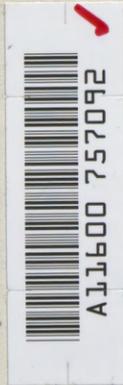


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USE OF CERTAIN TOOLS ON CAPITOL GROUNDS
AND
OFFICE BUILDING FOR HHFA

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HEARING
BEFORE THE
SUBCOMMITTEE ON
PUBLIC BUILDINGS AND GROUNDS
OF THE
COMMITTEE ON PUBLIC WORKS
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS
SECOND SESSION

ON

H.R. 8143 and H.R. 8214

TO PERMIT THE USE OF CERTAIN CONSTRUCTION TOOLS
ACTUATED BY EXPLOSIVE CHARGES IN CONSTRUCTION
ACTIVITY ON THE UNITED STATES CAPITOL GROUNDS

H.R. 11146

TO PROVIDE AN OFFICE BUILDING FOR THE
HOUSING AND HOME FINANCE AGENCY

MAY 23, 1962

Printed for the use of the Committee on Public Works



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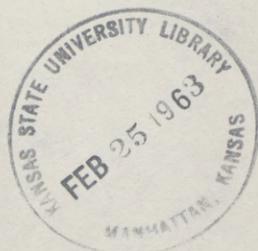
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USE OF CERTAIN TOOLS ON CAPITOL GROUNDS

WEDNESDAY, MAY 23, 1962

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PUBLIC WORKS,
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS,
Washington, D.C.

The subcommittee met, pursuant to call, in room 1302, New House Office Building, at 10:05 a.m., Hon. Jim Wright, presiding.

Mr. WRIGHT. The subcommittee will be in order.

We have a total of three bills to be considered in open hearing, and four prospectuses, following which we will then go into executive session and consider these, together with an additional House joint resolution which has been heard earlier.

The first bill on our agenda this morning is the bill H.R. 8214, by our colleague, Congressman Giaimo, to permit the use of certain construction tools actuated by explosive charges in construction activity on the U.S. Capitol Grounds, which is identical to H.R. 8143 by Mr. Kowalski.

The bill will be made a part of the record at this point.

(H.R. 8214 is as follows:)

[H.R. 8214, 87th Cong., 1st sess.]

A BILL To permit the use of certain construction tools actuated by explosive charges in construction activity on the United States Capitol Grounds.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Act entitled "An Act to define the area of the United States Capitol Grounds, to regulate the use thereof, and for other purposes", approved July 31, 1946 (60 Stat. 718; 40 U.S.C. 193f), is amended by adding at the end thereof the following new sentence: "Nothing contained in this Act shall prevent the use, in the construction of any structure or facility on the United States Capitol Grounds, of any construction tool actuated by or employing explosive charges if (1) that tool is of a kind and design ordinarily used for such construction, and (2) the Architect of the Capitol has authorized its use upon such grounds after determining that its use will not endanger human life or safety."

Mr. WRIGHT. Our colleague, Mr. Giaimo, is here with us, and if you would care to at this time, Mr. Giaimo, you might come forward and give us your thoughts on this legislation.

STATEMENT OF HON. ROBERT N. GIAIMO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. GIAIMO. Thank you very much, Mr. Chairman and members of the committee.

I am testifying this morning in favor of H.R. 8214, which I introduced in July of 1961, to permit the use of certain construction tools actuated by explosive charges in construction activity on the U.S. Capitol Grounds.

As the subcommittee knows, under present law, the use of powder-actuated explosive construction tools is prohibited on the Capitol Grounds and the surrounding area. The Architect of the Capitol has indicated to the committee that he would not have any objection to a change in the law which would allow the use of these powder-actuated tools, provided that an amendment were added to the legislation which would state, "Provided such usage shall be subject to such conditions as the Architect of the Capitol may prescribe."

I would like to say for the record I would have no objection certainly to the addition of that language, and certainly I would feel that the Architect of the Capitol should have the power to regulate the safety features and conditions under which the tools will be used. These tools are manufactured by many companies in the United States. The purpose of them is to fasten steel to steel, wood to wood, steel to concrete and to wood, and they are used extensively in construction throughout the Nation.

I have a picture of one of these tools here that I will be happy to leave with the committee, if they care to look at it and see one of the kinds of tools we are using and talking about here.

I would like, if I may, to tell you a little bit about this industry, and this type of tool which is used commonly in construction throughout the United States:

HISTORY OF THE POWDER-ACTUATED TOOL BUSINESS

The powder-actuated tool, as it is known today, dates back to the Second World War. Forerunners of the present tools were used in underwater demolition and repair work. During the war, a man connected with this work conceived the idea that tools utilizing the principle involved would have excellent market potential in the construction industry.

At the end of the war, this man purchased certain applicable patents and developed the first powder-actuated tool for fastening steel to steel, wood to concrete and steel, and steel to concrete. In so doing, a complete industry was born.

PRESENT STATUS OF THE ART

At the present time, there are seven manufacturers of powder-actuated tools in the United States and countless more throughout Europe and the rest of the world. In turn, there are an equal number of concerns which manufacture fasteners and/or powder charges utilized in the tools. Some 5,000 distribution outlets sell the products of these concerns to nearly every contractor in the United States. In total, these outlets sell approximately \$30 million to the trade each year, having enjoyed an unusually good growth rate each year since inception.

THE GROWTH OF THE MARKET

The powder-actuated tool industry has grown for two principal reasons. On an increasing basis since the marketing of the first powder-actuated tools, fasteners and powder charges, contractors and industrial maintenance personnel have been offered an opportunity to reduce construction costs with safe, easy to operate equipment. The powder-

actuated method of fastening has proven superior in cost-savings to the user; superior in the accomplishment of the fastening; and superior in efficiency to previous methods, such as drilling and clamping.

SAFETY FEATURES OF THE EQUIPMENT

From its inception, the powder-actuated tool industry had to recognize that in utilizing the energy of a blank cartridge to seat a fastener, certain dangers were inherent. The manufacturer had to operate on the premise that safety features would be a major design consideration beyond even those incorporated in a firearm.

The results of these considerations have made possible the manufacture of a fastening device which is safer to operate than even the common electric saw, a statement borne out by statistics on frequency and severity of accidents per man-hour of exposure.

What safety features are built into a powder-actuated tool? Unlike a firearm, a powder-actuated tool cannot be discharged by a mere pull of the trigger. The tool must be pressed against a work surface at an angle not greater than 7° in order for discharge to occur. Each tool has a safety shield to protect the operator from spalled concrete or dust. If the safety shield is removed, it is impossible to discharge the tool.

In tests a tool has been dropped fully loaded from the roof of a building and did not discharge. In short, extreme carelessness on the part of an operator is required for an accident to occur with a powder-actuated tool.

INDUSTRY SAFETY PROMOTION

It is to the potential carelessness of the operator of a powder-actuated tool that most industry attention has been directed. The Powder Actuated Tool Manufacturers' Institute, Inc., has actively supported legislation in every State for a uniform code dealing with powder-actuated fastening devices. This code makes it unlawful to operate a powder-actuated tool without receipt of training from a factory-authorized representative. In most cases, proof of training by law must be shown by a certificate of authorization rendered by the manufacturer or his authorized representative to the operator, which must be on his person at all times when using powder-actuated tools.

The law usually further spells out minimum requirements which the equipment of each manufacturer must meet in order to be legally sold in the State. Each of these requirements deals with a specific safety feature which must be incorporated into the design to minimize the possibility of an accident. Such legislation has become law in 16 States.

All members of the Powder-Actuated Tool Manufacturers' Institute are committed to the proposition that the proper training of the users of powder-actuated tools is the best safety measure that can be desired.

Each piece of descriptive literature and all labels dealing with the equipment is designed to reduce the possibility of an accident. The industry is actively engaged in the training of employees of its distribution organization. Most manufacturers conduct salesman training programs heavily concentrated on operator training and safety at their plants and in the field.

In summary, the powder-actuated tool industry is presently supplying and will continue to supply the construction and industrial maintenance markets with equipment which will permit further reduction of costs to the user; maximum safety features as an element of design; and, finally, intensified training and training certification in the use of powder-actuated tools.

What we are asking for here, actually, is to allow us to use this type of tool on the Capitol Grounds.

May I say these tools are presently used by contractors who are bidding and working on repairs, alterations and remodeling for the Government. I think that the new General Services Administration Building used this type of tool. I understand that there are other governmental buildings in the area using it. It means a great deal to the manufacturers of these products to be allowed to use these and to be allowed to use them in this area for prestige reasons, along with economic ones.

We feel that the safety factors are completely taken care of. These are very safe tools. They have been developed to the state where the dangers of harm occurring from them are minimal. In fact, safety engineers have testified and certified to us that there is less danger from this type of tool, for example, than there is from a powersaw.

We feel with adequate protections and safeguards such as the Architect of the Capitol asked for, that there would be no reason why this type of tool could not be used on the Capitol Grounds.

Mr. WRIGHT. Mr. Giaimo, the necessity for this legislation arises from inhibitions in the act of 1946 prohibiting the use of any type of explosive on the Capitol Grounds. Is that correct?

Mr. GIAIMO. That is right, and that act, in the reading of it, speaks of the prohibition against explosives, and also goes a little beyond that and speaks of fireworks, or demonstrations, or loud noises. So you wonder if part of the reason for it is safety from explosives, so to speak, or whether it is just so as not to have any type of commotion, or emotionalism of any kind, around the Capitol Grounds.

Mr. WRIGHT. Do these particular tools make loud discharges, which create any noise problem?

Mr. GIAIMO. I can't say how loud the discharge is. There is some. I would imagine it would not be any louder than the triphammers, for example, that we have been hearing constantly around the Capitol Grounds for the last several years.

Mr. DOOLEY. Mr. Chairman.

Mr. WRIGHT. Mr. Dooley.

Mr. DOOLEY. Is there a fire hazard connected with this? I presume there is in connection with the use of the tool.

Mr. GIAIMO. There is an explosive hazard, of course.

Mr. DOOLEY. There is a fire hazard also, is there not?

Mr. GIAIMO. Insofar as fire might be related to explosives. The tool itself is not a flammable thing, but an explosive thing. But it could be. These tools are tested very thoroughly and are used extensively in industry today, and accomplish a great deal more work than can be done manually.

Mr. DOOLEY. My thought was in older buildings being rehabilitated, or refurbished around here, some of them are quite old and

there might be a danger attached to that. If there is a provision providing for it in the amendment, it would be taken care of.

Mr. GIAIMO. I should think so, Mr. Dooley.

Mr. WRIGHT. Are there any other questions?

Mr. KING. Do you know whether the operators of this type of instrument have to have a special license?

Mr. GIAIMO. I don't believe they do. I can't say for sure. On the other hand, they do have safety features. They just don't let anyone handle this type of tool. They are highly skilled operators, such as you have in great numbers in any construction project. The contractors are extremely careful, as I understand it, to see that they are properly handled. They have every conceivable built-in safeguard. They have been perfected to that extent, so that there are very few accidents, if any, with this type of tool.

Mr. KING. They could be used as weapons, though, could they not?

Mr. GIAIMO. No, they cannot.

Mr. KING. They cannot?

Mr. GIAIMO. These tools, like the photograph I sent around to you, for example, are designed so that the gun will not trigger the explosive charge unless it is at a certain angle, I believe a 7 degree angle, against the item that it is to affix something to. It cannot be held back and shot.

Mr. COOK. Mr. Chairman.

Mr. WRIGHT. Mr. Cook.

Mr. COOK. If there were an accident, what would happen?

Mr. GIAIMO. An explosion. It is an explosive charge.

Mr. COOK. What is the extent? Do you know whether it would be a large or small explosion?

Mr. GIAIMO. The only thing I can tell you is, it would be similar to the explosion from a blank cartridge. If that were to blow the tool apart, depending on where the pieces flew, it could be serious. There is no question about it.

Mr. KUNKEL. Mr. Chairman.

Mr. WRIGHT. Mr. Kunkel.

Mr. KUNKEL. How long have they been using them?

Mr. GIAIMO. Since the Second World War. These are well established companies making these.

Mr. KUNKEL. So there has been a good deal of experience?

Mr. GIAIMO. A great deal of experience. They started using them in construction during the war and they are used extensively, as I stated earlier, by every construction man and contractor in the United States, because there is a great deal of speed in construction attached to them. Also, they can do fantastic things. They can drive steel pins into steel plates, and enable that kind of adhesion, which is pretty difficult to attain without it.

Mr. AUCHINCLOSS. Mr. Chairman.

Mr. WRIGHT. Mr. Auchincloss.

Mr. AUCHINCLOSS. I think we should make the record awfully clear that this legislation is not designed for that specific device, a picture of which has been passed around here. It is for a device to accomplish a certain purpose with the approval of the Architect of the Capitol.

Mr. WRIGHT. I think your point is very well taken indeed, sir. Certainly there should be no thought that we are attempting to promote the sale and use of any particular type of device.

Mr. AUCHINCLOSS. That is right.

Mr. GIAIMO. That is right.

Mr. WRIGHT. But, rather, we are permitting on a wholly permissive basis the use of a general kind of device manufactured, I am sure, by any number of manufacturers.

Mr. GIAIMO. I particularly made no reference to that particular one for the record, Mr. Chairman, for that very purpose.

Mr. WRIGHT. This is merely illustrative of the general type of device about which you speak.

Mr. GIAIMO. That is one of the types of powder-actuated tools that are used. The basic principle that we are concerned with here this morning, I think, is the permission or allowance to use tools which are actuated by explosive charges.

Mr. WRIGHT. Are there any further questions?

We have a letter from the Architect of the Capitol in which he expresses no objection to the enactment of the legislation, but rather suggests some amendatory language so that it could be brought into conformity with his desires in the matter. I will ask that a copy of this letter be made a part of our hearings at this point.

(The letter referred to is as follows:)

MAY 21, 1962.

HON. CHARLES A. BUCKLEY,
*Chairman, Committee on Public Works,
House of Representatives, Washington, D.C.*

MY DEAR MR. CHAIRMAN: In response to your request for a report on H.R. 8214 permitting the use of certain construction tools actuated by explosive charges in construction activity on the U.S. Capitol Grounds, I wish to advise you that I have no objection to interpose to enactment of this legislation, provided H.R. 8214 is amended by the addition of the following language at the end of line 5, page 2, after the word "safety": "*Provided, That such usage shall be subject to such conditions as the Architect of the Capitol may prescribe.*"

There are certain hazards involved in the use of construction tools actuated by or employing explosive charges, and for this reason it is requested that H.R. 8214 be amended as herein recommended, in order that the Architect of the Capitol may insure the employment of adequate safeguards in the use of such tools in construction work on the U.S. Capitol Grounds.

In order that the committee may have a little further background in this matter, I wish to state that the act of July 1, 1882, which regulated the use of the Capitol Grounds from 1882 to 1946 and the act of July 31, 1946, which has regulated the use of the Capitol Grounds since 1946 have prohibited the use of explosives in the Capitol Grounds.

Section 6 of the Act of July 31, 1946 provides, as follows:

"SEC. 6. It is forbidden to discharge any firearm, firework, or explosive, set fire to any combustible, make any harangue or oration, or utter loud, threatening, or abusive language in said United States Capitol Grounds."

H.R. 8214 amends this provision of law to the extent of permitting the use of construction tools actuated by or employing explosive charges in the construction of any structure or facility on the U.S. Capitol Grounds.

Since the use of such tools in public construction work is a common practice, I perceive no objection to their use in construction work in buildings under the Architect of the Capitol, so long as the Architect of the Capitol is authorized to prescribe conditions controlling the use of such tools to provide adequate safeguards, particularly in the case of repairs or alterations to existing, occupied structures.

Yours very truly,

J. GEORGE STEWART,
Architect of the Capitol.

Mr. WRIGHT. If there are no further questions of Mr. Giaimo, I want to thank you very much for your usually diligent service, and for having been with us this morning and presenting this matter with such clarity. We will take the bill up in executive session.

Mr. GIAIMO. Thank you very much, Mr. Chairman and members of the subcommittee, for your kind attention.

Mr. WRIGHT. The next bill to be considered is the bill, H.R. 11146, introduced by the chairman of our full committee, Mr. Buckley, to provide an office building for the Housing and Home Finance Agency. The bill will be made a part of the record at this point. (H.R. 11146 is as follows:)

[H.R. 11146, 87th Cong., 2d sess.]

A BILL To provide an office building for the Housing and Home Finance Agency

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Housing and Home Finance Administrator (hereinafter referred to in this Act as the Administrator) is hereby authorized, acting through the Administrator of General Services, to construct, at a total cost of not to exceed \$32,000,000, an office building in or near the District of Columbia, to serve as the headquarters office of the Housing and Home Finance Agency. Notwithstanding the provisions of section 110(c) of the Housing Act of 1949, any appropriate site located in an urban renewal project area in the District of Columbia may be transferred to the United States by the Redevelopment Land Agency at a price equal to the cost to the Redevelopment Agency of the acquisition and clearance of the site and other expenses incurred by the Redevelopment Agency relating to the site. Except as provided in this Act, the Administrator of General Services shall have the custody and control of said building. As used in this Act, the terms "construct" and "construction" shall include, but not be limited to, acquisition of a site by purchase, condemnation, or otherwise, site clearance and improvement, the preparation of plans and specifications, and the erection of an office building and related structures and facilities, and may include the provision of equipment and machinery and the employment of advisory assistance.

SEC. 2. Notwithstanding the provisions of section 206 of the National Housing Act, the Federal Housing Commissioner is hereby authorized to agree to lend to the Administrator, from funds in the mutual mortgage insurance fund created by section 202 of that Act, such sums as may be requested by the Administrator from time to time for such construction: *Provided*, That no loan shall be made hereunder prior to the submission to the Congress of a budget estimate, as required by title I of the Government Corporation Control Act, reflecting such loan agreement. Any amounts so lent which are not used for such construction shall be returned to the fund. Rent for the use and occupancy of space in said building shall be established by the Administrator, in consultation with the Administrator of General Services, at rates estimated to be sufficient to make provision for payment of expenses of operation, maintenance, repair, alteration, and improvement of the building and to reimburse the fund, within a period of twenty-five years after the date of completion of construction, for loan funds used hereunder with interest from the date the loans were made at the rate of 4 per centum per annum on any unpaid balance. Such rent shall be charged by the Administrator against all occupants (including the Housing and Home Finance Agency) of space in said building. From the amounts so charged, the Administrator shall reimburse the Administrator of General Services for the expenses of operation, maintenance, repair, alteration, and improvement of the building and make periodic payments of principal and interest to the Federal Housing Commissioner for deposit in the mutual mortgage insurance fund until such time as the fund has been fully reimbursed for such loans. Rent shall not be charged pursuant to this section after the fund has been so reimbursed. Funds available for the expenses of any department or agency, including the constituents of such department or agency, shall be available for the rent charged pursuant to this section.

AMENDMENT TO H.R. 11146

Page 1, line 7, strike out "in or near the District of Columbia" and insert "in the District of Columbia".

Page 2, line 2, strike out "equal to the cost" and insert "not to exceed the cost".

Mr. WRIGHT. We have Mr. Lawson Knott here, Deputy Administrator of the General Services Administration, and Mr. Milton P. Semer, General Counsel of the Housing and Home Finance Agency.

Would you both care just to sit there and discuss this matter with us? I notice that Mr. Semer has a prepared statement. If you would care to do so you might summarize the statement in somewhat brief form, and we could make this a part of the record, or proceed just as you wish.

STATEMENT OF LAWSON B. KNOTT, JR., DEPUTY ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY MILTON P. SEMER, GENERAL COUNSEL, HOUSING AND HOME FINANCE AGENCY

Mr. SEMER. Mr. Chairman, with your permission I will submit my statement for the record.

Mr. WRIGHT. Without objection, it will be made a part of the record. (See p. 22.)

Mr. SEMER. My statement covers a single point relating to the method of financing this building. It is a very brief statement. If all of the members of the committee have copies, I would just as soon submit it for the record. It explains the Administration's and Bureau of the Budget's views on the method of financing. In the last paragraph on page 4 we suggest two clarifying changes of a technical nature. The first is that you may wish to change the words on page 1, line 7, "in or near the District of Columbia," to read "in the District of Columbia," because it is not contemplated that the office building would be located outside of the District of Columbia.

Then on page 2, line 2, you may wish to change the words "equal to the cost" to read "not to exceed the cost," in order to make it entirely clear that there would be no discretionary authority to pay more for the site than its cost of acquisition.

This is a site located in a redevelopment area. The ground rules as to what the cost might be are somewhat specialized, and you may wish to consider this clarifying amendment to make it perfectly clear that the purchase price could be no more than the cost of acquisition.

Mr. WRIGHT. It is my understanding that this bill has been heard before the Public Works Committee in the other body. Is that right?

Mr. SEMER. Yes, sir.

Mr. WRIGHT. And reported to the other body; and certain changes have been made, somewhat similar to these that you recommend at this point. Are they identical to the changes you are recommending?

Mr. SEMER. Yes, they are, Mr. Chairman.

Mr. WRIGHT. So, if we were to adopt this bill with these two amendments, as you suggest, our bill then would be identical with the one that has been reported to the other body by their Public Works Committee?

Mr. SEMER. Yes, sir.

Mr. WRIGHT. Would you just briefly summarize for the benefit of the members of the subcommittee the proposed method of financing this building, since it is something of a departure from our customary procedure in that it does not require the outlay of public funds through the appropriation process. I think the members would be interested

in having your explanation of the means by which it is proposed that this building be financed.

Mr. SEMER. Yes, sir. The substance of what I am now summarizing begins at the bottom of page 1 of the prepared testimony.

The financing would be through a loan from the mutual mortgage insurance fund, which is the fund into which the Federal Housing Administration places premiums and fees and other income received in connection with the Federal Housing Administration's regular home mortgage insurance program.

The loan authorized by the bill would be amortized in 25 years and bear interest at the rate of 4 percent annually on unpaid balances. This would be higher than the 3.17 percent which the fund now receives from its purchases of Government securities. It would have no appreciable effect on the liquidity of the insurance fund. This is so because the maximum cost of the building is established at \$32 million, whereas the net current assets of the fund amounted to \$596.1 million at the beginning of this year.

I want to make it very clear, Mr. Chairman, that these are not the funds from which the Federal Housing Administration insurance is written. These are the reserves. The drain on these reserves is generally represented by 20-year debentures. Over the years these debentures can be cashed in fairly quickly at the option of FHA, and usually are, but they need not be. The safety of the fund would not be jeopardized at all.

Mr. WRIGHT. So that in effect the Housing and Home Finance Agency would be financing its own building out of this fund which it itself administers?

Mr. SEMER. That is correct, sir. Subject to very important qualifications, which I think are of interest to this committee and the Appropriations Committee. The procedure followed in clearing this bill through the Administration has involved the preparation of a prospectus, and all other procedures under the Public Buildings Act of 1959 which assure review by the Public Works Committees are paralleled.

Secondly, we would not proceed, or, rather the General Services Administration would not proceed, until our agency submitted a revised budget to the Appropriations Committee. This is a corporate budget, since the Federal Housing Administration is a Government corporation.

Mr. WRIGHT. Mr. Knott, I believe you told me that the Housing and Home Finance Agency now has some 3,000 employees scattered throughout some 15 different buildings in the District of Columbia. Is that correct?

Mr. KNOTT. That is right, sir; 3,300 employees are located in 15 buildings and, of course, various segments of the Agency's organizations which share common staff and services are in 9 separate locations. They include the Office of the Administrator, the Community Facilities Administration, the Urban Renewal Administration.

The Federal Housing Administration as a single body is split among six buildings, with warehouse and supply facilities more than 2 miles distant.

Last year messenger service totaled 20,000 miles on the streets between these agencies. So in addition to the savings that can be

achieved principally through this better facility and at a cheaper rental cost distributed over the period, there are these economies that can be brought about through the reconstitution of common services which are now dispersed among these several locations.

The consolidation of communications alone would provide a small saving of \$12,500 a year. This type of thing can be multiplied right down the line, so that in general efficiency and economy of operation there are a lot of economies that can be made.

In rent alone over the period of 50 years, which would be the useful life of this building, we figure that including maintenance and operation and repairs we would expect to have to employ to keep it in operating and usable condition, it would average out at about \$3.25 per square foot. This is as opposed to an average of well above \$4 in the space we are leasing now, and in some of which, when we come to the renewal time of the leases, we must expect, as has been our experience, that we will continue to pay at an ever-increasing rate for rent.

Mr. DOOLEY. Mr. Chairman, may I ask a question?

Mr. WRIGHT. Mr. Dooley.

Mr. DOOLEY. Mr. Knott, what is the total rental bill now on these 15 buildings occupied by your 3,300 employees? Approximately?

Mr. KNOTT. \$2,471,000 for the office space, and another \$208,000 for warehouse, making a total of \$2,679,000 annually.

Mr. DOOLEY. Thank you.

Mr. WRIGHT. \$2,679,000 annually is being paid in rent?

Mr. KNOTT. Yes, sir.

Mr. WRIGHT. For these various locations?

Mr. KNOTT. That is right.

Mr. WRIGHT. Through which the various offices connected with this agency are operating?

Mr. KNOTT. That is right, sir.

Mr. DOOLEY. That would be what part of your amortization payments?

Mr. KNOTT. Yes, sir. This is the cost now.

Mr. DOOLEY. I mean, on the new building. On the new building, what is the amortization?

Mr. KNOTT. \$1,430,000.

Mr. DOOLEY. Fine. Thank you.

Mr. AUCHINCLOSS. Mr. Chairman.

Mr. WRIGHT. Mr. Auchincloss.

Mr. AUCHINCLOSS. I understand that this loan is limited to \$32 million. Is that correct?

Mr. KNOTT. That's right.

Mr. AUCHINCLOSS. For the construction of this building?

Mr. KNOTT. Yes.

Mr. AUCHINCLOSS. In the event that the building costs more they will have to come back for more money. Is that correct?

Mr. KNOTT. Under this limitation we would need a new authorization.

Mr. AUCHINCLOSS. And it has been known to happen.

Mr. KNOTT. Absolutely. Yes, sir.

Mr. WRIGHT. In fact, we have some prospectuses we will be considering later in executive session where that identical thing has occurred.

Mr. AUCHINCLOSS. I have another question. This money is to be used simply for the construction of this building and not for the furnishing of the building?

Mr. KNOTT. That is right.

Mr. AUCHINCLOSS. Where are you going to get the money to furnish it?

Mr. KNOTT. Well, maybe we ought to understand what "furnish" means. Office furniture?

Mr. AUCHINCLOSS. Yes.

Mr. KNOTT. They have office furniture now and they will bring their office furniture into this building, that which is usable, and replace it as they normally do now.

Mr. AUCHINCLOSS. You do not expect to have to buy new furniture?

Mr. KNOTT. That would depend on what the condition is of the furniture they have now. I assume it is good, usable furniture and they are replacing annually now as they need to.

Mr. WRIGHT. In the event it was determined that you did need any substantial amount of new office furnishings, this money would have to be obtained through the regular appropriating process of the Congress. Is that not correct?

Mr. KNOTT. Yes.

Mr. WRIGHT. So that you would have to come before the Appropriations Committees in the House and Senate?

Mr. KNOTT. Yes, sir.

Mr. WRIGHT. Are there any questions on my right?

Mr. KING. Where would this building be built?

Mr. KNOTT. It would be within the Southwest redevelopment land area, and the site tentatively selected is a site that is immediately south of the building known to many of you as the Old Treasury Procurement Building, which is, in fact, the General Services Administration regional office building. It is located at Seventh and D Streets SW., and this would be in the block immediately south of that.

Mr. KING. Is that known as the Webb & Knapp development area I have read about in the newspaper?

Mr. KNOTT. Yes, sir. He is interested in an area about a block away. Yes, sir.

Mr. KING. Who owns this land now?

Mr. KNOTT. This is land which the Urban Renewal Administration has been acquiring from private individuals, and now owns, as I understand it.

Mr. KING. How do you propose to pay this off? You are borrowing the money from some other Government agency. Is that right?

Mr. KNOTT. This legislation would authorize the use of the Federal Housing Administration's mutual mortgage insurance fund. I believe Mr. Semer covered this here.

Mr. KING. And how do you pay it off?

Mr. KNOTT. In rental payments. The Agency will pay, as it is now paying. It reimburses the General Services Administration for its out-of-pocket expenses for rent now, and they will continue to pay rent, and this fund will reimburse the loan fund.

Mr. WRIGHT. Mr. Semer, do you anticipate that this annual amortization fee which is estimated at \$1,430,000 under the bill will result in a net saving to your Agency below the estimated \$2,679,000 in rent that you are now paying?

Mr. SEMER. I don't think there is any question about that, Mr. Chairman.

Mr. WRIGHT. So that the question of the source of the funds with which to amortize the cost of this building and repay this fund administered by your Agency is not a problem then?

Mr. SEMER. No, sir.

Mr. WRIGHT. You have some left over if you were to allocate the same amount you have been paying in rent?

Mr. SEMER. Yes.

Mr. COOK. Perhaps I missed this point, Mr. Semer. Why is it we are proceeding in this fashion with reference to this building? Why not in the normal fashion for the construction of a regular Government building for a Government agency?

Mr. SEMER. Mr. Cook, when this was worked up within the Administration it was felt appropriate to finance the building this way since the Housing and Home Finance Agency is composed largely of Government corporations whose earned income offsets their administrative expenses. For example, the Federal Housing Administration and the Federal National Mortgage Association are two of the largest constituents, and their staffs constitute about two-thirds of the whole complex that we are covering here. The net income of these two agencies, for the fiscal year 1961, totaled \$84.5 million—\$38.8 million for the Federal Housing Administration and \$45.7 million for the Federal National Mortgage Association. It seemed to the Administration that a building for such entities could be appropriately financed by a repayable loan. The safeguards that Congress is interested in imposing—which is that the proposal shall be submitted to this committee and that the outlay of funds shall be subject to the scrutiny of the Appropriations Committee—both of these safeguards are provided for.

Mr. COOK. This would in effect in the long run be taking money from one pocket and putting it into the other pocket, because you are now paying another Government agency rent.

Mr. SEMER. That is in effect what is happening now. We pay rent.

Mr. COOK. It is coming from profits which show at the present time as profits of this particular corporation, and which would eventually be taken back into the Treasury at the proper time if the appropriation were resolved.

Mr. SEMER. I am not an accountant, but I think, with your permission, instead of calling them profits, this is a buildup of reserves that stand behind the mutual mortgage insurance fund. It has been over the years—again with your permission to use this word as a colloquialism, and not as a strict accounting term—very profitable for the Government, of course. These funds are used to purchase Government securities, and the Government of the United States has the use of that cash. We pay the General Services Administration this \$2 million-plus every year as rent. This is going from one pocket into another, as you say. This proposal would put us in a position where

we would be using funds from the mutual mortgage insurance fund that now flow into the Treasury through the purchase of securities, to construct an office building. The loan would be amortized out of rental payments, smaller than now paid, resulting in a substantial saving.

Mr. KNOTT. Mr. Chairman, I might add it is not unlike the situation in which the Federal Deposit Insurance Corporation operated, which rented space from the time of its creation in the National Press Building and elsewhere in downtown Washington as its headquarters, until 2 years ago, when plans were made and we are now nearing the completion of the construction of the headquarters building of that agency. This was done out of funds which over the years have been deposited into a fund derived from fees which are paid in from the member banks of the association.

Mr. HARVEY. Mr. Chairman.

Mr. WRIGHT. Mr. Harvey.

Mr. HARVEY. I wonder if I could ask a question. I am not sure exactly what this mutual mortgage insurance fund, created by section 202 of the National Housing Act, is. Is that the reserves set up, for example, to offset the liability incurred in insuring Federal Housing Administration loans? Is that what you are talking about?

Mr. SEMER. Yes, sir. This is the fund, or, in your language, the reserves that stand behind the Federal Housing Administration insurance of mortgages.

Mr. HARVEY. Then are those reserves at such a level that it does not matter if we take out \$32 million and use it for the construction of a building? I don't know what their condition is right now. Can you tell me, for example, what is the total sum we have in reserve and what, for example, is the total liability that these reserves are to offset?

Mr. WRIGHT. You have \$596 million in this reserve fund at the moment. Is that correct?

Mr. SEMER. That is right. These are the highly liquid net current assets in the reserves.

Mr. HARVEY. And what are the liabilities that these reserves are to offset and that they are there for?

Mr. SEMER. Of course, you have two kinds of liabilities. One is present mortgage defaults, on which we might or might not take a loss when the foreclosed properties are sold. The other kind of liability is the contingent liability on future foreclosures. We know right now what we have on hand by way of acquired properties, and we could make a good guess as to what is likely to be acquired over the next year.

Mr. HARVEY. Can you tell me what the total liability, for example, is? It is literally up in the billions of dollars, isn't it?

Mr. SEMER. That is the total amount. I do not have the figures, but I can get you the figures. It is \$26,605 million as of December 31, 1961.

Mr. HARVEY. It seems to me, before this committee OK's a plan such as this, Mr. Chairman, we should have some recognition, let us say, or some knowledge of what we are doing here. I cannot believe any agency has in reserve an extra \$32 million that it does not have a need for. Either these reserves are in the proper ratio to the liabilities that

they offset, or they are not, and either we need the \$32 million or we do not.

Only the other morning I read in the Wall Street Journal three reports from three different places—one from Wichita, Kans.; one from Miami, Fla.; and one from New York City—all describing the large number of foreclosures which were taking place on defaulted FHA loans, and saying that they were reaching literally phenomenal proportions.

Mr. SEMER. Mr. Harvey, in response to your question, the volume of foreclosures has increased in the last year or two. The most remarkable thing about this volume of foreclosures is this: There are two things that are brought out. One is that the foreclosure rate prior to the last 2 to 3 years was phenomenally low. That is understood in the context of the 1930's, when the Federal Housing Administration insurance fund was established. It was established during a time of great economic adversity and the safety factor that was built in was never needed, and, as a matter of fact, it is not needed now.

Mr. HARVEY. Wait a minute. This rate of defaults, and so forth, goes right to the heart of what some of us were talking about last year, when the housing bill was passed. Downpayments were lowered to 3 percent, and the number of years for repayment lifted up to 35 years also. Can you tell us—and I don't want to get into that subject here, but, Mr. Chairman, my whole point is, before we OK a bill such as this it seems to me we should have some knowledge as to whether this \$32 million is needed as a reserve or not.

Mr. WRIGHT. If the gentleman will yield, perhaps a pertinent question might be: What has been your average income into this reserve fund annually, and what has been your average demand upon this reserve fund annually?

Mr. HARVEY. And how is that demand increasing? Because I think that is pertinent.

Mr. SEMER. With your permission, if I could have our budget man here get me that data while I answer your first question, I would appreciate it. In view of the fact that this is a public hearing, Mr. Harvey, I would like to make one thing unequivocally clear. This is a vast private market, and there is no question at all, none whatsoever, that the analysis that the Federal Housing Administration has made, and the Bureau of the Budget has made, indicates that the use of the \$32 million for the purchase of this building would not in any way at all jeopardize the reserve position of the Federal Housing Administration, even assuming a worse foreclosure pattern than we have now, which I do not assume at all. In other words, the Federal Housing Administration's reserves are so solid and so sound, and have been over the years, that there can be no problem arising.

The reason for this being so, Mr. Harvey, is that this whole thing was carved out during a period when people made assumptions about the economy that never came to pass. There was a reserve built up to take care of that kind of economic adversity that we had in the thirties. As a matter of fact, I imagine the discussion still goes on that the reserves are so strong generally, that the suggestions we receive from time to time are that it justifies decreasing the half percent premium. We get a half a point on every loan that is insured.

Mr. HARVEY. I would think that is very desirable.

Mr. SEMER. On the question of the relationship of the downpayment to the rate of foreclosures, we do not have enough experience. As a matter of fact, there is relatively little insurance written on loans made under the enactment of last year. The downpayment schedules were liberalized last year. We have no foreclosure experience that indicates whether or not that particular liberalization would produce foreclosures, but we are inclined to think that there are other factors that are more important than the downpayment schedule in accounting for foreclosures.

Mr. HARVEY. But there is no question that the number of defaults is up tremendously. I read in our local Michigan paper that in Wayne County, for example, they are at the highest level ever.

Mr. SEMER. I do not know whether we have that detailed an analysis of Wayne County, but from what I hear around the Agency—and I am not a market analyst myself—the unemployment situation is probably more of a factor with respect to the local rate of foreclosures than anything else.

Mr. WRIGHT. If the gentleman would yield, perhaps this question might be revealing, Mr. Harvey. What has happened to this reserve fund in the last 12 months? For instance, has it declined as a result of foreclosures?

Mr. HARVEY. It is at 500-and-some-millions of dollars right now, and has declined considerably since the housing bill was enacted. It was my information at that time, in 1961, those reserves were about \$851 million. I may be wrong, but I serve on the Banking and Currency Committee also, and they handled the housing bill.

Some of us were concerned at that time not only about some of these changes on downpayments, but, for example, the change in the bill in self-interest that lending institutions had on foreclosures.

For example, in some of these sections instead of paying off in debentures, they started to pay off in cash. Isn't that right?

Mr. SEMER. It was an option put into several programs last year.

Mr. HARVEY. That is right, but there were several things that go to the soundness of the Federal Housing Administration, really.

I would like to know how that fund declined in the last year, if you can tell me that.

Mr. SEMER. I am awfully sorry that we did not come specifically prepared for this question, but we could submit it for the record.

Mr. HARVEY. Do you know what it is right now? I can tell you what it is from the minority report in the housing bill last year, because I looked at it before coming here.

Mr. WRIGHT. Mr. Semer, do you have that information?

Mr. SEMER. I have the current year's information but, not being a budget expert myself, I want to be sure I get it right.

Mr. WRIGHT. Your people are not prepared at the moment to give us a comparison between the amount presently in this reserve fund and the amount that was in the reserve fund a year ago?

Mr. SEMER. With your permission I would like to ask Mr. William Hurd to tell you what information we have with us this morning that could answer that question.

Mr. WRIGHT. Mr. Hurd.

Mr. HURD. Mr. Chairman, the information we have is on the condition of the fund at the close of the last calendar year. The insurance reserves on December 31, 1961, were \$688.3 million. We had at

that time acquired properties on hand of the value of \$180.6 million and we had established in the reserve against those—

Mr. HARVEY. I did not get those figures. Can you give them again?

Mr. HURD. We had acquired properties on hand as of December 31 valued at \$180.6 million.

Mr. WRIGHT. So that the fund has declined since December 31 by some \$92,200,000. Is that correct?

Mr. HURD. No, sir. The values of the properties on hand is \$180 million. Those properties will not represent a total loss of \$180 million.

Mr. WRIGHT. No. Of course they won't.

Mr. HURD. Our actual losses have run between 11 and 13 percent.

Mr. WRIGHT. On foreclosed property. So that assuming an average loss on this \$180 million worth of foreclosed property, you would have something like, oh, \$19 million to \$20 million loss?

Mr. HURD. We actually put into the reserve, Mr. Chairman, 18½ percent of the value of those properties, so that the reserve fund has about 6 or 7 percent more than we actually lose on the sale of the acquired properties.

Mr. WRIGHT. Then you are saying that there has been no loss suffered by the reserve funds as a result of foreclosures?

Mr. HARVEY. I don't understand these figures. The figures I looked at in a minority report before I came down here today, according to my recollection of it, showed that there has been \$850 million in those reserve funds. I didn't write it down, but that is my memory. That was last spring. And that is in the December preceding the last one, that is, December 1960. You are talking about December 1961. I don't want to dwell on this point at too great a length, Mr. Chairman, but it seems to me that it is important, insofar as this is a new method of financing a building, as far as I am concerned, on this particular committee, I do think before OK is given for this I would like to know more about it personally, and know how it is going to affect the reserves.

Mr. WRIGHT. The Chair is attempting to adduce that particular information at this time.

Mr. SEMER. Mr. Chairman, I think I have a characterization of the figures Mr. Harvey is using. The \$868.3 million figure is the figure for the assets as of December 31, 1961. The \$688.3 million figure is the insurance reserves as of that date—being assets less liabilities.

The missing link here that would enable us to answer your question as to what has been the experience for one particular year in time is what the premium income was that year as against the anticipated 11 or 12 or 13 percent of acquired properties that might turn out to be losses which would have to be taken from reserves.

Mr. WRIGHT. Of course, that is correct, but if I understood accurately, the reserve fund itself has declined since December 31 from \$688,300,000 to a present figure of \$596,100,000, or a decline of approximately \$92,200,000. Is that correct?

Mr. SEMER. I am sorry, Mr. Chairman. I do not have that comparison for 1 year, or the historical figures.

(Information furnished later by Mr. Semer:)

The \$596.1 million are liquid net assets on December 31, 1961, included within the total of \$688.3 million.

Mr. WRIGHT. Mr. Semer, we are simply trying to get some comparative figures in order that we can base a determination on it as to whether this reserve fund would be jeopardized by the \$32 million expenditure you recommend here. According to my understanding of the figures recited a few minutes ago, the reserve fund had at the end of the last calendar year \$688,300,000.

Mr. SEMER. That is right, sir.

Mr. WRIGHT. And it has at the present time \$596,100,000.

Mr. SEMER. I am sorry, sir. That is the net current assets—\$596.1 million. It is held in the form of cash or cash receivables and in the form of Government securities.

Mr. WRIGHT. Is that what is represented also by the \$688 million figure? Are they parallel figures?

Mr. WRIGHT. Is that what is represented also by the \$688 million figure? Are they parallel figures?

Mr. SEMER. No, sir. Let me give you a quick rundown of our figures. There are just five items, and we might be able to get at them in this way.

As of the end of the calendar year, for example, we had—and this is what makes up the \$868.3-million figure, which is the total—\$33.4 million in cash; \$45.5 million in receivables; \$557.4 million in U.S. securities. That is what corresponds to the \$596.1 million mentioned in the statement after subtracting \$40.2 million of current liabilities. We also have \$83.3 million in Commissioner-held mortgages and \$148.7 million in acquired properties. The last two items, which are Commissioner-held mortgages and acquired properties, are what we enter into the books as long-term assets.

As Mr. Hurd indicated earlier, our experience on losses on foreclosed properties runs around 11 to 13 percent. As a sound insurance practice, the reserve is actually set up at 18½ percent.

Mr. HARVEY. How do you get that 13-percent figure? It seems awfully high.

Mr. SEMER. This is the experience. This is what experience teaches the Federal Housing Administration.

Mr. HARVEY. Does that mean out of every 100 people who have a Federal Housing Administration loan, 13 default? I can't believe that.

Mr. SEMER. No. This 11- to 13-percent figure is this: At any particular time in a particular market, if the lender, or in this case the insurance company, which is the Federal Housing Administration, gets the property back, then you have to make an estimate as to how much of your investment you are going to be able to recoup when you sell the acquired property. Of the acquired properties now on hand, the Federal Housing Administration estimates in the current market what they would get for the sale of those properties, and allowing for the foreclosure expenses, and legal fees, and so on, the figure that represents the loss, that is, the difference between the outstanding mortgage and what they will be able to get in the open market when they sell the thing, will be about 11 to 13 percent.

As against that figure they do not set up a reserve of 11 to 13 percent. They would have to be awfully good forecasters to hit it right on the button. So just to be on the safe side, they have set up in their books a reserve of 18½ percent, even though the forecast is that they

will take an 11- to 13-percent loss in value when they put the house back on the market.

Mr. DOOLEY. Will the gentleman yield?

Mr. HARVEY. Yes.

Mr. DOOLEY. I have some mental reservations about the method of financing in this bill. Is there any historical precedent about an agency financing its own building as you are doing it?

Mr. KNOTT. The only one I can think of is the Federal Deposit Insurance Corporation Building.

Mr. DOOLEY. The Federal Deposit Insurance Corporation?

Mr. KNOTT. Yes. Which is nearing completion now on New York Avenue.

Mr. DOOLEY. I forgot about that.

Mr. WRIGHT. Will you submit for us a report on the solvency of this fund, what it consists of, and compare the assets now with the assets you had 3 years ago, 2 years ago, and 1 year ago, in order that the committee might have a reliable basis on which to form its conclusions? Then we will consider this bill in executive session.

Let me draw from you again, however, your conclusion with respect to the effect that this \$32 million expenditure for the building would have on your reserve funds. Did you state that the Agency and the Bureau of the Budget are satisfied that it would have no appreciable effect upon the solvency or the security of those reserve funds?

Mr. SEMER. Yes, sir. And I think that I am safe in forecasting right now when we get you the detailed figures to show the historical pattern of the reserves as against the risk, it will show that because of the time in which the fund was set up, the half-percent premium was ample. Because of the condition of the market throughout the World War II period which was the big-growth market and a period of rising prices, the Federal Housing Administration, when it did acquire a property, was able very quickly to sell it. Therefore what that report will show in detail is that the reserves of the Federal Housing Administration's mutual mortgage insurance fund are so sound and, as a matter of fact, have been so large, that much of the talk in recent years has been not about the safety of the fund, but whether or not it was so safe that we ought to reduce the premium from a half a percent.

Mr. WRIGHT. This \$596 million which you now have in U.S. securities, receivables and cash, represents actually a surplus which has been built up over the years, from the overage of income as against expenditures from funds. Is that correct?

Mr. SEMER. That is correct. What the Federal Housing Administration has in effect done is to provide a substantial cash cushion for the U.S. Treasury, because they have built up nearly \$600 million in assets here upon which there has not been any call at all.

Mr. WRIGHT. And you state that the amounts which your Agency would pay in lieu of your present rental would return to the fund a slightly greater rate of interest than you are now receiving from the U.S. securities in which the fund invested?

Mr. SEMER. Yes, sir. As a matter of fact, from a strictly investment point of view the fund, which now gets on the average 3.17 percent on its investments, will have the yield increased to 4 percent on this loan. To that extent the fund would be gaining in its position compared to what it is now for that \$32 million.

Mr. WRIGHT. Are there any other questions on my left?

Mr. McFALL. Earlier in the questioning, Mr. Semer, you started to tell us about this rate of foreclosures and you said even though the rate of foreclosures is higher at the present time than it was several years ago, and you started to explain something about that, and then you said, "Well, it should be understood that this rate was set too high," and you explained that part of it first, but you never did finish your explanation about the present rate of foreclosures. I expected you to say something about that and I think somebody cut you off. I do not think you finished what you were going to say.

Mr. SEMER. If you will permit me to correct the record when we have an opportunity to see it, so that the exact figures will be in the record, I think the magnitudes involved are roughly from about a half a percent to about 1 percent, or a little bit over. I mean, the increase has been in that range in the rates of foreclosures.

(Information later furnished:)

FHA sec. 203 mutual mortgage insurance fund

Properties foreclosed or in default, as a percentage of insured mortgages:	Percent
Dec. 31, 1960-----	0.83
Dec. 31, 1962-----	1.20

NOTE.—While this is a substantial increase, it is still well within the safe limits of operation of the insurance system and is considered no cause for concern about the financial position of the insurance fund—see accompanying data.

Mr. McFALL. In other words, there are more foreclosures but they are smaller and the amount of money is approximately the same?

Mr. SEMER. If you look at the absolute number of foreclosures, there has been a very, very marked increase, but then when you look at the base upon which these foreclosures ought to be analyzed, to get a sense of proportion, the increase has been at the level of about a half a percent to about 1 percent. The Federal Housing Administration experts feel that that has stabilized. If it should stabilize at this present, level, or even go higher, the Federal Housing Administration insurance fund would not be jeopardized because the assumptions made when this insurance operation was set up were made in the economic climate of the thirties, when there was great economic adversity. The whole building market has been very buoyant since World War II especially. The loans that are made are based on pretty good procedures as to economic soundness. There is some difficulty now. I do not think that you can get market analysts, or mortgage bankers, to agree as to whether or not there is a single factor involved. We know that unemployment has something to do with it. We know that the quality of credit reporting has something to do with it. Lenders and the Federal Housing Administration rely upon credit reporting agencies, for example, to check as to whether or not the person applying for the loan does have the assets to carry the loan.

If I may just put in one personal observation, Mr. Harvey, I don't think that the fact that you have a low downpayment and a long maturity program is in and of itself what causes an increase in foreclosures. If a particular community does not suffer a serious economic blow, such as the Wichita closing of that airplane industry, and if you have good credit reporting by the lenders and the credit reporting agencies and the credit bureaus, and so on, then there is no reason why a low downpayment program needs to breed a high rate of foreclosures.

By and large, I think the experience of Government housing programs is that people like to keep their homes.

Mr. HARVEY. I think the majority of American bankers would disagree with you, but I wouldn't expect anything different from you, coming from your organization, because you advocated the change last year. And I don't want you to misinterpret me, and my remarks. The Federal Housing Administration has been a wonderfully sound program for the last 25 years, and a wonderful one for America, but you said yourself some of the changes made in the program last year have not been measured completely, and all I know is what I read in the morning papers about the number of defaults taking place.

Mr. SEMER. When I say they have not been measured, I mean that there has not been a substantial volume of loans insured by the Federal Housing Administration under last year's ground rules.

Mr. HARVEY. I think that is true, but what I am saying with reference to this bill is I think we should look at it carefully. I don't mean that the Federal Housing Administration is not sound, or anything of that sort, because I think it is.

Mr. WRIGHT. Would not the gentleman, as well as the other members of the committee, agree that some of the discussion in which we have been engaging really does not fall within the province of our committee, because it is not our province to make judgments and decisions with respect to the wisdom of the policies of the Federal Housing Administration, or the Federal National Mortgage Association, but, rather, it seems it is our responsibility simply to make an ascertainment as to whether this particular building can properly, and should be properly, financed and constructed by this method. I think we would all agree with that.

You say you have no fear and no concern whatsoever as to the soundness of the fund, or its ability to stand, without jeopardy, this \$32 million expenditure for the construction of the building.

Mr. SEMER. None whatsoever, sir.

Mr. WRIGHT. And the Bureau of the Budget likewise.

Mr. SEMER. Yes, sir. I should have said, that before submitting this bill the Administration checked with the respective chairmen of the Housing Subcommittees of both Houses.

Mr. McFALL. One final question and I will be through, Mr. Chairman: What is the source of the funds you will be using to make the payments in lieu of rent for the use of this building? Are they appropriated funds?

Mr. SEMER. They are regularly appropriated funds which are either direct appropriation, or appropriation limitations on the use of corporate income.

Mr. McFALL. Will they be any more or less than what you are paying at the present time? What is the comparison?

Mr. KNOTT. Yes. Much less, Mr. McFall. Actually over a 50-year period, and including an amount for interest and an amount for maintenance and upkeep of the building, the payments would average \$3.74 a square foot.

Mr. McFALL. In other words, we are going to save money on both ends of this deal. You are going to save money in the rental that this agency will pay, and will save the Government money on that

end, and you will also make more money for the fund than you would be making on the average from its investment. Is that correct?

Mr. KNOTT. Well, certainly as to the rental there is not any question about it. There is a marked saving in rental alone, to say nothing about the efficiency of a consolidated operation. I believe Mr. Semer does have in his statement some additional increment to the fund as a result of this use. Is that not so? The difference between the rental or interest rate?

Mr. SEMER. My associates have made a rough computation of the premiums coming in to the Federal Housing Administration over a 3- to 4-year period. Let us assume this would be the period of disbursement for the construction of the building. The premiums coming in would easily supply the amount used for constructing the building—the \$32 million that would be needed to make the disbursements for construction—without tapping any of the \$596 million that I mentioned in my statement.

Mr. McFALL. No further questions, Mr. Chairman.

Mr. BURKE. Mr. Chairman, I would like to ask Mr. Knott a question.

Mr. WRIGHT. Mr. Burke.

Mr. BURKE. As a matter of precedent, do not the various Federal Reserve banks throughout the country build their main bank buildings at their branches out of their own funds?

Mr. KNOTT. Yes, sir.

Mr. BURKE. Under a similar thing as this?

Mr. KNOTT. That is right. I believe the Federal Land Bank has, as a part of the Federal Reserve System, also.

Mr. BURKE. I am sure they do. Moreover, isn't this means of financing very common in almost all of the States where the building, for example, of State office buildings is going on? They use State office building revenue bonds. They are very common issues.

Mr. KNOTT. Yes.

Mr. BURKE. This is no radical departure from the building of a Government building by either the State or the Federal Government.

Mr. KNOTT. Certainly so far as those agencies of Government that have any corporate semblance are concerned, this is not uncommon.

Mr. BURKE. I believe that there are two examples of similar financing in my own hometown. The Farm Credit Administration has a central bank building.

Mr. KNOTT. Yes.

Mr. BURKE. Which I am sure they built from their own funds under a similar operation. Also, the Federal Reserve Bank of St. Louis has a new branch bank building which I am sure they built from their own funds.

Mr. KNOTT. They built several new ones around the country in recent years.

Mr. BURKE. Thank you, Mr. Chairman.

Mr. WRIGHT. If there are no further questions—Mrs. Reece, do you have any questions?

Mrs. REECE. No questions.

Mr. WRIGHT. We thank you very much and we will take this up in executive session. We appreciate your having been here with us and providing this volume of information for us.

Mr. SEMER. Thank you, Mr. Chairman. If it is not an imposition on the committee, I would like to state this:

Mr. Harvey, over my experience in the committee in the other body and in the Agency, the principal complaint about the Federal Housing Administration has been not that its reserves are jeopardized, but that it does not take great enough risks, and it builds up too much reserves.

Thank you very much, Mr. Chairman.

Mr. WRIGHT. Thank you, gentlemen.

We have consumed a little more time than the Chair anticipated on the hearing of this particular bill. May the Chair observe that the next bill on the agenda, H.R. 11811, is one which I had introduced in the hope of arriving at some policy for the preservation and security of historical objects which lie in the path of Federal construction. I am not satisfied with the language which presently has been drafted for this bill. It had been my hope that we might devote some time in sort of a roundtable discussion to it, among some of the people, such as Mr. Harrison, who is here from the National Park Service, and Mr. Kahler, who is Chief Historian of the Park Service, as well as Mr. Booth of the Department of Commerce, and Mr. Knott of the General Services Administration.

Since we have some matters to attend to in an executive session, and since the hour is later than I thought it might be when we reached this point, with the agreement of the members of the committee I should like to ask these gentlemen, who have been kind enough and considerate enough to come here for the purpose of discussing this matter with us, if I might meet with them following our executive session, assuming we can conclude it in some 20 minutes, and not take the time of the full subcommittee in the consideration of this bill at this time. I am certain it will require some additional amendatory language before I would want to present it to us for action on it.

So, Mr. Harrison and Mr. Kahler and Mr. Booth and Mr. Knott, if it would not be an imposition upon you, I would like to suggest that following our executive session I might have the opportunity to visit with you informally, and to get your thoughts with respect to this legislation, and as to the best means to proceed in attempting to achieve the objectives that I think we all want to achieve, before we ask the committee formally to consider the legislation itself. I hope we have not worked an inconvenience upon you by having you here this morning.

If the executive session has not concluded by a quarter of twelve, I would suggest that you just go ahead and we will try to get together on another occasion.

Thank you very much for having been here and please accept the apologies of the subcommittee for having consumed your time perhaps needlessly at this time.

(The prepared statement of Mr. Semer is as follows:)

Mr. Chairman, members of the subcommittee, I appreciate this opportunity to comment on H.R. 11146, a bill to provide an office building for the Housing and Home Finance Agency. The legislation, which has been cleared by the Bureau of the Budget, was recommended to the Congress by the Administrator of General Services for the reasons stated in a supporting prospectus which has been made available to your subcommittee.

The General Services Administration is of course in a better position than the Housing Agency to assist your subcommittee in its consideration of the prospectus describing the proposed building, its location, its cost, and the need for additional space. Accordingly, my statement is addressed only to the proposed method of financing and to the citations to the Housing Act of 1949 and the National Housing Act which are contained in H.R. 11146.

The bill would authorize the proposed office building to be financed by a loan from the mutual mortgage insurance fund created by section 202 of the National Housing Act. That is the fund into which the Federal Housing Administration places premiums and fees and other income received in connection with the FHA's regular home mortgage insurance program. It is also the fund from which insurance claims are paid when mortgages insured under this program are foreclosed, or acquired in lieu of foreclosure, with eventual losses to the lender. Under section 206 of the National Housing Act, moneys in the fund which are not needed for current operations and which are invested may be invested only "in bonds or other obligations of, or in bonds or other obligations guaranteed as to principal and interest by, the United States."

The loan authorized by the bill would be amortized within a period of 25 years and would bear interest at the rate of 4 percent annually on unpaid balances. This rate would permit a higher return to the fund than the present average rate of 3.17 percent. The loan would have a negligible effect on the liquidity of the insurance fund.

This is so because the maximum cost of the building is established at \$32 million whereas the net current assets of the fund amounted to \$596.1 million as of the beginning of this year. Also, the loan would be disbursed over a 3- or 4-year period out of future current income.

Assurance of repayment is to be found in the requirement of the bill that rent for the use and occupancy of space in the building shall be established at rates sufficient to cover loan repayment, as well as expenses of operation, maintenance, and repair of the building.

Reference should also be made to the provision in section 1 of the bill which states that an appropriate site in an urban renewal project area in the District of Columbia may be transferred to the United States by the District of Columbia Redevelopment Land Agency at a price based on acquisition cost to the Land Agency. Under section 110(c) of the Housing Act of 1949, land sold by the District of Columbia Redevelopment Land Agency is generally disposed of "at its fair value." However, in the case of the sites of Federal office buildings which could be condemned directly without prior acquisition under the urban renewal program, it is appropriate to provide for land transfers on a cost, rather than on a valuation, basis. In all prior cases of disposal for Federal office building use the cost to the Redevelopment Land Agency has in fact been the basis used for determining the value. Thus, the reference in the bill to section 110(c) of the Housing Act of 1949 is merely intended to make it clear that this practice will also be followed in this case.

Although the proposal for the Housing Agency's office building was necessarily submitted in the form of legislation in order to permit the building to be financed by a loan from the mutual mortgage insurance fund, the legislation has been drafted in such a way as to be consistent in all other basic respects with the Public Buildings Act of 1959. The prospectus concerning the building is of course subject to the review of the Committees on Public Works and, under the proviso contained in section 2 of the bill, the loan from the mutual mortgage insurance fund would not be entered into until there has been submitted to the Appropriations Committees a revised corporate budget program for the Federal Housing Administration reflecting the proposed loan agreement. These provisions assure the same consideration of this proposed office building by the Committees on Public Works and the Appropriations Committees as is given in the case of office buildings approved under the Public Buildings Act of 1959.

The General Services Administration would of course have full responsibility for the construction and management of the building. Also, at such time as the loan made by the mutual mortgage insurance fund has been repaid, charges for occupancy of space in the building would be covered by the same laws and regulations as are generally applicable to Government buildings.

This concludes my statement on the merits of the bill. On the basis of questions which have been raised concerning the language of the bill, I would recommend two clarifying changes. On page 1, line 7, your subcommittee may wish to change the words "in or near the District of Columbia" to read "in

the District of Columbia" because it is not contemplated that the office building would be located outside of the District. On page 2, line 2, your subcommittee may wish to change the words "equal to the cost" to read "not to exceed the cost" in order to make it entirely clear that there would be no discretionary authority to pay more for the site than its cost of acquisition.

Mr. WRIGHT. We will now go into executive session.

(Whereupon, at 11:20 a.m., the subcommittee went into executive session.)

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