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# SUPPLEMENTAL VETERANS ADMINISTRATION APPROPRIATIONS, 1962

GOVERNMENT  
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## HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS SECOND SESSION

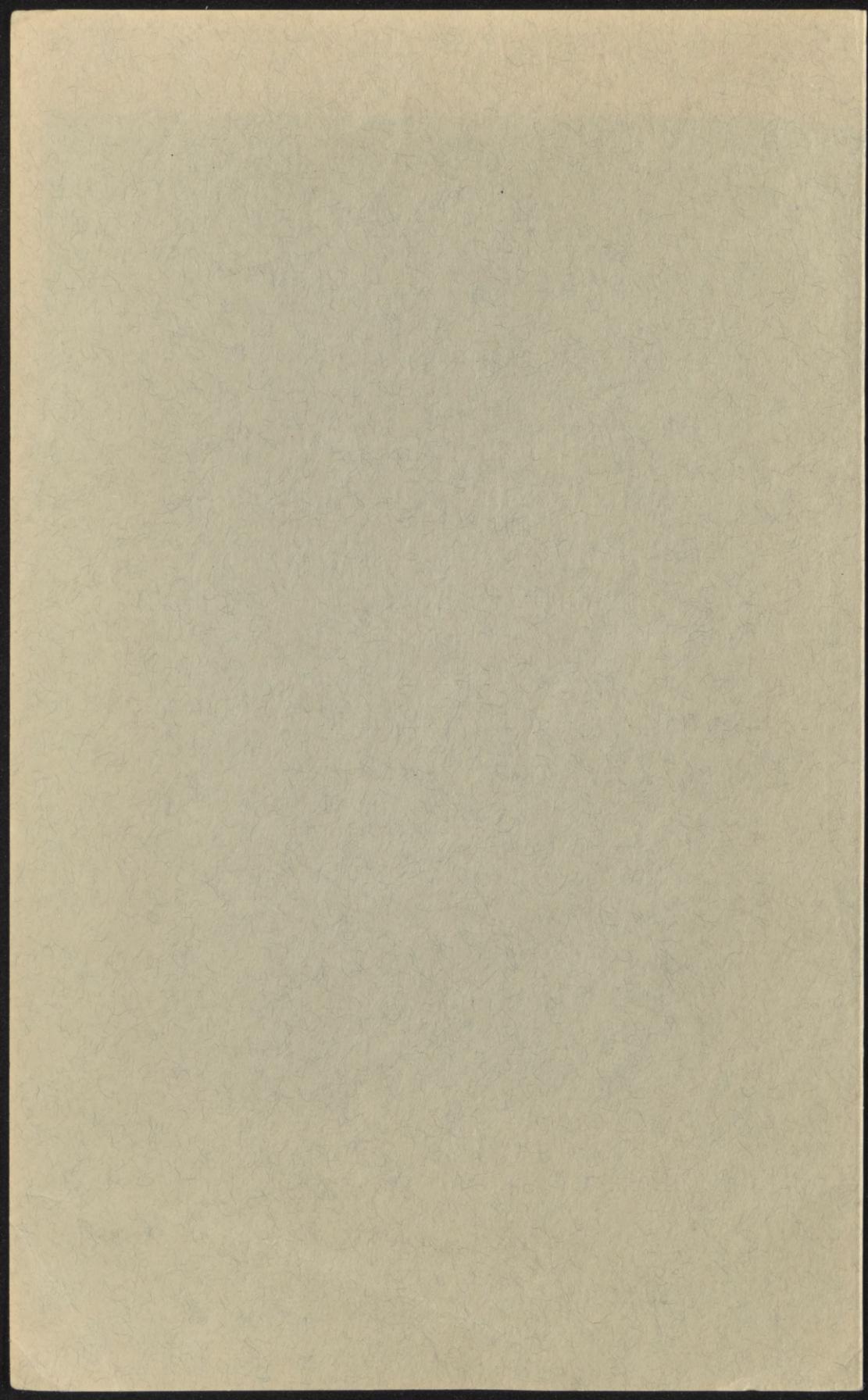
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# SUPPLEMENTAL VETERANS ADMINISTRATION APPROPRIATIONS, 1962

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## HEARINGS COMMITTEE ON APPROPRIATIONS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS SECOND SESSION

Printed for the use of the Committee on Appropriations



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WASHINGTON : 1962

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(II)

# SUPPLEMENTAL VETERANS ADMINISTRATION APPROPRIATIONS, 1962

WEDNESDAY, JANUARY 24, 1962.

## VETERANS ADMINISTRATION

### WITNESSES

**J. S. GLEASON, Jr., ADMINISTRATOR**  
**W. J. DRIVER, DEPUTY ADMINISTRATOR**  
**A. H. MONK, ASSOCIATE DEPUTY ADMINISTRATOR**  
**P. N. BROWNSTEIN, CHIEF BENEFITS DIRECTOR**

### READJUSTMENT BENEFITS

#### *Object classification*

[In thousands]

	Fiscal year 1962		
	Presently available	Revised estimate	Increase
41 Grants, subsidies, and contributions.....	\$90,135	\$145,135	\$55,000
42 Insurance claims and indemnities.....	4,380	100,580	96,200
Total obligations.....	94,515	245,715	151,200

#### *Program and financing*

[In thousands]

	Fiscal year 1962		
	Presently available	Revised estimate	Increase
<b>Program by activities:</b>			
1. Education and training:			
(a) Korean conflict veterans.....	\$65,060	\$120,060	\$55,000
(b) Orphans.....	20,800	20,800	-----
Total, education and training.....	85,860	140,860	55,000
2. Loan guarantee:			
(a) Payment to loan guarantee revolving fund.....	-----	96,200	96,200
3. Special assistance to disabled veterans:			
(a) Vocational rehabilitation.....	3,820	3,820	-----
(b) Housing grants.....	4,275	4,275	-----
(c) Automobiles or other conveyances for disabled veterans.....	560	560	-----
Total, special assistance to disabled veterans.....	8,655	8,655	-----
Total costs (obligations).....	94,515	245,715	151,200
Financing: Unobligated balance brought forward.....	-14,515	-14,515	-----
New obligational authority (appropriation).....	80,000	231,200	151,200

## LOAN GUARANTY REVOLVING FUND

## Object classification

[In thousands of dollars]

	Revised 1962 estimate
25 Other contractual services .....	24,600
33 Investments and loans .....	211,271
Total obligations .....	235,871

## Program and financing

[In thousands of dollars]

	1962, presently available	1962, revised estimate	1962, increase (+) or decrease (-)
Program by activities:			
Capital outlay:			
Real property acquired .....	97,960	184,711	86,751
Claims paid .....	9,106	25,060	15,954
Loans acquired .....	1,058	1,500	442
Total, capital outlay .....	108,124	211,271	103,147
Operating costs, funded:			
Property management expenses .....	6,980	16,600	9,620
Sales expense .....	5,520	8,000	2,480
Total operating costs, funded .....	12,500	24,600	12,100
Total program costs (obligations) .....	120,624	235,871	115,247
Financing:			
Revenue and other receipts:			
Collection of claims receivable (veterans indebtedness) ..	2,160	2,160	-----
Repayment of loans .....	17,376	17,376	-----
Sale of property and securities .....	6,624	6,624	-----
Interest, rental, and other revenue .....	21,840	21,840	-----
Payment from "Readjustment benefits appropriation" .....	-----	96,200	96,200
Total, revenue and other receipts .....	48,000	144,200	96,200
Unobligated balance transferred from "Direct loans to veterans and reserves revolving fund" (75 Stat. 358) .....	91,424	91,424	-----
Working capital absorbed .....	1,110	1,110	-----
Unobligated balance carried forward .....	-19,900	-853	19,047
Financing applied to program .....	120,624	235,871	115,247

## Summary of sources and application of funds

[In thousands of dollars]

	Revised 1962 estimate
Obligations (from program and financing) .....	235,871
Increase (-) or decrease in unpaid obligations .....	-254
Gross expenditures .....	235,617
Revenues and other receipts (from program and financing) .....	144,200
Increase (-) or decrease in accounts receivable, net .....	-88
Applicable receipts .....	144,112
Budget expenditures .....	91,505

*Revenue, expense, and retained earnings*

[In thousands of dollars]

	Revised 1962 estimate
Revenue.....	21,840
Expense.....	37,889
Net operating income or loss (-).....	-16,049
Nonoperating income:	
Proceeds from sales of properties:	
Cash proceeds.....	5,500
Other.....	131,965
Net book value of properties sold (-).....	-130,920
Net gain from sale of properties.....	6,545
Net income or loss (-) for year.....	-9,504
Analysis of deficit:	
Deficit (-), start of year.....	-12,978
Deficit (-), end of year.....	-22,482

*Financial condition*

[In thousands of dollars]

	Revised 1962 estimate
Assets:	
Treasury balance.....	9,250
Accounts receivable.....	1,435
Claims receivable, net (veterans indebtedness).....	10,125
Loans receivable.....	518,155
Real property owned.....	129,459
Real property in process of acquiring title.....	27,885
Total assets.....	696,309
Liabilities: Current.....	9,832
Government equity:	
Non-interest-bearing capital:	
Start of year.....	521,335
Transfer from "Direct loans to veterans and reserves".....	91,424
Payment from "Readjustment benefits".....	96,200
End of year.....	708,959
Deficit (-), end of year.....	-22,482
Total Government equity.....	686,477

*Analysis of Government equity*

[In thousands of dollars]

	Revised 1962 estimate
Unobligated balance.....	853
Invested capital and earnings.....	685,624
Total Government equity.....	686,477

Mr. THOMAS: Let us look at the supplemental, \$151,200,000, contained in House Document No. 306. It is charged against the readjustment benefits program. You have \$55 million for education and training allowance and loan guarantee funds of \$96.2 million. How do you arrive at the figure of \$151 million?

## JUSTIFICATION OF THE ESTIMATES

Before you get into the explanation of it we shall insert the document and pages 3 and 4 in the record and we shall also insert pages 5, 6, and the first page of the revolving fund, and justification pages 4 and 5 of that group where you show your losses. Also insert 6.

(The pages referred to follow:)

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., January 18, 1962.

THE PRESIDENT,  
The White House.

SIR: I have the honor to submit herewith for your consideration a proposed supplemental appropriation for the fiscal year 1962, in the amount of \$151,200,000, and a proposed provision for the Veterans' Administration, as follows:

"INDEPENDENT OFFICES

"VETERANS' ADMINISTRATION

"READJUSTMENT BENEFITS

"For an additional amount for 'Readjustment benefits,' \$151,200,000, to remain available until expended.

"INDEPENDENT OFFICES

"VETERANS' ADMINISTRATION

"LOAN GUARANTY REVOLVING FUND

"An additional amount of not to exceed \$115,247,000 shall be available in the 'Loan guaranty revolving fund' for expenses for property acquisitions and other loan guaranty and insurance operations under chapter 37, title 38, United States Code, except administrative expenses, as authorized by section 1824 of such title."

The proposed supplemental appropriation will provide an additional \$55 million for expenses of authorized education and training allowances for veterans of the Korean conflict, and \$96,200,000 for transfer to the "loan guaranty revolving fund" for expenses involved in the payment of an increased number of claims and in the acquisition of additional loans and properties under the VA housing loan guaranty program.

The proposed increase in the expense limitation will permit the expenditure of an additional \$115,247,000, including the \$96,200,000 explained above, from the "loan guaranty revolving fund" for expenses of operation of the fund. This increase is necessary because of unforeseen increase in the number of defaults, in payment of guaranteed loans, and the consequent increase in properties acquired and claims paid.

On September 18, 1961, this appropriation was apportioned pursuant to section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), on a basis which indicated the necessity for a supplemental estimate for these purposes. This action was reported to the Congress by the Director of the Bureau of the Budget on that date.

This proposed supplemental appropriation and increased limitation will be included in the 1963 budget.

The existing appropriation and funds available under the present limitation are expected to be exhausted by approximately February 1. Therefore, I recommend that the foregoing estimates be immediately transmitted to the Congress.

Respectfully yours,

DAVID E. BELL,  
Director of the Bureau of the Budget.

## READJUSTMENT BENEFITS

Additional funds in the amount of \$151,200,000 will be required to supplement the \$80 million readjustment benefits appropriation for fiscal year 1962. This appropriation provides education and training allowances for veterans of the Korean conflict; educational assistance allowances under the War Orphans' Educational Assistance Act of 1956, as amended; for transfer of funds to the loan guarantee revolving fund to supplement income of the fund as required; and special assistance to disabled veterans in the form of tuition and supplies and equipment for those requiring vocational rehabilitation, housing grants, and automobiles or other conveyances. Obligations incurred against these funds arise by operation of law and as such are not administratively controllable.

The additional requirements are as follows (in thousands):

Education and training allowances for Korean conflict veterans.....	\$55, 000
Payment to loan guarantee revolving fund.....	96, 200
Total.....	151, 200

*Education and training*

The additional requirement of \$55 million for education and training allowances results from:

- (a) Less-than-expected balance of fiscal year 1961 funds brought forward into fiscal year 1962 due to unanticipated loan guarantee program requirements..... \$41, 947
- (b) Increased estimate of Korean conflict veterans-in-training..... 13, 053

The 1962 budget contemplated a \$56.5 million carryover balance of 1961 funds, which together with a requested \$80.0 appropriation, would have provided 1962 fund availability of \$136.5 million. However, unexpected loan guarantee program requirements in the last half of fiscal year 1961 reduced the carryover balance to \$14.5 million, thereby decreasing fiscal year 1962 fund availability by approximately \$41.9 million.

Estimates upon which the fiscal year 1962 appropriation request was based included \$120.0 million for education and training allowances for Korean conflict veterans in training. This amount contemplated an average monthly training load of 85,000. Latest experience indicates that the training load will average 98,000 for the year. Experience to date this fiscal year and revised estimates for the remainder of the year are compared with 1962 budget estimates in the following table:

	Korean conflict veterans-in-training		
	In 1962 budget	Actual and revised estimate	Difference
June 1961.....	70, 500	<sup>1</sup> 67, 369	-3, 131
July.....	71, 300	<sup>1</sup> 76, 928	+5, 628
August.....	41, 400	<sup>1</sup> 44, 384	+2, 984
September.....	59, 200	<sup>1</sup> 70, 172	+10, 972
October.....	114, 100	<sup>1</sup> 135, 089	+20, 989
November to June (monthly average).....	93, 700	<sup>2</sup> 110, 000	+16, 300
Fiscal year 1962 monthly average.....	85, 000	<sup>2</sup> 98, 000	+13, 000

<sup>1</sup> Actual.

<sup>2</sup> Estimate.

The 13,000 increase in training load will require an additional \$13 million for education and training allowances.

*Payment to loan guarantee revolving fund*

The fiscal year 1962 budget contemplated loan guarantee revolving fund program costs of \$120,624,000, to be funded from sources other than the "Readjustment benefits" appropriation. Latest experience indicates that 1962 costs will total \$235,871,000. The increase of \$115,247,000 will require transfer of \$96,200,000 from readjustment benefits. Latest actual and estimated costs, and proposed funding sources are summarized in the following table:

[In thousands]

	1962 budget request	Latest estimate	Difference
<b>Program costs:</b>			
July (actual).....		\$15, 176	
August (actual).....		19, 791	
September (actual).....		19, 767	
October (actual).....		20, 309	
November to June (estimate).....		<sup>1</sup> 160, 828	
Total 1962.....	\$120, 624	235, 871	+\$115, 247
<b>Funding:</b>			
Receipts from operations.....	50, 047	48, 000	-2, 047
Transfer from direct loan revolving fund.....	70, 624	91, 424	+20, 800
Payment from "Readjustment benefits" appropriation.....		96, 200	+96, 200
Other <sup>2</sup> .....	-47	247	+294
Total.....	120, 624	235, 871	+115, 247

<sup>1</sup> Monthly average approximately \$20,000,000.

<sup>2</sup> Change in selected working capital.

The increased expenditures are due to increases in the number of claim payments and property acquisitions incident to defaults on guaranteed housing loans to veterans. The number of claim payments and property acquisitions to date this fiscal year indicate that the 1962 budget estimates were considerably understated, as shown in the following table:

	Claims paid	Properties acquired
July (actual).....	1, 287	1, 309
August (actual).....	1, 667	1, 662
September (actual).....	1, 487	1, 442
October (actual).....	1, 620	1, 698
November through June estimate.....	<sup>1</sup> 11, 839	<sup>2</sup> 11, 739
Total.....	17, 900	17, 850
In 1962 budget.....	10, 500	10, 350
Increase.....	7, 400	7, 500

<sup>1</sup> Monthly average: 1,480.

<sup>2</sup> Monthly average: 1,467.

The increased requirements of the loan guaranty revolving fund are discussed in greater detail in that part of this submission proposing an increase in the present limitation on expenditures of the fund.

**"LOAN GUARANTY REVOLVING FUND**

**"APPROPRIATION LANGUAGE**

*"The limitation under this head in the Independent Offices Appropriations Act, 1962, on the amount available for expenses for property acquisitions and other loan guaranty and insurance operations under Chapter 37, Title 38, United States Code, except administrative expenses, as authorized by section 1824 of such title, is increased from \$120,624,000 to \$235,871,000."*

## LOAN GUARANTY REVOLVING FUND

Total program costs financed through this fund are now estimated at \$235.9 million. This is \$115.3 million more than anticipated in our 1962 budget request. To fund the additional costs will require:

(a) Transfer of \$91.4 million from retained earnings of the direct loan revolving fund. (No congressional action required. Statutory authority: Independent Offices Appropriation Act, 1962.)

(b) Transfer of \$96.2 million from the appropriation "Readjustment benefits, VA." (Congressional action required in the form of readjustment benefits supplemental appropriation. Statutory authority for transfer: 74 Stat. 533.)

(c) Increase of the present limitation on loan guaranty revolving fund expenditures by \$115.3 million from \$120.6 million to \$235.9 million (congressional action required).

In the last half of the past fiscal year (fiscal year 1961), expenditures for the purpose to which this request relates, increased from a quarterly rate of less than \$35 million to \$41.6 in the third quarter, and \$51.3 million in the fourth quarter. The rate continued to increase in the current fiscal year, when first and second quarter expenditures were \$54.7 million and \$60 million (partially estimated), respectively. Continuation of the present rate of expenditure through the remainder of fiscal year 1962 will result in annual expenditures of \$235.9 million. This is \$115.3 million more than the present expenditure limitation of \$120.6 million, which was based on expenditure experience at the time the 1962 budget was prepared.

Increases in the number of claims and property acquisitions generated by a continuing high incidence of defaults on guaranteed and insured loans to veterans have caused the substantial increase in expenditures. Recent actual experience and latest estimates based on that experience are outlined in the following table:

	Serious defaults pending end of period	Number of claims paid	Number of properties acquired	Expenditures (in thousands)
Fiscal year 1960:				
1st quarter.....	4,653	2,606	2,575	\$29,604
2d quarter.....	4,833	2,547	2,546	30,012
3d quarter.....	5,195	2,621	2,751	29,641
4th quarter.....	5,338	2,776	2,745	32,578
Total (actual).....		10,550	10,617	121,835
Fiscal year 1961:				
1st quarter.....	5,717	2,746	3,018	32,245
2d quarter.....	6,131	3,027	3,170	34,793
3d quarter.....	7,456	3,251	3,685	41,585
4th quarter.....	8,527	4,088	4,277	51,262
Total (actual).....		13,112	14,150	159,885
Fiscal year 1962:				
1st quarter (actual).....	8,425	4,441	4,413	54,733
2d quarter (estimate).....	8,850	3,950	3,850	48,500
3d quarter (estimate).....	8,675	5,009	5,077	71,638
4th quarter (estimate).....	8,500	4,500	4,510	61,000
Total (estimate).....		17,900	17,850	235,871

Revised estimates compare with those included in the fiscal year 1962 budget, as follows:

*Summary of major workloads and unit cost*

	1962 budget	1962 revised	Increase
Properties acquired:			
Number of properties acquired.....	10,350	17,850	7,500
Average cost per acquisition.....	\$9,465	\$10,350	\$885
Total cost (in thousands).....	\$97,960	\$184,711	\$86,751
Claims paid:			
Number of claims paid.....	10,500	17,900	7,400
Average cost per payment.....	\$867	\$1,400	\$533
Total cost (in thousands).....	\$9,106	\$25,060	\$15,954
Loans acquired:			
Number of loans acquired.....	150	150	-----
Average cost per acquisition.....	\$7,050	\$10,000	\$2,950
Total cost (in thousands).....	\$1,058	\$1,500	\$442
Property management expense:			
Average number of properties owned.....	6,000	13,867	7,867
Average cost per property owned.....	\$1,163	\$1,200	\$37
Total cost (in thousands).....	\$6,980	\$16,600	\$9,620
Sales expense:			
Number of properties sold.....	9,950	12,817	2,867
Average cost per sale.....	\$555	\$624	\$69
Total cost (in thousands).....	\$5,520	\$8,000	\$2,480
Total costs.....	\$120,624	\$235,871	\$115,247

Business-type financial statements of "source and application of funds," "revenue, expense, and retained earnings," and "financial condition," reflecting revised estimates of fiscal year 1962 operations under the loan guaranty revolving fund, are presented in the following pages.

GENERAL STATEMENT

Mr. GLEASON. May I have permission to insert this statement in the record?

(The statement referred to follows:)

GENERAL STATEMENT

Mr. Chairman and members of the committee, I appreciate this opportunity to discuss with you today our supplemental appropriation requirements for the current fiscal year.

We are requesting—

- (1) an additional \$151.2 million to supplement our present "Readjustment benefits" appropriation, and
- (2) an increase of \$115.3 million in the limitation on expenditures from our loan guaranty revolving fund.

READJUSTMENT BENEFITS

Our additional needs of \$151.2 million for this appropriation are due to the following conditions:

- (1) Our original estimate was predicated on funds available from fiscal year 1961 of \$56.4 million, whereas a balance of only \$14.5 million or \$41.9 million less was actually realized. This was caused primarily by the unforeseen substantial increase in loan guaranty claim payments and property acquisition costs during the closing months of the 1961 fiscal year.
- (2) This increase in loan guaranty costs is continuing in the current year from the newly established loan guaranty revolving fund with the result that additional funds of \$96.2 million are needed from appropriation sources to cover payments for the balance of the year.
- (3) The average number of Korean conflict veterans in training is now expected to reach 98,000 or 13,000 in excess of our original estimate. This results in added costs of about \$13.1 million.

## LOAN GUARANTY REVOLVING FUND

The legislation establishing this fund effective July 1, 1961, specified maximum expenditures in fiscal year 1962 of \$120.6 million. These funds were to be provided by a transfer of \$70.6 million from retained earnings of the direct loan revolving fund and \$50 million in receipts from operations.

Program costs to be financed from this fund have increased from a planned average of \$10 million per month to the current level of \$20 million. It is now estimated that 1962 costs will total \$235.9 million or \$115.3 million in excess of the present limitation. This material change in obligation rate is due to substantial increases in unit cost as well as number of property acquisitions and claim payments. In this connection the following comparisons with our original estimate are significant.

(1) We now estimate that in 1962 we will acquire 17,850 properties as compared to our original estimate of 10,350.

(2) The average cost per acquisition has risen from \$9,465 to \$10,350.

(3) We now expect to pay 17,900 claims as compared to our original estimate of 10,500.

(4) The average cost per claim payment is now \$1,400 as compared to a cost of \$867 used in the budget submission.

(5) Property management and selling expenses are now estimated to be about \$12.5 million higher than estimated, due primarily to the increased number of properties involved.

We have made every effort to reduce the appropriation requirements by using all other available funding sources. We are able to provide \$139.7 million of our estimated total needs leaving \$96.2 million required from appropriation sources. Of the \$139.7 million to be provided from other sources, about \$20.3 million represents receipts from operation of the fund during the period February 1 through June 30, 1962. Thus our current availability through January 31, 1962 is approximately \$119.4 million.

Of this amount \$110.2 million had been obligated as of December 31, 1961. The remainder of our current fund availability and expenditure authority is being reserved to meet management and selling expenses during January 1962. As a result, it has been necessary to defer claim payments and property acquisition costs accruing after December 31, 1961.

It is urgently requested that the current expenditure limitation of \$120.6 million now imposed on the loan guaranty revolving fund be increased commensurate with the increased level of operation and that the additional funds of \$96.2 million required to meet these uncontrollable costs be favorably considered.

We will be pleased to furnish you with any further information you may desire in connection with this request.

Mr. THOMAS. Do you want to explain this to us, Mr. Administrator?

Mr. GLEASON. I would like to have Mr. Brownstein do it, if I may.

Mr. THOMAS. Very well.

Mr. BROWNSTEIN. Mr. Chairman, this is made up of two items. Fifty-five million dollars of it is an increase in the education and training allowance, and \$96,200,000 is an increase in the loan guaranty revolving fund.

It comes about in this manner: We had estimated—

Mr. THOMAS. You expect a carryover of \$41.9, plus increase in estimates of Korean war veterans of another \$13,000, and that brings you up to \$55,000. You anticipated a carryover of \$14,500.

## LOAN GUARANTY CLAIMS AND PROPERTY ACQUISITIONS

Mr. BROWNSTEIN. This is the result of an increase in number of property acquisitions and claim payments in the loan guaranty program. It started in the latter part of 1961 and that is why we did not have the carryover that we had estimated. Our carryover actually was \$41.9 million less than the amount we had estimated at the time we were here on the 1962 budget.

The increase in the number of property acquisitions which the VA has had is paralleled with the experience that the Federal Housing Administration has had, and also that of conventional mortgagees.

On the opening day of these hearings, I told you we had made studies to determine whether this was due to a poorer degree of credit underwriting, and we had concluded that that is not the case, that the credit criteria we employ today are identical with those we have used over the years, but it seems to us that perhaps this comes as a result of the success which has been achieved in combating inflation. Construction costs have remained fairly constant for the last 2½ or 3 years, and therefore the veteran or other mortgagor who gets into trouble with his property and is unable to make the payments cannot sell it to another purchaser as readily as he could formerly because there are new houses on the market which are salable for about the same amount for which he would have to sell his property in order to come out whole and pay the broker's commission.

Mr. THOMAS. How badly do you need this money?

Mr. BROWNSTEIN. We need it desperately. We have paid no claims to lenders since the end of December. We paid our training allowances in January. We do not have enough money in readjustment benefits at this time to pay the training allowances of veterans in February.

Mr. THOMAS. Break down your \$151 million. What goes into your revolving fund to take care of your foreclosed guaranteed loans and what part goes into the educational training?

Mr. BROWNSTEIN. \$55 million into education and training and \$96.2 million into the revolving fund.

#### READJUSTMENT BENEFITS—EDUCATION AND TRAINING

Mr. THOMAS. Break down the \$55 million. What classifications are those? How much goes to the Korean veterans?

Mr. BROWNSTEIN. The revised estimate for Korean veterans in training is \$120,060,000 and war orphans \$20,800,000.

Mr. THOMAS. How much additional do you need for the two categories?

Mr. BROWNSTEIN. \$55 million.

Mr. THOMAS. That is over and above your estimates of last year?

Mr. BROWNSTEIN. That is right. The estimate on war orphans seems now to be accurate. It is in the Korean conflict veterans where we have a deficit.

Mr. THOMAS. How did you slip up on the estimate? What was the reason for it?

Mr. BROWNSTEIN. There are 13,000 more in training than we had estimated.

Mr. THOMAS. For the record, quickly, what are the benefits that the Korean boys get?

Mr. BROWNSTEIN. \$110 a month for a single veteran and the maximum is \$135 per month if he has one dependent and \$160 per month if he has more than one dependent.

Mr. THOMAS. Your original estimate is 13,000 short at \$1,000 a year.

Mr. BROWNSTEIN. Roughly that.

Mr. THOMAS. That is what you will need for the overall program?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. How much are you short?

Mr. BROWNSTEIN. We are short \$55 million in our education and training and \$96.2 million—

Mr. THOMAS. If you do not get this, when will you run out of money?

Mr. BROWNSTEIN. We do not have enough in the readjustment benefits account to pay the February training allowances. We have run out.

#### LOAN GUARANTY REVOLVING FUND

Mr. THOMAS. Gentlemen, is that clear?

If so, go ahead with the revolving fund activities. How much do you have to have in that?

Mr. BROWNSTEIN. \$96.2 million more.

Mr. THOMAS. How much do you have now?

Mr. BROWNSTEIN. We have nothing.

Mr. THOMAS. You mean you are fresh out?

Mr. BROWNSTEIN. At the end of December we had about \$2½ million, which we hoped would be enough to pay brokers' commissions and other items of this nature in January.

Mr. THOMAS. What is your revolving fund? What do you do with it? This fund is to take care of foreclosures on guaranteed loans and direct loans are not involved in this proposition.

Mr. BROWNSTEIN. That is correct.

#### USE OF DIRECT LOAN FUNDS

Mr. THOMAS. You have authority to go to the Treasury and get \$500 million plus an additional \$200 million either this year or next year for your direct loans.

Mr. BROWNSTEIN. That is right, but it is for direct loans.

Mr. THOMAS. This goes to the guaranteed loans. Your guaranteed loans are appropriated funds, usually on an annual basis. Did you get any appropriations last year to take care of your guaranteed loans where you have to pick them up?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. How much?

Mr. BROWNSTEIN. We were given a total authorization in establishing the loan guaranty revolving fund of \$120.6 million.

Mr. THOMAS. But you got no money for that last year?

Mr. MONK. That is right.

Mr. THOMAS. You got a transfer from your direct loans of \$91 million. You got \$91 million to set up a \$120 million loan last year. Why can't you get it from the same source this year?

Mr. BROWNSTEIN. We have exhausted it, sir. We will get about \$20 million more which has been included here.

Mr. THOMAS. If I recall your table correctly you have \$87 million now.

Mr. MONK. \$91,424,000, sir.

Mr. THOMAS. You have \$112 million. You are looking for only \$96 million. Why don't you use the \$112 million?

You used \$91 million from that source last year. Why can't you go to the same source this year? You have \$112 million.

Mr. MONK. This is not available for transfer to the loan guaranty fund.

Mr. THOMAS. Why not?

Mr. MONK. It is for direct loans only.

Mr. THOMAS. That is what the \$91 million was available for last year but you have some language where you used it. Why not get more language and use the \$96 million?

Mr. MONK. That was transferred from retained earnings in the fund.

Mr. THOMAS. That is what you have now?

Mr. GLEASON. No, sir.

Mr. THOMAS. The table is wrong, then?

Mr. BROWNSTEIN. What table, Mr. Chairman?

Mr. MONK. 10-2.

Mr. THOMAS. You have the cash shown here in the till right now.

Mr. BROWNSTEIN. This, however, is usable only for making of loans to veterans, Mr. Chairman. This cannot be used for the purpose of augmenting—

Mr. THOMAS. Plus the other \$500 million where you can go straight to the Treasury whenever you get ready.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. That is the back-door approach. You have this much right now in your account. I assume you have been digging into that \$500 million. Last year you transferred \$91 million from that account. You set up this revolving fund of \$120 million.

The question is: Why can't you go ahead and get \$96 million from that same source?

Mr. MONK. It is not there. At the end of this year we will have only about \$9 million in retained earnings in this direct loan revolving fund.

Mr. THOMAS. I am reading your figures here. Unobligated balance carried forward, \$112,544,000.

Mr. MONK. This will be money committed for loans.

Mr. THOMAS. Why do you call it unobligated, then?

Mr. BROWNSTEIN. That is the estimate of the amount that will be unobligated at the beginning of fiscal year 1963 in our direct loan revolving fund and it may be used only for the purpose of making loans to veterans.

Mr. THOMAS. Am I correct that you transferred from your direct loan fund \$91 million last year?

Mr. BROWNSTEIN. Out of retained earnings, Mr. Chairman. This is not retained earnings.

Mr. THOMAS. It says unobligated balance.

Mr. BROWNSTEIN. Unobligated balance in the revolving fund, and that money can be used only for the purpose of making loans to veterans.

Mr. THOMAS. You do not mean to say the \$91 million was profit last year?

Mr. BROWNSTEIN. It was profit over the years.

Mr. THOMAS. I thought you had a small loss over the years.

Mr. BROWNSTEIN. In the direct loan program we have an \$87 million profit through November 1961.

Mr. GLEASON. That is where we got the \$91 million profit for transfer to the loan guaranty revolving fund.

## LOAN GUARANTY PROGRAM

Mr. THOMAS. What about the loan guaranty program?

Mr. BROWNSTEIN. Giving effect to all the claims that we have paid, all the properties that we have acquired, what we have collected from veterans, the properties we have sold, the properties we own and have on the books, the interest we have collected on the mortgages where we have sold the property and taken back mortgages, we have a loss of a little over \$13 million.

Mr. THOMAS. You show a \$13 million loss on the guaranty loans?

Mr. BROWNSTEIN. Neither takes into effect administrative expenses.

Mr. THOMAS. That is right, that comes out of general administration.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. How much of this \$96 million do you think you will need?

Mr. BROWNSTEIN. We will need it all, Mr. Chairman, and I hope no more.

## PROPERTIES ACQUIRED

Mr. THOMAS. You have some interesting figures here. In 1960 you acquired 10,000 properties. What is the amount of money you have in the 10,000 properties? The maximum amount you can put in any one of them is what?

Mr. BROWNSTEIN. We do not have a maximum amount on the property Mr. Chairman. The limitation is on the guarantee. The property acquisitions now are averaging about \$10,400 each.

Mr. THOMAS. Change my words anyway you want to. The maximum amount you can guarantee is \$7,500. Is that right?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Do you have an average figure tied up?

Mr. BROWNSTEIN. About \$10,400 per property.

Mr. THOMAS. Who carries the other part of the mortgage?

Mr. BROWNSTEIN. No one. These are all owned by us.

Mr. THOMAS. In 1961 you had 14,000. In fiscal year 1962 you had 17,850. Are these cumulative figures?

Mr. BROWNSTEIN. No, sir; those are the number acquired during the year.

Mr. THOMAS. How many do you have on hand as of now?

Mr. BROWNSTEIN. 13,881; that is as of the end of December.

Mr. THOMAS. What is the liability figure you show of \$235 million?

Mr. BROWNSTEIN. That is our latest estimate of what our expenditures for fiscal 1962 will be.

Mr. THOMAS. And picking up the mortgages?

Mr. BROWNSTEIN. Yes, sir. Paying off the lender on the defaulted mortgages.

Mr. THOMAS. Does that include what you have tied up in the 17,800 properties?

Mr. BROWNSTEIN. Yes; it is the estimate of what the 17.8 will cost us.

Mr. THOMAS. You do not have the 13,900 on hand so you do not need it all.

Mr. BROWNSTEIN. This includes what we estimate we will get from the 1st of January through the end of the fiscal year.

Mr. THOMAS. How many is that?

Mr. BROWNSTEIN. We estimate this: In the first half of 1962 we have taken in 9,414. We estimate that in the last half we will take in about 8,400 more.

Mr. THOMAS. That is about 18,000 in round figures during all of the fiscal year.

Mr. BROWNSTEIN. Fiscal 1962, yes.

Mr. THOMAS. You are constantly in the process of selling these, are you not?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. So the \$235 million is based upon about 18,000 houses.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. You will not have that many.

Mr. MONK. This is a net figure.

Mr. BROWNSTEIN. We have a limitation on the revolving fund of \$120.6 million which we cannot exceed, and we are asking that you increase this limitation, too. We have just approached that limit, you see.

Mr. THOMAS. You want to raise it from \$120 million to \$235 million, and that is the figure I am questioning. That is based upon 18,000 properties and you will not have 18,000 properties on hand at any one time because you are in the process of constantly selling. Of course, sales right now are not equivalent to the acquisitions by any means, but the figures here indicate that you have not set out the 18,000 figure but you have a 17,000 figure. On the basis of that you have only 13,900 left.

Mr. BROWNSTEIN. There is one large difference. When we take in a property we have to pay for it and pay for it totally at that point. When we sell a property we get back paper which is repayable over a period of 20 to 30 years.

Mr. THOMAS. What loss are you going to take out of this \$235 million?

Mr. BROWNSTEIN. Our expenses currently in the management and sale of properties is running a little over \$1,000 a property. Therefore on 18,000 it would be about \$18 million.

Mr. THOMAS. \$1,000 loss per house?

Mr. BROWNSTEIN. That is right. Some part of this may be recovered from the veteran or other obligor.

Mr. THOMAS. \$18 million?

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. We can always put some language in here. You could not have taken care of this without that language.

Mr. GLEASON. We don't have it now.

Mr. THOMAS. Suppose you get it?

Mr. GLEASON. That is what we are asking you for now.

Mr. THOMAS. If you get the language you don't need the money. You can run right over to the Treasury and get it.

Mr. BROWNSTEIN. But then we cannot make direct loans to veterans.

#### DIRECT LOAN BORROWING AUTHORITY

Mr. THOMAS. What is the unobligated balance out of the \$500 million you got last year, back-door spending?

Mr. BROWNSTEIN. We have drawn \$200 million of it so far this fiscal year.

Mr. THOMAS. So you have \$300 million?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. And you can go back and get that now beginning July 1?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. \$500 million.

Mr. MONK. But you cannot use it for this purpose.

Mr. THOMAS. There is that language again, Mr. Monk. The same language you had last year will work this year, won't it? Just add two more words and it will work.

Mr. GLEASON. Then we cannot make loans to the veterans in the rural areas, Mr. Chairman.

Mr. THOMAS. You have \$500 million, Mr. Administrator.

Mr. GLEASON. Yes, sir; but this will be over a period of years. I think you will hamper the opportunity of the veteran in the rural areas to secure their loans.

Mr. THOMAS. Perish the thought. You have \$500 million. When that is gone we will see you soon enough.

Off the record.

(Discussion held off the record.)

Mr. THOMAS. There is no doubt about that. Nobody wants to hamper the \$500 million at all.

#### ECONOMIC FACTORS

Mr. OSTERTAG. I would like to raise a general question with regard to increased costs in the justification. Considerable emphasis has been placed on the economic factors. Is that regarded as generally true?

Mr. BROWNSTEIN. That is what caused it initially, Mr. Ostertag, but we have not had the same experience this time that we have had in the past. The improvement in the economic climate has not been carried over into this field as had occurred previously.

Mr. OSTERTAG. If economic factors were the justification for the \$96-plus million request—is that the true basis for the supplemental?

Mr. BROWNSTEIN. The basis was that we had had this increase in our activity, and unquestionably the defaults initially were caused by economic factors.

Mr. GLEASON. I don't know whether Mr. Ostertag was here at the time you mentioned the construction costs remaining the same. This might clear up the point, Mr. Ostertag.

Mr. BROWNSTEIN. I think we are finding a difference this time, Mr. Ostertag, because actually it is a blessing as well as this undesirable feature we have which confronts us. I think it results because we have pretty well stemmed inflation in the residential construction field for the last 3 years. Construction costs in this period have been quite stable, and as a consequence a veteran, or other homeowner who gets into trouble with his house, no longer can sell it subject to the financing as he once did because you can buy the identical house new for little or no more than the veteran would need to bail himself out on this one and maybe even less when you add on broker's commission.

Mr. OSTERTAG. That is an economic factor.

Mr. BROWNSTEIN. Unquestionably, yes.

Mr. OSTERTAG. But has the picture changed sufficiently and would it change rapidly enough to justify your new estimate?

Mr. BROWNSTEIN. It has not changed and that is really the reason for our new estimate. The failure to change the picture and reverse this trend is what brings us before you now.

Mr. GLEASON. You can now buy a new home under present construction costs for about the same price it would cost to buy one of these properties, and when anyone has an opportunity they will take a new home in preference to one of these.

Mr. OSTERTAG. I agree with you.

Mr. GLEASON. Formerly you could build something and 3 or 4 years later you could sell it and just take over the mortgage itself.

Mr. EVINS. According to your statement on page 10-1 you had \$1,330 million, repayment of \$290 million, proceeds from sale of property of \$64 million, a total of about \$1.6 billion. You are telling us all of those funds have been exhausted and you have completely utilized them all? Am I correct in my understanding?

Mr. BROWNSTEIN. All of the funds that are available for transfer, Mr. Evins, have been used.

Mr. EVINS. At the present time are you unable to make additional borrowings from the Treasury?

Mr. BROWNSTEIN. For the purpose of paying claims, in the loan guarantee revolving fund this is correct, yes.

Mr. EVINS. If you were to acquire more veterans housing next month, in February, would you have the funds available to do it?

Mr. BROWNSTEIN. We do not have the funds for this month. We have not been acquiring them this month.

Mr. EVINS. What is the market condition? What is the credit picture today? The Government, which has guaranteed the loans, is now unable to market and sell these mortgages without discounting them.

Mr. BROWNSTEIN. That is correct.

Mr. EVINS. How widespread is this knowledge in the financial community?

Mr. GLEASON. Nothing yet, sir.

Mr. BROWNSTEIN. The delay so far, of course, has been a little less than a month, and up to this point I imagine they are figuring that this is due to backlog conditions.

#### SALE OF MORTGAGES

Mr. EVINS. You tell us in your statement you have \$250 million of mortgages on veterans housing loans. Can you not dispose of some of these rather promptly?

Mr. BROWNSTEIN. We intend to do our financing in 1963 through the sale of these mortgages, Mr. Evins, but right now this would not help us at all because of the ceiling we have on the revolving fund.

Mr. EVINS. We have all supported and favored this program but the picture does not look very promising, at this time.

Mr. BROWNSTEIN. In perspective it still looks good, from the standpoint of what it has cost the Government.

Mr. THOMAS. The question Mr. Evins is raising is a simple one. Suppose you remove the ceiling. How many mortgages do you

actually have now? We are not talking about direct loans. We are confining thinking strictly to what is involved here, loan guarantees.

Mr. BROWNSTEIN. We have about \$430 million at the present time.

Mr. THOMAS. You say you are contemplating disposition of \$250 million. Is it your common practice to carry all these mortgages yourself?

Mr. BROWNSTEIN. Yes, sir. We have sold a relatively insignificant amount over the years of about \$500,000.

Mr. THOMAS. Give him a direct answer to the question. Suppose you remove the limitation and you sold any amount you wanted to. We can give you language if you need it to put it in the revolving fund.

Mr. BROWNSTEIN. It would not solve our present dilemma for two reasons. No. 1, it takes time to do this.

Mr. THOMAS. That is understandable. How much time is required?

Mr. BROWNSTEIN. There are so many factors involved, Mr. Chairman. You cannot look at it solely from the standpoint of the VA—

Mr. THOMAS. Mr. Brownstein, you have been anticipating this for 18 months. Why have you not acted long before now? You anticipated you would be in trouble last year so far as foreclosures are concerned. We went into it in detail, and you explained in a very excellent manner, you were analytical and your explanation was excellent, that you set up this revolving fund. You could see on a day-to-day basis it was getting worse. Why did you not start then unloading some of these mortgages?

Mr. BROWNSTEIN. As I said, Mr. Chairman, you have to consider the entire mortgage picture.

Mr. THOMAS. We take a look at it through FNMA quite often.

Mr. BROWNSTEIN. FNMA has not been selling any of its mortgages.

Mr. THOMAS. In bad times they acquire and in good times they sell. They follow the market so far as you are concerned.

Mr. BROWNSTEIN. They do not buy any of the mortgages that we hold. They buy only mortgages that we guarantee.

Mr. THOMAS. That is right. You are not a preferred customer, in other words.

Mr. BROWNSTEIN. No, sir.

Mr. THOMAS. That still does not keep you from selling the mortgages.

Mr. BROWNSTEIN. We have offered them for sale right along, but we have been offering them at par, and nobody has been willing to buy them.

Mr. THOMAS. You are willing to take a loss now. Why did you not anticipate it 12 months ago when you saw you would need the money?

#### LIMITATION ON EXPENDITURES

Mr. BROWNSTEIN. The ceiling still is there and we are up to that ceiling. The sale of them would not help us at this point.

Mr. THOMAS. You are just now asking to remove the ceiling. Why did you not ask long before now?

Mr. BROWNSTEIN. We asked last year that the ceiling not be imposed.

Mr. THOMAS. No. Let us get the record straight. We gave you exactly the amount of money you said you would need and we used that figure for a ceiling. We adopted your figure.

Mr. MONK. I think we told you we would perhaps be back.

Mr. DRIVER. The ceiling was too low.

Mr. THOMAS. That was a figure you sent up. We didn't take off a penny, did we?

Mr. MONK. No, sir.

Mr. OSTERTAG. What did the Senate accept?

Mr. DRIVER. The House-Senate conferees put the ceiling back on after it had been removed by the Senate.

#### SALE OF MORTGAGES

Mr. THOMAS. Why can you not sell these mortgages?

Mr. BROWNSTEIN. We do not know the price at which these mortgages would be sold. Obviously we don't want to have a big fire sale of these. These are Government assets we want to be sure we get the top dollar for. It would have a disruptive effect on the guaranteed program, on conventional interest rates, and the FHA.

Mr. EVINS. Have you offered them to FNMA?

Mr. BROWNSTEIN. No, sir.

Mr. EVINS. You said you made them available for sale. To whom?

Mr. BROWNSTEIN. We have advised all lenders in all areas that we have them available. However, up to this point they have been available only at par.

Mr. EVINS. If you sell them below par are you going to sell them to one group, a few buyers, or will the sale be on a wide dispersion basis?

Mr. BROWNSTEIN. It will be wide so we will get the best price we can.

Mr. EVINS. That is advisable and I commend you on that decision.

Mr. THOMAS. Are you actually going to need the \$250 million?

Mr. BROWNSTEIN. For 1963?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. I believe, Mr. Chairman, the estimates we show here for our 1963 acquisitions are very optimistic.

#### FORECLOSURES ON GUARANTEED LOANS

Mr. THOMAS. Who told us yesterday that the foreclosures had stabilized?

Mr. BROWNSTEIN. That is the trouble. They have stabilized and not gone down.

Mr. THOMAS. They have not stabilized if they are going up, either.

Mr. BROWNSTEIN. Even if they stay where they are, our current expenditures are a little better than \$20 million a month.

Mr. EVINS. Stabilized on the basis of the previous bad record.

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. How long do you think this will last?

Mr. BROWNSTEIN. I had thought it would start reversing by now, but it has not. Now I must say I do not see in the next year a sharp reversal of this for the reasons I mentioned earlier.

Mr. THOMAS. Where are most of these foreclosures coming from?

Mr. BROWNSTEIN. We have 12 States and 16 field offices that have about 80 percent of the properties we have on hand. Would you like them in the record?

Mr. THOMAS. Read them.

Mr. BROWNSTEIN. Detroit, Chicago, Wichita, Los Angeles, Philadelphia, Houston, San Antonio, Lubbock, St. Petersburg, San Francisco, Newark, Dallas, Montgomery, Milwaukee, New Orleans, and Seattle.

Mr. THOMAS. Eighty percent of it is in 12 States?

Mr. BROWNSTEIN. These are the regional areas.

Mr. THOMAS. Do you see an improvement in the economic conditions? What is the situation in the foreclosure areas? You can give all the fancy reasons on earth and we can all kick those reasons around, but it usually adds up to hard times.

Mr. BROWNSTEIN. The area that concerns me more than any of the others is Wichita.

Mr. THOMAS. You have a good reason there. You have an airplane plant which has been closed down.

Mr. BROWNSTEIN. That is precisely the reason.

Mr. THOMAS. It is an economic cause.

Mr. JONAS. You do not have any defaults in the hard coal area?

Mr. BROWNSTEIN. There is a reason for that, Mr. Jonas. That has been depressed for so long there were no new loans to speak of which had been made there so you have not had a sharp increase in the foreclosures.

#### SALE OF MORTGAGES

Mr. OSTERTAG. On the question of the disposal of some \$250 million in mortgages, do you have the right to dispose of them at any price?

Mr. BROWNSTEIN. At any price that the Administrator determines appropriate; yes sir.

Mr. OSTERTAG. In other words, you can go as far below par as you deem it advisable under the circumstances?

Mr. GLEASON. Sell it at discount, yes.

Mr. BROWNSTEIN. There is the legal authority to sell at a discount.

Mr. EVINS. How about auction?

Mr. GLEASON. You could auction them off, and that may well be a good way to do it because we have some at 4 percent and others at 5. In order to package them we may have to do that.

Mr. THOMAS. FNMA has authority to buy these.

Mr. BROWNSTEIN. They cannot buy from another Government agency except where expressly authorized.

Mr. THOMAS. Are you sure about that? You have to be a preferred customer?

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. You are not mentioned in the act?

Mr. BROWNSTEIN. No, sir.

Mr. THOMAS. FHA, I know, is mentioned. Urban Renewal is mentioned, and in some programs it is mandatory they buy them at par.

Mr. BROWNSTEIN. Under the special assistance program.

Mr. THOMAS. You are not in that classification in any way?

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. What is wrong with your being in there?

Mr. BROWNSTEIN. Our guaranteed loans, which are held by private lenders, are eligible for sale to FNMA, and they do own a substantial volume of those. FNMA buys them at a discount.

Mr. THOMAS. But when you get yours back it is not in the hands of the private purchaser.

Mr. BROWNSTEIN. I don't know that our dilemma would be solved because FNMA would have to go out into the market and raise the money also.

Mr. THOMAS. That is their job. I expect FNMA will get a better price than you will get. Of course, they will follow the market. Mr. Baughman is a pretty good salesman and a quarter percent means quite a bit to him.

Mr. BROWNSTEIN. We are not disregarding FNMA's experience in this area in connection with our plans for the sale of them, Mr. Chairman.

Mr. THOMAS. That is good, sound reasoning. They have been in the business a long time.

Mr. JONAS. What discount do you think you will have to offer to sell a 4-percent mortgage?

Mr. BROWNSTEIN. It takes a 4-point discount to make up a half percent in yield, so in order to sell a 4-percent mortgage readily I would say it would have to yield close to 6 percent in some parts of the country, Mr. Jonas, which means a 16-percent discount on a 4-percent loan.

Mr. THOMAS. A \$10,000 mortgage would be what?

Mr. BROWNSTEIN. \$8,400.

However, we have mortgages ranging in rates from 4 to 6, and a few perhaps even in excess of that, but most of them would be from 5 to 6.

#### DEFAULTS ON GUARANTEED LOANS

Mr. JONAS. As you have examined these mortgages which are in default do you find a pattern of any kind, a pattern of age, for example?

Mr. BROWNSTEIN. No, sir; we do not. Right now we are doing a very intensive study on the characteristics of these mortgages and the material is currently being tabulated.

Mr. JONAS. You mean you have defaults on mortgages that are well seasoned?

Mr. BROWNSTEIN. I thought you meant age of mortgagor. Yes, there is a definite pattern on the age of the loan. We have done this for many years.

Mr. THOMAS. Well seasoned means a good part has been paid off.

Mr. BROWNSTEIN. The most vulnerable period of time in the life of the mortgage is the first year and a half to 3½ years.

Mr. OSTERTAG. Consequently many of these houses are comparatively new?

Mr. BROWNSTEIN. Many of them; yes, sir. However, in the last year and a half we found a lot of the more seasoned that are going into default.

Mr. JONAS. Can you tell us anything about the average equities involved?

Mr. BROWNSTEIN. Yes. Again going back to the studies we have made for many years, we have compared our no downpayment loans with loans where there was a downpayment made. This is the only comparison we have made. We have found that our experience where there is a downpayment is about twice as good, or, in other words, you have about twice as many foreclosures where there is no downpayment as where there is a downpayment.

Mr. JONAS. It is like paying rent.

Mr. BROWNSTEIN. Again you get into a situation where a veteran has to provide shelter for his family. I think what happens is that if he has an equity in it he can dispose of it more readily and bail himself out than where he started with no downpayment and the owner does not find anybody who is willing to pick up practically the entire amount of the mortgage and take over his payments.

Mr. EVINS. Percentagewise how much greater are the number of no downpayment mortgages which are in default?

Mr. BROWNSTEIN. In the originations?

Mr. EVINS. No; in foreclosures. I believe you said 2 for 1.

Mr. BROWNSTEIN. In the foreclosures, those where there was a downpayment, our experience was about twice as good where there was no downpayment.

Mr. EVINS. That should be some index for the future operations.

Mr. THOMAS. It seems to me you have only one problem, and it is one of mathematics. If you lose about \$1,000 on each house, you will have to discount your mortgages, if you sell \$250 million worth of them. Will the loss on the mortgages exceed the loss of the rehabilitated house?

Mr. BROWNSTEIN. It will depend on the price at which we sell the mortgages.

Mr. THOMAS. You are in close touch with the market, I assume. What does it look like to you?

Mr. BROWNSTEIN. As I said in answer to Mr. Jonas' question, I would think that in order to sell a volume of these you would have to bring them up to a yield of 6 percent.

Mr. THOMAS. A \$1,600 loss?

Mr. BROWNSTEIN. That is on a 4 percent loan, and we haven't many of them at 4. Most of them, as I said, will average out at at least 5½, so this would mean about a four point discount. The average on \$250 million is \$10 million.

Mr. OSTERTAG. Is it true that the lower the interest rate the higher the discount?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Further questions?

Mr. EVINS. Off the record.

(Discussion held off the record.)

Mr. JONAS. You will have to give a bigger discount because the purchaser knows it is already in default?

Mr. BROWNSTEIN. None of these are in default. We will not sell any that are in default, Mr. Jonas.

Mr. THOMAS. And you still guarantee them?

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. So you have gained nothing.

Mr. JONAS. It is recourse paper.

Mr. OSTERTAG. In view of the fact they are guaranteed loans, why should there be any difficulty in the disposal of them?

Mr. BROWNSTEIN. There will be no difficulty in disposing of them at a price, but the problem is the price at which you are willing to sell them. As I said, I think we have to be very much concerned with the possible disruptive effect that this could have in the mortgage market in general and in the home construction industry.

Mr. EVINS. If sales are desirable now I believe you should go into it on a limited basis so it will not have a disruptive effect.

## LOAN GUARANTY PROGRAM FUNDING

Mr. JONAS. On page 2 you said you were able to provide \$139.7 million of the estimated total needs, leaving \$96.2 million required from appropriation sources.

Of the \$139.7 million to be provided from other sources, about \$20.3 million represents receipts, and so forth.

Where did the rest of it come from?

Mr. BROWNSTEIN. Transfer from the direct loans, retained earnings.

Mr. JONAS. That was the \$91 million?

Mr. BROWNSTEIN. That is right.

Mr. JONAS. It does not come up to the total.

Mr. MONK. The balance is from earnings in this revolving fund.

Mr. BROWNSTEIN. I think that was mentioned. About \$20 million represents receipts.

Mr. MONK. \$48 million for the year. The balance is for the last half.

Mr. JONAS. You had some earnings accumulated before February.

Mr. MONK. Total for the year is now estimated at \$48 million-plus, which with the \$91 million transferred amounts to \$139.7 million.

Mr. JONAS. What would be the objection to putting the veterans' housing program all into one operation—direct loan program and guarantee program?

Mr. BROWNSTEIN. The principal problem there, Mr. Jonas, would be to determine how much of this ought to be used for the making of new loans to veterans in rural areas and small towns. As it is now this is something Congress has decided. If they were all in the same appropriation it would have to be an administrative decision as to how much would be used for new loans and how much we would have to ask for in the way of supplemental appropriations.

## FORECLOSURES IN DIRECT LOAN PROGRAM

Mr. JONAS. Are you having any foreclosure experience in the direct loan program?

Mr. BROWNSTEIN. Yes, that also has gone up, but actually we show a better overall experience in the direct loan program than in the guaranteed loan program. Our overall foreclosure rate is about 1.4 percent on guaranteed loans, and ninety-five one-hundredths of 1 percent in direct loans.

Mr. JONAS. How do you explain that?

Mr. BROWNSTEIN. Well, there are two reasons, I believe. No. 1, in these rural areas and small towns financing of this kind is virtually unheard of. You have the small banks and small savings and loans who can loan their money at a much higher rate than what we make the loans for, so it is very favorable financing that you have on these houses. When the veteran gets into trouble with his loan there is somebody quite willing to take over the property subject to this extremely favorable financing.

Mr. THOMAS. Spell out "favorable financing" for the record.

Mr. BROWNSTEIN. Five and a quarter percent. This is the rate at which we make the loan.

Mr. JONAS. No brokerage, either.

Mr. BROWNSTEIN. Perhaps the minimum he could get on a conventional loan would be 6 percent.

The second reason is that since we do not have anybody guaranteeing us in the event of default, and we cannot look to anybody to pay us if the veteran defaulted, we perhaps would string along with him longer than a conventional mortgagee does.

Mr. JONAS. You are not as quick to foreclose.

Mr. BROWNSTEIN. That is right.

#### LIABILITY ON DIRECT AND GUARANTEED LOANS

Mr. THOMAS. Get two big overall figures—outside liability on direct loans and on guaranteed loans, and you will have a good picture.

Mr. JONAS. Current exposure?

Mr. THOMAS. Yes.

Mr. JONAS. First put in the total loans in both categories and then the current liability.

Mr. BROWNSTEIN. Total amount of guaranteed loans is about \$51 billion, and the outstanding contingent liability at the end of fiscal 1961 was \$27.4 billion.

In the direct loan program the outstanding loan amount is about \$1.2 billion and the total number of loans made is about \$1.7 billion.

Mr. THOMAS. Outstanding?

Mr. BROWNSTEIN. No sir. It is \$1.7 billion of the total number of direct loans originated and the outstanding balance is about \$1.2 billion.

Mr. JONAS. \$1.7 billion of what?

Mr. BROWNSTEIN. That is the total amount of direct loans originally.

Mr. JONAS. The balance has been paid?

Mr. GLEASON. That is correct.

Mr. BROWNSTEIN. Outstanding is \$1.2 billion.

Total number of direct loans we have made is a little over 200,000 loans, and about 5½ million loans guaranteed to veterans.

Mr. JONAS. You have guarantees outstanding upon which mortgagors have called on you to make good. There is nothing to do but to get the money. That figures.

Mr. GLEASON. That is why we are here.

Mr. BROWNSTEIN. That is it, sir.

Mr. GLEASON. You put it very simply. That is right.

Mr. BROWNSTEIN. They are contractual obligations.

Mr. JONAS. That is a small part of it.

Mr. THOMAS. We have gone into all these pros and cons regarding these foreclosures and why, Mr. Jonas.

#### HOUSING MARKET

There is some thinking in certain quarters in the housing field that this country is simply overbuilding. Is there any truth in that?

Mr. BROWNSTEIN. I do not think you can say we are overbuilt, Mr. Chairman, as long as we have people living in some of the houses in which they are living today.

Mr. THOMAS. That begs the question. We are talking about overbuilding in the sense they are able and willing to buy.

Mr. BROWNSTEIN. I do agree in some areas the housing market is saturated.

Mr. THOMAS. They tell me the lower price range of house, from \$7,500 to about \$11,000, has not even been scratched.

Mr. BROWNSTEIN. This is the big area of unsatisfied demand.

Mr. THOMAS. And the housing experts of the country are preaching that to the homebuilders, but the homebuilders are a little slow to get into that untouched market. Is there any truth in that? What is your experience?

Mr. BROWNSTEIN. I agree completely that the big untapped market in this country is the housing in \$10,000 and under. I am sure that the homebuilders would like to get into this market. The question is how they can get into this market with the kind of a house that people would want to live in.

Land costs is one of the big elements today, and the availability of land is a very large item.

Community facilities are expensive, and the builders are trying to find ways and means of building a decent-sized house, well constructed, in a range where they can tap the market.

Mr. THOMAS. It is obvious you cannot go out as they are doing in California and pay \$5,000 and \$6,000 for undeveloped land, without water or sewerage, and put a house and lot on it which you sell for \$10,000. Land cost is a tremendous item. We cannot all live on Main Street.

Mr. JONAS. Off the record.

(Discussion held off the record.)

Mr. OSTERTAG. Rather than too many I have a feeling that development of housing construction has been moving ahead too fast. It should move along with a reasonable degree of progress but it appears to have moved ahead in leaps and bounds ever since we hit a period of redevelopment and reconstruction.

How many new homes are built in America in the course of a year?

Mr. BROWNSTEIN. 1,350,000 last year.

Mr. THOMAS. What does it look like for this year?

Mr. BROWNSTEIN. Estimates of some of the experts are a little in excess of last year.

Mr. THOMAS. They revised those figures downward in the last 90 days, have they not?

Mr. BROWNSTEIN. I have not seen anybody who thinks it will be below what they were in this last year, Mr. Chairman.

Mr. THOMAS. But on a month-to-month basis in the last 2 months you have had a slump, have you not?

Mr. BROWNSTEIN. The last figure I saw was still at a rate of about 1,350,000.

There is one thing we must bear in mind. These are all housing starts. These are rental units as well as sales units, and there has been somewhat of a shift. There is a higher percentage of the total housing starts now going into multifamily rental units.

Mr. OSTERTAG. How about cooperatives?

Mr. BROWNSTEIN. There is an increase in those also, Mr. Ostertag.

Mr. OSTERTAG. Are VA loans available for cooperative purchases?

Mr. BROWNSTEIN. We will guarantee loans on cooperatives.

Mr. BOLAND. Do you have many?

Mr. BROWNSTEIN. We do not have many. The most we have are in Chicago. There was a number of four-unit cooperatives there which were built. I cannot give you the total number but I

would estimate it at a range of 2,000 or so. They went very well and we have never taken in one.

Mr. OSTERTAG. Suppose the land is on a 99-year lease?

Mr. BROWNSTEIN. We will guarantee the loan.

#### DEFAULTS ON GUARANTEED LOANS

Mr. JONAS. For how long are these mortgages in default, those on which you are ready to foreclose? What is the average age?

Mr. BROWNSTEIN. On a guaranteed loan?

Mr. JONAS. Guaranteed, yes.

Mr. BROWNSTEIN. A lender cannot give us even notice of an intention to foreclose until the loan has been in default for 3 months.

Then he has to give at least 30 days' notice, so you have an absolute minimum of 4 months before he can even start foreclosure. Very seldom do they start that quickly. I would say in the main these mortgages have been in default upward of 8 months.

Mr. JONAS. So there is not much chance of their picking them up. They would have too many backpayments to make in the first place, wouldn't they?

Mr. BROWNSTEIN. When we get them in they are completely wiped out. Mortgages have been foreclosed and we own the property.

Mr. JONAS. They do not turn them over to you so you can get your money. Is that right?

Mr. BROWNSTEIN. Those now pending?

Mr. JONAS. That is right.

Mr. BROWNSTEIN. We have not taken in any this month.

Mr. GLEASON. It is not that the necessity is not there, Mr. Jonas.

Mr. JONAS. I thought you might talk the mortgagees into holding off for a while.

Mr. BROWNSTEIN. Where we think they ought to indulge the mortgagor they will do it.

Bearing on your first point, Mr. Jonas, where we do find that something happened and the veteran is in an improved position after the foreclosure, we will resell to him if we think he can carry the house.

Mr. JONAS. You pretty nearly have to refinance because he cannot pay up the 8 months' defaulted payments.

Mr. BROWNSTEIN. We would give him a new mortgage, but those are unusual cases.

Mr. OSTERTAG. What percentage would be retirees, people on a retirement status?

Mr. BROWNSTEIN. Very small.

Mr. OSTERTAG. They are usually stabilized in the first instance to the degree there is no reason to change location, or cause for default?

Mr. BROWNSTEIN. That is right.

#### ELIGIBILITY FOR LOANS

Mr. JONAS. Do you have any statistics showing how many veterans who have defaulted on guaranteed loans you have later refinanced, or helped to finance new housing?

Mr. EVINS. They have only one guaranteed loan.

Mr. BROWNSTEIN. If he has been foreclosed and he has had his guaranteed loan, he would not be eligible for another one.

Mr. EVINS. Would he be eligible for a direct loan?

Mr. BROWNSTEIN. No, sir.

Mr. EVINS. If he qualified otherwise?

Mr. BROWNSTEIN. No, sir. When you use your entitlement on a guaranteed loan you have automatically used the direct loan entitlement.

Mr. EVINS. You would have no way of knowing how many had gotten FHA financing?

Mr. BROWNSTEIN. That is right.

Mr. GLEASON. If later he did pay off he would be entitled to another loan.

Mr. BROWNSTEIN. He would be if he lost the house due to circumstances beyond his control and he paid off whatever deficiency there might have been.

Mr. THOMAS. You have some limitation in there. If there is a deserving case you can take care of it on the second loan. That is what it adds up to?

Mr. BROWNSTEIN. That is right.

Mr. OSTERTAG. How do you determine whether a man has had a prior loan of one kind or another?

Mr. BROWNSTEIN. We issue him a certificate of eligibility and on that we enter the loan.

Mr. OSTERTAG. Suppose he comes back elsewhere?

Mr. BROWNSTEIN. It is on his discharge that we have issued him a certificate of eligibility.

Mr. OSTERTAG. He has to present his discharge in each instance and the record will indicate prior loan or purchase.

Mr. BROWNSTEIN. It is stamped on the discharge.

Mr. THOMAS. Gentlemen, this has been very nice.

Dr. Middleton, we all very much appreciate the presentation made by you and your group. You have been of great help.

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