or the interest rate is high enough that the lender covers the costs of providing the refinance. The IRRRL can only be done if the borrower is refinancing from a VA loan to another VA loan.

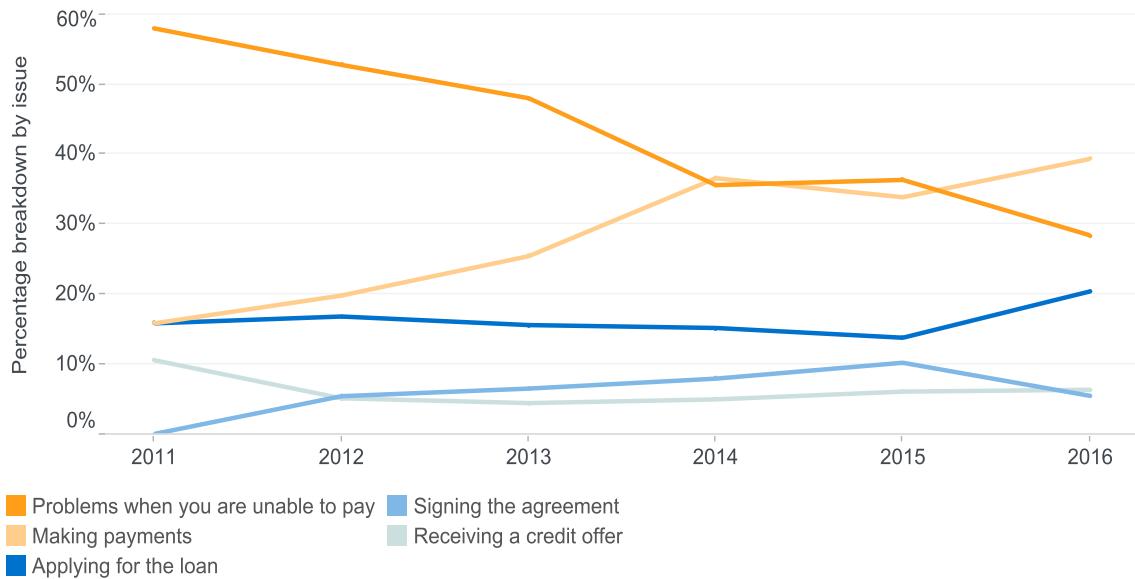
refinance an existing VA or non-VA loan into a VA-guaranteed loan.⁶ When executed appropriately, these programs can be useful opportunities for veterans to reduce their interest rate, shorten their loan term, or turn existing equity into cash for things like home improvement or repairs.

As with many financial products and services, what can provide an opportunity to benefit a borrower may also have the potential to cause financial harm. For lenders, VA refinances can be considerably quicker and easier than other types of refinance and origination loans because they do not require an appraisal or even conventional underwriting. In addition, a portion of the lender's investment is protected from loss by the VA guarantee, which may lead these companies to advertise refinances aggressively to veterans, potentially leading them down the wrong financial path.

We hear from many military consumers about issues they experienced when refinancing their mortgage loans. As displayed in Figure 1 below, the types of issues veterans are experiencing with mortgage refinances have changed over time. As the housing market has rebounded, we hear less about veterans struggling to refinance their loans when facing a financial hardship or imminent default and more about the problems associated with refinancing when they are using it as a tool to get potentially more favorable loan terms.

⁶ <http://www.benefits.va.gov/homeloans/purchasecashout.asp>, VA Cash-Out Refinance borrowers must still satisfy all the eligibility requirements associated with obtaining a VA-guaranteed home loan. Detailed eligibility requirements can be found here: http://www.benefits.va.gov/homeloans/purchaseco_eligibility.asp.

FIGURE 1: PERCENTAGE OF MORTGAGE COMPLAINTS SUBMITTED BY SERVICEMEMBERS, VETERANS AND THEIR DEPENDENTS CONTAINING THE WORD “REFINANCE”, BY ISSUE, OVER-TIME⁷



Veterans report aggressive solicitations, misleading advertisements, and failed promises by lenders.

We receive many complaints from veterans who believe they are being targeted with aggressive solicitations by lenders to refinance using one of the VA programs. Often, the veteran has no desire to change their current mortgage structure or has just completed a refinance, but cannot get the solicitations to cease, even after repeated requests. As one veteran stated:

I have been contacted multiple times by my mortgage company, [company] in reference to refinancing. I have advised them multiple times that I have recently refinanced but the calls continue. I have also advised them that I no longer wish to be contacted about the issue but the calls still are occurring on a daily basis.

⁷ When submitting a mortgage complaint, consumers have the ability to select which part of the mortgage process their mortgage complaint most closely relates to. This selection is reflected in the “issue” categories in the chart.

In addition to complaints about the repeated calls and letters, we also hear from veterans who state that the solicitations they receive are potentially misleading. In one complaint, the veteran questioned why a company (that specializes in VA home loans for the military) would send out an advertisement that highlighted a 2.38% APR on the front but only clarified, in smaller print on the back, that the rate being offered was actually an Adjustable Rate Mortgage which included a charge for discount points. Such an ad may encourage a veteran to start a refinance process without the necessary information for the veteran to make an informed consumer decision.

Veterans report being proactively contacted by lenders with promises of rates lower than their existing mortgages, only to end up at the closing table with much worse terms than they expected, because processing delays, like large time gaps in document requests, can cause rate locks to expire which can drive up the rate originally promised. Borrowers often have to choose between the higher rate or putting cash towards a rate extension. Many times, these veterans feel compelled to continue the process with their lender, even after the terms change, because their credit has already been pulled:

“...Reluctantly, I moved forward after they had pulled my credit because I was unsure as to whether or not I would be able to switch companies at this point since my credit score would certainly have been affected.”

Lenders' aggressive solicitations to veterans are often unclear about the specific underwriting requirements to obtain the loan.

We hear from military borrowers who see ads that specifically target veterans but the ads often fail to inform consumers of all the conditions that must first be met. Borrowers report that lenders are persistent and often lead the consumer through the application process before revealing key contingencies that ultimately disqualify the borrower for the loan – like a strict requirement of on-time payments within the previous two years.

“For an extended period I received weekly mail solicitations from [company] to urge veterans to take advantage of a valuable financial benefit to apply for a loan up to 100% of home value. The [company's] 100% VA loan [program] was reportedly created to help veterans...after an extensive interview process...I was told I was more than qualified and we began the detailed loan application process. After submitting every document required, I was eventually told I did

*not qualify because I was earning income from a personal "S" Corporation.
Then after being denied, I continued to receive solicitation emails..."*

Lenders' poor communication during the refinance process can create consumer confusion.

It is important for lenders to clearly communicate to the veteran what they should expect regarding changes to their monthly payment and escrow once the refinance is completed. Refinances are often pitched to borrowers as an easy way to skip a monthly payment (or even *two*, in some circumstances)⁸; however, this can easily lead to problems if the timeline for closing does not go as planned.

We also receive reports from military consumers who experience problems with their escrow account during and after closing of their refinance. Frequently, these problems exist because of poor communication from the lender about what will happen to the money in their old escrow account after closing. One veteran wrote to us expressing frustration that an assessment done after completing refinance with their current lender showed a shortage in their new escrow account – raising their monthly payment by \$300. They did not understand why the \$2000 left over in their old account was not rolled over into the new one at the time of closing, or provided to them via check a few weeks later. After complaining to the Bureau, they discovered the lender had applied those escrow funds to credit the old loan's payoff statement, decreasing the amount of the new loan by \$2,000 but leaving the veteran to cover the shortage in the escrow by additional monthly payments. This information was not clearly conveyed to the consumer during the refinance process or even after closing.

Is a refinance right for you?

1. **You don't have to respond to the marketing** – though an ad may sound or look officially related to your veteran status or the VA, you don't have to refinance your home

⁸ Due to the timing of the refinance closing, borrowers may have a lag between when their last mortgage payment is due under their old mortgage note and when their first mortgage payment will be due under their new mortgage note.

unless you decide it's in your best interest. Take a look at how long you will pay the new loan, and whether the interest rate will change, not just at the monthly payment.

2. **Be a savvy consumer – look at everything an advertiser has to say about the product they're selling.** Many times, specific terms and conditions are hidden throughout the advertisement. Be proactive about asking questions, so you can be sure you know what you are signing up for.
3. **Understand the risks – not every ad directed towards your military status is a guarantee.** You may not always qualify for the rates and terms being advertised to you. Before applying, ask your lender up front about all the qualifications required and understand what needs to be met before the process is finalized.
4. **Remember to shop around – within a limited time (14-45 days), you can shop around for a mortgage and it will be counted as a single inquiry affecting your credit score.** Don't limit your lender choices just because your credit has already been pulled by one lender. The impact of an inquiry is small, while shopping around for the best deal can potentially save you a lot of money in the long run.
5. **Know the process – we're here to help you with financing your home.** Learn what to expect and what questions to ask. There are tools and resources to help you make decisions, such as our [Owning a Home tool](#).⁹

⁹ <http://www.consumerfinance.gov/owning-a-home/>.

More about the CFPB

Website www.consumerfinance.gov

Address: Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

To reach the CFPB's Office of Servicemember Affairs:

By email military@cfpb.gov

To submit a complaint:

Online consumerfinance.gov/complaint

By phone Toll-Free: (855) 411-CFPB (2372)
Español: (855) 411-CFPB (2372)
TTY/TDD: (855) 729-CFPB (2372)

By mail Consumer Financial Protection Bureau
PO Box 4503
Iowa City, Iowa 52244

By fax (855) 237-2392

Press and media requests

By email press@consumerfinance.gov

Additional resources to assist homebuyers

Owning a Home

<http://www.consumerfinance.gov/owning-a-home/>

Ask CFPB

<http://www.consumerfinance.gov/askcfpb/>